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SUBMISSION ON DISCUSSION PAPER ON ALLOCATION AND RECONCILIATION ARRANGEMENTS IN THE NEW ZEALAND GAS INDUSTRY

Introduction

1. Vector welcomes the opportunity to submit on the Gas Industry Co's (GIC) paper discussing current issues and options for developing allocation and reconciliation in the New Zealand gas industry.

2. Vector is pleased to engage on the issues raised, as it is clear there are opportunities for the industry to develop. The document reveals some good examples of where commitment by the industry to resolving issues could be improved.

3. That said, Vector would express caution in taking decisions regarding allocation and reconciliation without thorough assessment of the interrelationships with other issues being raised and worked on by the GIC and industry. There is a strong need for a coordinated approach to dealing with issues such as transmission access issues, allocation and reconciliation issues, and the establishment of a central registry. Each of these issues are designed to improve current arrangements, but if arrangements across the industry are changing, then it is important to ensure the implications up and downstream are understood and incorporated into other areas of work.

Summary of Vector's Views

4. Vector supports a stepwise approach to improving UFG allocation along the following lines:

    I. Construct a central registry to establish a database of record for the sector,

    II. Improve compliance by establishing an enforcement regime around the Reconciliation Code,

    III. Further improve data quality by unifying and standardising estimation processes and procedures, including ensuring ICP information is accurate.

5. Care is needed when recommending any change to current wash up periods. There are significant upstream implications, and costs involved and these factors would need to be taken into consideration.

6. Vector agrees that in the case of Allocation and Reconciliation, the GIC should recommend the formation of rules to the Minister, based on the Reconciliation Code.

Improving Allocation and Reconciliation – A Stepwise Approach

7. The GIC has identified shortcomings with allocation arrangements including:

   - Poor compliance and ineffective governance, and
   - Misalignment between month end reconciled consumption data for non TOU sites.

8. Vector agrees with the GIC that in this area there is a need for the industry to work together to find solutions. While the Reconciliation Code contains rules and regulations sufficient for ensuring acceptable data quality, it has been clearly identified by the GIC that there are apparently issues of non compliance, or more acutely, little enforcement of the rules in the Code.

9. Vector believes that once an effective means of enforcing compliance with the existing rules is agreed and implemented it would then be appropriate to review the rules for their effectiveness. However, the first step should be to find a means to enforce compliance.

10. The GIC has also identified the following issues:

    - Inequitable allocation of UFG variations to the incumbent retailer, and
    - The need for improved data quality.

11. With regard to a perceived inequitable allocation of UFG variations to incumbent retailers, Vector believes there is more to the issue than that which has been outlined in the document. The current Reconciliation Code appropriately recognises that different allocation groups contribute in different ways to any discrepancies, and therefore need to be treated differently when scaled up or down.

12. For two reasons, care is needed when making any decision to alter any allocation of UFG.

13. Firstly, incentives must remain on those contributing to any variation to improve their processes, data or equipment so that over time, error is reduced in a commercially efficient manner. Recognition should also be made of those who have robust processes, data and equipment that reduce their current contribution to error to ensure this is maintained.

14. Secondly there are a number of reasons for the existing approach to allocation, specifically why only allocation groups 5 and 6 should be scaled and these should be carefully considered, such as:

- There is no process to ensure ICP information is robust,
- Smaller meters are checked less regularly,
- Smaller meters have higher permissible errors,
- Smaller meters are not read as often, and estimated data is used for allocation purposes, and
- Estimation methods used by retailers are not quality checked. Vector understands some smaller meters have not been read for more than a year.

15. Vector supports a stepwise approach to improving UFG allocation along the following lines:

I. Construct a central registry to establish a database of record for the sector,
II. Improve compliance by establishing an enforcement regime around the Reconciliation Code,
III. Further improve data quality by unifying and standardising estimation processes and procedures, including ensuring ICP information is accurate.

16. Once these steps have been taken, the issue of global allocation versus allocation by difference should be reviewed to ascertain the extent of benefit to be gained from further action. Any further steps taken e.g. wash up frequency, will need to consider the establishment of a central registry and the cost implications involved in revising processes. To pursue too many issues simultaneously could have unintended consequences for other worthwhile projects.

Take Care When Suggesting Wash-up Periods

17. One of the initiatives the GIC has suggested as a possible improvement to the allocation and reconciliation process is to increase the frequency of wash ups.

18. Vector would like to ensure the GIC is aware of the implications involved in suggesting wash up periods of increased frequency. Wash ups can become extremely complex, involving upstream allocations, which flow on to mismatch, transmission charges and potential gas balancing charges.

19. Before any discussion on wash up frequency can occur, the industry will need to establish a methodology for settling any wash ups established.

