26 February 2007

Reconciliation Submissions
Gas Industry Company
PO Box 10-646
Wellington

Nova Gas Submission Regarding Reconciliation of Downstream Gas Quantities

Please find attached a submission from Nova Gas with respect to the consultation paper released in January 2007.

In summary, Nova Gas supports the development of robust arrangements for reconciliation that has the objective of efficiently, accurately and equitably allocating gas quantities consumed among retailers according to their customers usage.

We believe that:

- Industry arrangements will best deliver outcomes consistent with the Government Policy Statement compared to regulation. Commerce Commission authorisation should not be necessary if the revised arrangements are given effect though distribution agreements that all retailers must agree to if they wish to trade on a distributors network. We see no reason to change this aspect of reconciliation arrangements.

- Audit and compliance arrangements require significant improvement compared to the status quo;

- The reconciliation process should include:

    - Regular washups through time to reflect the collection of actual metered data through time and its use in calculating customer consumption;

    - Minimum standards of meter read frequency or minimum levels of submission data based on consumption calculated from actual meter reads;

    - Seasonal profiles so that seasonality can be automatically accounted for when meter reads are greater than one month apart;

Apart from two areas, the recommendations in the consultation document reflect what we perceive to be necessary changes to industry arrangements.

The two main areas where Nova disagrees with the papers recommendations are where:

a) Pan industry arrangements versus Regulations
b) The omission of seasonal profiles.

We also like to note that it appears that the consultation document does not indicate whether or not any analysis of historical data has been performed.

Nova believes that there is a considerable quantity of reconciliation data held by the Allocation Agent and by distribution companies that is relevant. We believe that an analysis of this data is necessary for anyone to assess the extent of issues and to understand more fully the problems for which solutions are sought.

If you have any questions regarding our submission, please do not hesitate to contact me.

Yours sincerely

Charles Teichert

Nova Gas Submission re Reconciliation February 2007

Submission prepared by: Charles Teichert, Nova Gas.

Question	Comment
Q1: Do you agree with the definitions adopted by Gas Industry Co in this Discussion Paper? If not, what do you suggest?	Yes We note though that a significant difference between upstream and downstream reconciliation is the complexity introduced to downstream reconciliation by the introduction of non TOU or interval metering. Upstream reconciliation is based solely on TOU meter information. Downstream allocations and non TOU or interval metering requires an allocation methodology for breaking consumption over a period of time down to a daily quantity.
Q2: Do you agree with the proposed Regulatory Objective for downstream reconciliation? If not, what do you think would be a more appropriate regulatory objective?	To an extent. Improvements would add clarity. "to recommend to the Minister by June 2007 arrangements for more efficient and accurate downstream allocation and reconciliation of gas quantities. Such arrangements should: • ensure the protocols and standards for reconciling and balancing downstream gas, and providing and disclosing of data and information, are safe, efficient, equitable, and reliable; • standardise data exchange protocols across the industry and ensure the correct data is communicated to all affected parties in a timely manner;

Question	Comment
	• provide for consistent, transparent, and enforceable processes; • facilitate retail competition and ensure barriers to competition are minimised; • establish transparency of the full costs of balancing and reconciling gas; and • minimise unaccounted for gas • provide for accurate identification and equitable allocation of the amount of unaccounted for gas."
Q3: Do you agree with Gas Industry Co's preferred approach towards standardised file formats? If not, how should it be improved?	
Q4: Do you agree with the proposed estimation accuracy criteria and proposal to require normalisation of data? If not, why not?	Agree with normalisation of consumption data to monthly quantities Do not agree with accuracy criteria as the criteria selected are arbitrary. Why 95% of groups 5-6 sites to be read quarterly? Why quarterly reads? What is the basis for these criteria. Aggregation of groups 5-6 with 3-4 results in cross subsidisation. Also assumes that retailers are active in both groups. Some retailers are more active in one or other group. Simple pro rata of consumption between meter reads spanning 2-3 months will result in the opportunity for behaviour that is contrary to the objectives.

