Nova Gas Submission Regarding Consultation on Exemptions Requests

Question 1: Do submitters have any comments on the rule 42 exemption application DR08-25-S from Vector?

Given that:

- it is likely in the near future that Section 3 of the MPOC will be deleted via the proposed rule change or will fall away naturally with the expiry of the legacy Maui Gas Contract,

- and as a result MDL will be able to issue valid ILON's and cashout Vector welded points that have previously been shielded by Section 3 from these activities,

the provision of daily data irrespective of which day is highly desirable so that parties can forecast their allocation of demand dynamically and manage their exposure to potential mismatch charges.

This is subject to a number of considerations such as:
- telemetry not being available at all delivery points so daily data is only available on a limited basis or not at all until after month end;

- costs of provision and benefits received from having access to the data

Nova believes that a blanket exemption for all gates is not appropriate as some delivery points have adequate telemetry systems where automation of data capture should be possible at a reasonable cost and to the extent that it is then it should be provided in accordance with Rule 42.

Possibly there are some gates where there is inadequate telemetry systems and the data is of sufficiently low levels and value that an exemption can be granted. Vector shippers should be consulted on this regarding each delivery point.

It is also possible that other means of calculating consumption data can be used such as metering by difference and aggregating groups of gates. For example, To calculate downstream aggregate retail consumption without all delivery point data could be achieved by subtracting certain large direct connect users (who have adequate telemetry) from the Maui welded point such as at Rotowaro.

Any exemption given should be subject to revocation by the GIC at reasonable notice if it subsequently found that the provision of data at such gates is later found to be required.

Given that daily balancing is not expected to take effect prior to mid December, the current exemption could be extended until that time in order to provide Vector with more time to work towards providing an adequate level of data.

Question 2: Do submitters have any comments on the rule 41 exemption for nominated direct connect gas gates, application DR08-26-T from Vector?

We support the GIC's view that the data for the direct connect gates should be provided at month end to the allocation agent for the purposes of potential investigation requirements and publication at a later date.

Question 3: Do submitters have any comments on the application DR08-27-U from Nova seeking exemption from the allocation of gas for "bypass pipeline" gas gates?

1) The current rules only provide for a process where parties can apply for an exemption and there is no appeal process. It is an accepted principle of natural justice that when a body makes a decision on an issue, there is an avenue for an applicant to appeal the decision.

2) The reasons provided in the decision to not grant an exemption on the first application did not in our opinion provide sufficient justification to decline the exemption.

3) The initial decision stated a "need for good quality and transparent information to be available in respect of gas quantities and UFG at these gates" and that the application of the rules is "consistent with enabling competition between retailers to occur through the availability of quality information at these gates"

   How the Nova network UFG factor disclosure will aid competition has not been specified in either of the consultation documents regarding Nova requests for exemptions.

   As only Nova can use the Nova network then information about the Nova network is of no use to anyone else. The only information that is pertinent to other retailers is information about the open access network with which the Nova network competes. From a customers perspective the only relevant information is the total delivered price per GJ and not the constituent components such as a retailers estimation of distribution costs, transmission costs, UFG, balancing costs retail service costs and of course the wholesale energy cost all of which may vary and yet are constrained by competition.

4) Nova reiterates its views that the costs of allocation yield no benefit to Nova, or any other retailer as no one else can utilise the Nova network. We can see no benefit to competition, only potential for reductions in competition through the reducing of incentives to build and extend competing distribution networks. We remind you that competitive distribution networks built by Nova Gas has resulted in significant reductions in delivered gas prices (>\$2/GJ and often approaching \$4/GJ) for consumers in competitive distribution network areas, improved security of supply and improved levels of customer service and effectively eliminated UFG (for those connected to the Nova bypass). Consumers in non bypass areas by contrast are exposed to much higher distribution prices and lower service standards. By imposing unnecessary costs, the GIC is just making it harder for distribution service competition and investment in competitive distribution pipeline infrastructure. On this basis exempting Nova's non shared distribution networks from the rules identified in the application supports the objectives of Section 43ZN of the Gas Act 1992.

5) With respect to the situation at Tawa A/B which we understand to have arisen out of historical metering arrangements, we note that:

   a) the situation is restricted to Tawa B only so should not affect the application with respect to the other gates;

b) Powerco is currently applying for resource consents with respect to building a complete new delivery point for Tawa A that should include metering so that the metering by difference method can be discarded.

c) The consumption that is metered by difference is the Powerco/Vector Tawa A gate and Nova's Tawa B gas gate has compliant metering installed to measure consumption.

d) Nova has requested exemptions only from those rules that require regular reconciliation activity that create cost without benefit. Nova has not applied for exemptions from such rules as those relating provision of gate data, metering compliance and audit requirements which enable adhoc investigation of metering data by the Gas Industry Co if necessary to show that UFG issues on the Tawa A gate are unrelated to activity on Nova's Tawa B gate.

6) Regarding the comment that "adopting this consistent approach to **all single retailer gas gates** to ensure that gas quantities and UFG can be determined across all parts of the downstream supply system" is not correct as there are a significant number of single retailer (direct connect) gas gates that have been granted exemptions including one such gate for Nova Gas. Nova's distribution network is in effect no different to a direct consumer gate given that distribution services are not provided to other parties. The only party that can distribute gas on the Nova network is Nova and there are no other retailers to allocate gas quantities or UFG to.

   This is consistent with the past treatment of the Nova Gas distribution gates in the same way that the allocation agent under the previous contractual arrangements did not provide a service in relation to single consumer gates.

7) Nova has not provided the GIC with estimates of cost on the basis that it was not required and this was consistent with it not being required for other exemptions granted by the GIC to Nova and other parties.

   Logically though, if it is accepted that the benefit of requiring Nova to submit data at a consumer level to the allocation agent only to have the UFG calculated and only allocated to Nova Gas is nil then if there is any cost associated with providing the data then this fails the cost/benefit test.

   Even if the costs of providing data were estimated to be so low as to be close to nil which they are not, then there is still the issue of the allocation of Allocation Agent costs via the levy. This is estimated to be 2.6c/GJ and is a new cost for Nova as opposed to at shared gates where this cost is a higher cost than under the previous contractual arrangements.

   By levying Nova Gas a proportion of the Allocation agents fees and development costs then Nova and its customers on its distribution network are cross subsidising retailers/consumers on open access networks. Such an outcome is economically inefficient and is a barrier to competition for Nova Gas and competitive distribution networks. Again such an outcome cannot be consistent with the objectives of the Gas Act 1992.

   To assist the GIC in this matter we have provided an estimate of the costs that would otherwise be imposed on Nova Gas with respect to the Nova distribution network volumes. For confidentiality reasons these are provided separately.