Overarching Approach to Compliance for Allocation should be Rules Based

20. Vector has previously submitted to the GIC on similar issues regarding an appropriate approach to the establishment of a central registry for gas ICP's. In that submission Vector outlined the need for relativity in considering

whether to go straight to regulations or whether industry based agreements would be suitable.

21. In this case, Vector agrees with the GIC that the recommendation of rules to the Minister is appropriate, and that the Reconciliation Code become the basis of any rules going forward. Vector believes that the issues involved in reconciliation are such that the incentives on industry players not to comply are sufficient to move directly to a rules based approach.

Concluding Remarks

22. Vector generally supports the GIC's perspective on the issues raised in its discussion document. However, Vector has some concerns that a number of parallel initiatives on overlapping issues make it important for the GIC to establish an overarching co-ordination work-stream, to ensure that any changes to industry arrangements are considered across the board prior to implementation.

23. Thank you for your consideration of these matters. Please contact me or Paul Hodgson, Vector's Group Regulatory Affairs Manager, should you wish to discuss this matter further.

Kind regards

Ewan Gebbie
Industry Policy Manager

QUESTION	COMMENT
Q1 Do you agree that it is sensible to divide the issues (with the downstream and upstream allocation arrangements) into short-term and long-term issues and to advance the short-term issues ahead of the long-term ones?	No view
Q2 Do you agree that compliance with existing arrangements for downstream allocation is poor?	No view
Q3 Do you agree that governance arrangements (e.g. code modification processes, dispute resolution processes) are not working effectively? Please provide any specific examples that demonstrate your view.	Yes, National Allocation Group has never met
Q4 Do substantial difficulties arise as a result of the need for all shippers at a gate station to agree who to appoint as the allocation agent?	Only one example known to us where difficulties arose. This was eventually solved.
Q5 Do you agree that the Gas Industry Co should implement a regime where the Gas Industry Co becomes the single industry body responsible for appointing an allocation agent (or allocation agents)?	Vector believes this should be a fallback position should the industry not reach agreement.

QUESTION	COMMENT
Q6 Does the use of the "difference" allocation method and the resulting implications for the allocation of UFG variations create a substantial problem in the industry?	No view
Q7 If there are problems with the allocation of UFG variations, is working towards mandatory global allocation an appropriate response for the Gas Industry Co?	No. Simply re-distributing any discrepancies is not solving any problems, it is only re-distributing them. In doing so it would detract effort from resolving any shortcomings by looking for the underlying causes, such as poor compliance, poor data integrity, poor estimating etc. This is where the efforts should be concentrated in order to get to the root of the problem.
Q8 How important it is for 12 month rolling loss factors and/or gas gate data to be made more widely available?	This is important as an integral part of an overall package to improve allocation data quality.
Q9 Should all gas gate daily metered quantities be published daily? What difficulties (e.g. confidentiality) might arise from daily publication?	For some gates confidentiality issues would need to be considered.
Q10 To what extent do industry problems arise as a result of poor quality and/or timeliness of data supplied into the allocation process?	Poor data quality and timeliness are the major cause of industry problems. If data quality problems could be solved, most of the other issues would become much less relevant. The main effort of any proposed changes therefore has to go into improving data quality and compliance.
Q11 Should the Gas Industry Co introduce formalised, regular wash-ups of month end allocations after 4 or 6 months and after 10 months following the month in question?	Probably, but only once it has considered other issues prior to this one.

QUESTION	COMMENT
Q12 Should the Gas Industry Co establish accuracy criteria for estimates (in conjunction with an appropriate compliance regime)?	Yes. Improving data quality going into allocation needs to be the major initiative.
Q13 Is the ±15% accuracy criterion appropriate, in conjunction with the compliance arrangements proposed in section 10 of this paper? Is it appropriate that the criterion be implemented in the initial round of changes to the downstream allocation arrangements?	Yes. Improving data quality going into allocation needs to be the major initiative.
Q14 Is it appropriate in the longer term (after the initial changes are made to the allocation arrangements) to introduce a requirement that future estimates contain a minimum percentage of historic read data?	Yes. Improving data quality going into allocation needs to be the major initiative.
Q15 Is it appropriate in the longer term to introduce a standardised data transfer format?	Yes. Improving data quality going into allocation needs to be the major initiative.
Q16 Is it appropriate, as part of the initial changes to allocation arrangements, to require all retailers to read every non-TOU ICP at least once in every twelve month cycle?	Yes. Improving data quality going into allocation needs to be the major initiative.

QUESTION	COMMENT
Q17 Do you agree that the two main options that should be considered for making allocation and reconciliation arrangements mandatory and enforceable are a modification of the existing contractual arrangements, and Ministerial rules under the Gas Act?	Yes.
Q18 Do you agree that potential problems with pipeline owner leverage and Commerce Act risks associated with the contractual arrangements favour the Ministerial rules solution?	In this case there are incentives on a number of industry players that lead to the conclusion that rules should be recommended.