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Question	Comment
	Retailers are incentivised to read meters only quarterly in order to take the seasonality profile out of customer usage that is generally weighted heavily into winter. This will result in high quantities of UFG in winter be allocated across other customer groups. In summer months, UFG is likely to go the opposite direction. Effectively larger consumers will be cross subsidising smaller consumers. All retailers with groups 5-6 customers will face the same incentives to engage in this activity otherwise they risk becoming less competitive. To avoid this incentive, responses could be to: a) require retailers to read all sites more regularly, such as monthly. This remove much of the impact of seasonality; or b) provide for seasonal profiles that allocate appropriate quantities of gas usage to each month regardless of frequency of metering reads Requiring higher frequency of meter reads increases costs of meter reading. Seasonal profiles means that retailers can read meters as frequently as they like (within certain bounds) as the seasonal profile addresses the issue equitable allocation at little cost. While the introduction of seasonal profiles has a one off capital cost of development, however once it is introduced the ongoing costs would be very small.
Q5: Do you agree with the proposed minimum meter reading requirements? If not, why not?	- 95%/ quarter – No. Seasonal profiles is an IT solution that would reduce costs of meter

Question	Comment
	reading and resolves issue of seasonal gas usage and minimising UFG. - 100% meters read once per year – Yes Exceptional circumstances need to be catered for. - Metering standards. – yes
Q6: Do you consider the 10TJ threshold for allocation groups 1 and 2 should be reviewed? If so, do you have any information that would assist Gas Industry Co to perform this review?	Not at this time but perhaps in the future. Reduction of the threshold should be dependent to some extent of cost of TOU metering and new technologies available.
Q7: Do you agree with the proposed process for the calculation and publication of loss factors appropriate? If not, how should it be improved?	
Q8: Do you consider that the current month end timeframes for the provision and calculation of allocation information are appropriate?	
Q9: Do you consider transitional provisions and/or exemptions will be required prior to the central registry go-live date?	
Q10: Do you agree with the preferred approach of implementing a mandatory requirement on all industry participants to submit accurate data and comply with all data submission requirements?	This is already the case given effect through the distributor Use of System Agreements and the reconciliation code. The issue is that the reconciliation code and remedies available to injured

Question	Comment
	parties are inadequate.
Q11: Is Gas Industry Co's proposed regime for rolling 4 month (interim allocation) and 13 month (final allocation) revisions appropriate? Is the terminology ("interim allocation" and "final allocation") appropriate or would alternative terminology (e.g. "first revision" and "second revision") be clearer?	We fully support the process for routine washups and the timings appear reasonable. Currently retailers that read customers meters (in particular residential customers) bi monthly have ver little actual meter read information to base their initial reconciliation submissions on by day 4 of each month. The two large incumbent retailers have stated that the differences between initial estimates and consumption based on actual reads that can be calculated subsequently can be different by 20% and more in some cases. Such errors can only be fixed by washups at various intervals through time that capture the increased accuracy as meters are read. We do not believe that it is practical or cost effective to read every meter in the country and have that meter read included in reconciliation submissions by day 4 of each month. Having said that, it is clear from the comments of the two major incumbent retailers that we can expect significant UFG in the initial allocation and as the washups occur, that this UFG should reduce. It is our understanding from the network companies that once the incumbent retailers submit consumption data based on actual reads as opposed to estimates, the UFG percentages are relatively low. This is at odds with the statements of the major incumbent retailers and should be investigated

Question	**Comment**
	further.
Q12: Do you agree with Gas Industry Co's proposed restriction of the correction process (i.e. limiting corrections to within one working day of publication and only if a manifest error is discovered)? If not, what alternative correction process do you propose?	In the design of the washup process, sufficient time should be allowed between the time the data is required to be submitted to the Allocation Agent and the time that is processed and published so that validation checks can be performed. This will aid in the identification of errors and provide the opportunity for the allocation agent and the retailer concerned to address the issue in a timely manner.
Q13: Do you agree with the preferred approach of publishing gas gate, UFG and specified allocation information?	Yes, we also agree with a proactive approach to managing UFG downwards and investigations of anomalous UFG quantities. Unlike in the electricity industry physical or technical losses on distribution networks should be close to nil. This means that UFG is made up of: - meter errors (within and outside metering tolerances) - data errors (incorrect reads, multipliers, etc, missing sites) - theft It is appropriate that UFG should be hunted down over time and eliminated.
Q14: Do you agree with the preferred approach of mandating the 1 month UFG global method?	The 1month approach for UFG is appropriate for allocating normalised calender month consumption at a daily level. Seasonal profiles need to be included though in order to efficiently allocate volumes across seasonal periods.

Question	Comment
Q15: Do you agree that the mandatory downstream reconciliation arrangements should not include the day end estimated allocation service and month end monthly allocation service?	Yes
Q16: Do you agree that Gas Industry Co should appoint the Allocation Agent using a service provider model similar to that used in the electricity industry? Do you agree that the initial appointment should be for a 5 year term?	Yes
Q17: Is a pan-industry arrangement as described in this section the most appropriate alternative governance structure to the use of regulations and rules under the Gas Act? Which governance structures would you prefer (regulatory or pan-industry)?	Yes
Q18: Should funding of the reconciliation arrangements be covered by a process detailed in the reconciliation arrangements (rather than, for example, by the levy)? Do you agree with Gas Industry Co's preliminary view that the arrangements should be funded by retailers according to the number of ICPs?	Yes
Q19: Do you agree with the proposed audit arrangements? If not, please specify which aspects of the proposed arrangements are inappropriate and how you consider they should be improved?	

