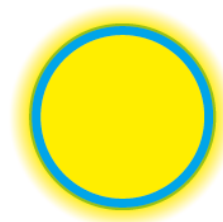


3 September 2012

Ian Dempster
Gas Industry Company
PO Box 10 646
Wellington

[Submitted via Gas Industry Co website]



Dear Ian,

**Powerco Submission on GIC Statement of Proposal: Downstream Reconciliation
Rules Review**

Introduction

1. Powerco welcomes the opportunity to submit on the Gas Industry Co's (GIC) *Statement of Proposal: Downstream Reconciliation Rules Review* (the Review), published on 26 July 2012.
2. Powerco supports the GIC's work to review the Gas (Downstream Reconciliation) Rules 2008 (the Rules), and believe the amendments proposed in the Review will deliver improvements for the benefit of the New Zealand gas market. We also consider that the establishment of the downstream reconciliation advisory group (DRAG) successful and believe its contribution to the development of the rule amendments was critical in creating proposed amendments that are industry focused and supported.
3. As a gas distribution business that also owns gas meters, Powerco has limited participation in activities related to the Reconciliation Rules, but supports all work by industry participants to build a stronger and more efficient gas sector. Due to the level of Powerco's involvement in the downstream reconciliation process, we have limited our responses in the submission template to those areas that we are directly involved in or have the knowledge to accurately comment on.
4. This letter summarises Powerco's key thoughts on the Review. Our responses to the consultation questions in the submission template are in Appendix A. None of the content of this letter or Appendix A are confidential.

Breach notifications to meter owners

5. We agree with the GIC's analysis that meter owners operate in a contestable environment and that there is no justification to consider a new rule enabling the breaching of meter

owners by the allocation agent. If issues surrounding metering problems are causing a retailer to breach, existing commercial arrangements with the meter owner should be considered to address the problem.

6. Retailers receiving breach notices as a result of metering issues appear to only occur in exceptional circumstances, and as a non-regulated solution exists, we consider that the GIC should focus resources on other priority areas rather than considering the development of guidelines.

Unmetered and oversized metered gas gates

7. While our preference is for creating certainty and accuracy around metering and downstream reconciliation, we also recognise the need to take a common sense approach to certain situations. Vector have clearly demonstrated that it is uneconomical to change meters at the identified gas gates and that potentially making them do so could have a negative impact on customers. Therefore a solution that does not disadvantage any industry party is required.
8. We believe that codifying an exemption offers an acceptable solution and conditionally support the GIC proposal. Our support is based on the information supplied by Vector and current assessment of the eight gates. We are happy with the drafting of the proposed definitions and rules, and would not expect a rise in exempt gas gates listed unless clear evidence of justification was presented to allocation participants.

Conclusion

9. Powerco recognises the work around downstream reconciliation is of significant value to the industry and supports the GIC's continued work in this area. Additionally, we support the use of advisory groups, such as the DRAG, to help understand all industry participant views and to assist develop of options. Advisory groups are an effective way to gather knowledge and allow industry participants to discuss issues. This can significantly improve efficiency by reducing rounds of consultations required and overall length of work programmes.
10. Thank you for the opportunity to make this submission. If the GIC wishes to discuss any aspects of this submission further, please do not hesitate in contacting me on 06 757 3397 or oliver.vincent@powerco.co.nz.

Yours sincerely,



Oliver Vincent
Regulatory Analyst
Powerco

Appendix A Submissions template

Statement of Proposal: Downstream Reconciliation Rules Review

Submission prepared by: Powerco Limited, Oliver Vincent, 06 757 3397

QUESTION	COMMENT
<p>1 Do you agree that commercial arrangements provide sufficient obligations on meter owners for the purpose of the Rules? With regard to the suggestion by the DRAG, do you consider there is an identifiable market failure that merits Gas Industry Co developing a workstream on the creation of guidelines and/or principles for metering contracts?</p>	<p>Agree. Meter owners operate in a contestable environment that has existing commercial arrangements in place that have been agreed with retailers. If issues surrounding metering problems are causing retailers to receive breach notices, the agreements provide a mechanism to address the issues. If this is not working, then retailers and meter owners should address the issue within these arrangements.</p> <p>As a non-regulated solution exists, we consider that the GIC should focus resources on other priority areas. However, if the GIC considered that the development of guidelines was necessary and it passed a cost benefit analysis, we would support the process to develop and adhere to industry led guidelines.</p>
<p>2 Given that the review will cover all of the long-standing exemptions do you agree that the exemptions process should be retained?</p>	<p>Agree. Exemptions are a useful tool that can be cost effective and allow the flexibility to resolve unforeseen issues. We support a review of the current guidelines to ensure the appropriate approach to managing exemptions is created. In general we support a more prescriptive approach to exemptions as it creates greater certainty around processes and application for the industry.</p>

