



22 February 2007

Kelly Rastovich  
Gas Industry Company Ltd.  
PO Box 10-646  
1 Willis Street  
Wellington

Dear Kelly,

**SUBMISSION ON THE DISCUSSION PAPER REGARDING RECONCILIATION OF  
DOWNSTREAM GAS QUANTITIES DATED 11 JANUARY 2007**

1. On Gas welcomes the opportunity to provide a submission on the proposed Downstream Reconciliation Arrangements for the New Zealand Gas Industry. On Gas is the retail arm of Vector Ltd.
2. On Gas supports the GPS objectives in general, and more specifically supports measures that improve the accuracy and efficiency with which the industry handles information (as expressed in the Regulatory Objective). However in this case On Gas is concerned that the proposed 'Possible framework of Regulatory Approach' does not fulfill the GPS objectives, as it fails to provide for a more accurate and fair allocation. This is detailed later in this submission.
3. Further, On Gas considers that the discussion paper and the attached 'Cost-Benefit Analysis Framework' prepared by NZIER do not 'identify all reasonably practicable options for achieving the objective of the regulation' and to 'assess those options', as is asked for by the Gas Act 1992 (s43N).
4. Our reasoning for the above and our main concerns with the GIC's Discussion paper follow within the main body of this submission, below. On Gas believes that the GIC should make changes to the proposed regulations outlined in the paper. Without such changes a reduction of competition in the industrial and large commercial market sectors could occur. The potential economic consequences of this are discussed further below
5. As requested we have also provided answers to the specific questions within the Discussion Paper in Appendix A.

**Terms used require more definition**

6. On Gas is concerned that analysis by the GIC is at risk from poor definitions and use of terms. Examples include a lack of definition of 'Loss Factor' and 'Unaccounted for Gas' as used in the discussion paper, as well as of the various Allocation Methods under consideration. On Gas believes that terms, conditions and definitions must be clear and transparent for the sake of clarity of argument and informed discussion of these issues.

### **The need to meet policy objectives**

7. As stated above, many of On Gas's following concerns relate to whether or not the Government policy statement objective has been sufficiently met, in particular the objective to 'provide for more accurate identification and fairer allocation of the amount of unaccounted for gas'.
8. While we commend the initiatives contained in the paper to improve data quality and to more accurately identify the amount of unaccounted for gas, On Gas does not believe that the proposal meets the objective of a 'fairer allocation'. On Gas feels that prior to any global allocation methodology being applied, significant progress needs to be made in ensuring good quality data enters the allocation process and that Loss Factors have been properly assessed.
9. The discussion paper rightly introduces some measures designed to improve data quality going into the allocation process. On Gas believes that even stronger measures are justified, and this is detailed in Appendix A.

### **Global Allocation Method most suitable**

10. For the purpose of our discussion below, we use 'Loss Factor' as the long run difference between the Gate load and the sum of all metered load (as should be published and reviewed by network operators), and 'Unaccounted for Gas' or 'UfG' for all unaccounted for gas every day or month that is still not accounted for after application of the 'Loss Factor' (plus or minus).<sup>1</sup> *Note, this definition does not coincide with the definition given in the 'Reconciliation Code', but it appears to follow the usage of the term 'Unaccounted for Gas' in the discussion document.*
11. On Gas considers the Global Allocation Method as described in the Reconciliation Code as a fairer and more suitable option than the proposed 1 month UfG Global Method. This is because:
  - The proposed 1 month UfG Global Method would result in the estimation uncertainties, re-submissions and seasonal monthly misallocations of Groups 5 and 6 impacting adversely on groups 1-4.
  - Since Groups 1-4 do not contribute to these, it is unfair to subject them to these through the 1 month UfG Global Method.
  - Assuming Loss Factors are regularly reviewed and accounted for, this is the only significant difference between the two methods.
12. The fact that some retailers report errors between actual and estimated consumption for Allocation Groups 5 and 6 of up to 20% for a given consumption month (Section 6.38 of the discussion paper) only heightens On Gas's concern about the GIC's proposed allocation method and supports the point above.
13. The need for the proposed Interim Allocation (after 4 months) and Final Allocation (after 13 months) is largely driven by subsequent corrections to the estimates for Allocation Groups 5 and 6. For monthly read Allocation Groups (Groups 1-4) generally no better information becomes available after the initial Allocation. Allocation Groups 1-4 should therefore not be subject to the ups and downs of

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1. <sup>1</sup> To avoid misunderstanding, the statement in the GIC discussion paper Section 5.2 (5<sup>th</sup> bullet point) and elsewhere that the Global Method in the Reconciliation Code would not allocate any UfG to Time of Use (TOU) devices is correct when using the definition above, but is incorrect using the definition of UfG in the same Reconciliation Code.