Question	Comment
Q20: Do you agree that the auditor should be excluded from coverage of the compliance regime (i.e. should compliance be only a contractual matter between Gas Industry Co and the auditor)?	
Q21: Are the proposed arrangements for Allocation Agent compliance appropriate? What do you think is a suitable liability cap for non performance?	
Q22: Do you agree that reporting of breaches should be voluntary for participants (not mandatory)?	
Q23: Do you agree that the Allocation Agent should have a mandatory obligation to report breaches and suspected breaches?	
Q24: Do you agree that all other persons (e.g. consumers, Gas Industry Co and auditors) should have the right to report a breach?	
Q25: Do you agree with the proposed time limit for reporting breaches?	
Q26: The preferred approach for the design of the compliance regime for reconciliation is similar to the compliance regime proposed for switching. Do you agree that the proposed compliance regime is appropriate? If not, how should the compliance regime be changed?	
Q27: Do you agree that there is a need to provide for special allocations? Do you agree with the proposed	

Question	Comment
process for special allocations?	
Q28: Do you have any comments on the detail in Appendix D? Are there any additional matters that should be included in this framework?	Analysis of historical reconciliation data held by Allocation Agent and distribution networks Each year, the allocation agent requires retailers resubmit reconciliation information that is corrected for errors identified and also based on actual meter reads and not necessarily just estimates. This information then feeds back through an annual washup of transmission costs, distribution costs, etc. In addition distribution companies recalculate UFG percentages based on complete actual data This information should be included in an overall analysis of reconciliation data and how it shifts through time with meter reading activity and validation work.
Q29: Do you agree that obtaining unanimous agreement will likely require seeking authorisation from the Commerce Commission of any pan-industry agreement on downstream reconciliation?	No. Distributors have historically required retailers trading on there network to comply with the Reconciliation Code. The problem has been that the Reconciliation Code has been inadequate in terms of: - process (no washups) - technical requirements (no seasonality profiles) - compliance (difficult to enforce)
Q30: Do you have any views on the feasibility of a pan-	A pan industry agreement avoids the delays to changes being made incurred

Question	Comment
industry agreement? Would participants be willing to agree to a pan-industry agreement covering the measures proposed in section 11 of this paper (subject to any necessary approvals, including any necessary Commerce Commission or Ministerial approval)?	through regulation Nova Gas would prefer a Pan Industry Agreement. We do not believe that Commerce Commission approval will be necessary.

Submitter responses to the questions that are included in the NZIER cost/benefit framework paper:

Question	Comment
CBA Q1: Is the first five years from the earliest date of the proposals taking effect a long enough time period to capture the resulting changes, particularly the benefits? If not, what period do you propose?	
CBA Q2: Is this baseline scenario a realistic representation of what would happen in the absence of the proposals? If not, in what ways do you think it could be made more realistic and why?	
CBA Q3: Do you agree with assessing the costs and benefits of all of the proposals' options, under each of a regulatory regime and a pan-industry agreement, to simplify and reduce the costs of undertaking the CBA? If not, what alternative approach do you suggest and why?	
CBA Q4: Are there any costs identified in Table 1 that you consider it inappropriate to include in the CBA? Are there any significant costs missing from Table 1? Do you	

have any suggestions as to the likely magnitudes of the costs or how they might, in practice, be estimated?	
CBA Q5: Is there any relevant information on electricity market reconciliation that could be used to inform the cost estimates?	
CBA Q6: Are there any benefits identified in Table 2 that you consider it inappropriate to include in the CBA? Are there any significant benefits missing from Table 2? Do you have any suggestions as to the likely magnitudes of the benefits or how they might, in practice, be estimated?	
CBA Q7: Do you agree that negotiation and agreement would cost less under the regulatory regime and be less likely to involve inefficient compromises? If not, why not?	
CBA Q8: Do you agree that wealth transfers should be disregarded in assessing the net public benefit of the proposals? If not, why not, and what alternative approach do you favour and why?	
CBA Q9: Do you agree with the use of real discount rates of six percent and twelve percent? If not, why not, and what alternative values do you favour and why?	
CBA Q10: Do you agree with the use of sensitivity analysis to test the robustness of the CBA's conclusions? If not, why not, and what alternative approach do you favour and why?	

Nova Gas Submission re Reconciliation February 2007