QUESTION	COMMENT
<p>3 Do you agree with the proposal to codify a rule for direct connect gas gates? Do you agree with the creation of a new rule enabling Gas Industry Co and the allocation agent to access direct connect injection data as requested?</p>	<p>As we are not directly impacted we will not provide a definitive view, but note the cost benefit analysis suggests there are efficiency benefits for the industry.</p>
<p>4 Do you agree with the proposed rule for G1M gas gates? Do you agree with establishing the deterministic criteria for G1M gas gates in an industry determination?</p>	<p>No comment.</p>
<p>5 Do you agree with the proposed rule change for unmetered and oversized metered gas gates?</p>	<p>Agree. Our preference is not to create new rules that codify exemptions and to have all gas gates to be metered, however we recognise it is uneconomical to force the changing of meters and the benefits do not justify the cost. We support the drafting and believe that it achieves the balance needed for dealing with current and future situations. We believe the drafting regarding all allocation participation agents being consulted before adding or removing a gas gate is essential to ensure the robustness of the decision making.</p>
<p>6 Do you have any comments on Gas Industry Co's recommendation not to change the method of apportioning the ongoing fees?</p>	<p>No comment</p>
<p>7 Do you agree with the proposed rule enabling the correction, where necessary, of an AUFG factor if it is found to be incorrect?</p>	<p>We support the introduction of a rule over the use of the exemptions process in this instance as any improvement in the data used the reconciliation process provides clear benefits for all the industry and creates better clarity and certainty. As we understand it, this may create costs for the industry but believe these are outweighed by the benefits however, the GIC should be guided by parties that are directly impacted.</p>
<p>8 Do you agree with the proposal for dealing with estimated daily energy quantities?</p>	<p>No comment</p>

QUESTION		COMMENT
9	Do you agree with the proposal to amend the rules relating to trading notifications?	We support initiatives that improve the reconciliation process and produce a good outcome for the industry. From our perspective the proposed rule change is positive as it will reduce costs related to trading notification breaches.
10	Do you agree that a rule should be created enabling performance audits to cover the accuracy of data population in the registry? Do you think that audits should be limited to certain fields relevant to reconciliation or would you prefer broader audit arrangements contained within the Switching Rules?	<p>Agree. Powerco supports the audit of registry data as it contributes to producing more accurate results. The focus of the audit should be on registry data with the greatest impact on the reconciliation process and outcomes.</p> <p>We support the 'cost-to-cause' principle and believe that the proposed rule drafting will achieve the desired outcome. As the industry body has significant discretionary powers we expect there to be a clear process for determining cost and allocation.</p> <p>Prior to the implementation of any audit processes, participants should be provided with adequate time to allow them to improve their system to comply with rules.</p>
11	Do you agree that rule 75 should be amended to allow the auditor more discretion in determining who should be responsible for paying the costs of an event audit?	Agree. We support the proposed redrafted rule and believe that providing the auditor with more discretion is a sound and fair approach.
12	Do you agree that a rule should be created to require audits of major system changes? If so, do you agree that a post go-live audit should also be required? Do you think the definition of "major" should be specified in the Rules or in an industry guideline?	<p>We support initiatives that improve the reconciliation process and produce good outcomes for gas industry, and see audits of major system changes as one of these. Up-front audits of major system change that impact the reconciliation process will help to ensure that the new system is accurate and will not cause negative impact to allocation process/result.</p> <p>We don't support the post go-live audit due to the additional costs it would create beyond those already required. If proposed changes have been specified correctly and reviewed and audited, they should perform as expected add if not, they will show up as breach.</p> <p>.</p> <p>To reduce ambiguity, "major" should be defined.</p>

QUESTION		COMMENT
13	Do you agree that rule 42 is redundant and should be deleted from the Rules? Will your organisation be adversely affected by its removal? Should the obligations in rule 28.4 be extended to transmission system owners?	Powerco is not affected by this and as such we do not have any direct response to the question. However, like many industry participants we access data through OATIS and require this to be accurate and available in a timely manner.
14	Do you support the proposal to allow allocation participants access to the GAR170 report? If not, would you support disclosure of submission information consistent with the SupSub report?	Support, greater visibility in the industry increases efficiency and reduces errors. The greater transparency will enable the industry to identify and resolve issue which will benefit the overall gas industry.
15	Do you agree with the minor and technical amendments proposed in this section? Do you agree that the proposals meet the criteria in section 43N(3) of the Gas Act?	In general, our understanding of the minor and technical amendments leads us to support the proposals, as while minor in nature, they would create efficiencies and greater smoothness of operations. However, in respect of the proposed amendment regarding seasonal adjustment daily shape values (SADSV), it should be noted that as we do not have any involvement with the calculation and therefore we defer our view to that of industry participants that this impacts. We agree that the proposed amendments meet the requirements of 43N(3).
16	Do you have any comments on the transitional issues discussed in this section?	We encourage the GIC to engage with industry participants to discuss and agree an appropriate and realistic timeline for all parties. This is essential to allow participants to have sufficient time to make appropriate change to their system prior the rules come into force.