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11 July 2008

SUBMISSION ON PROPOSED DETERMINATIONS AND NOTIFICATIONS UNDER GAS (DOWNSTREAM RECONCILIATION) RULES 2008 AND OTHER IMPLEMENTATION MATTERS

1. Vector welcomes the opportunity to submit on the above paper and recognises and supports the Gas Industry Company's commitment to dealing with the issues in this complex area in an even handed manner. Vector conditionally agrees with the GIC that the benefits of the new rules will include 'more efficient arrangements for the allocation and reconciliation of gas transported on downstream networks.'¹
2. Vector also recognises the issues surrounding the Downstream Allocation and Reconciliation process are difficult ones to resolve optimally. Vector remains committed to working with the GIC to reaching that outcome by finding solutions that will benefit all the concerned parties, particularly consumers.
3. Once again, we would like to raise the GIC's awareness of several key issues that will improve the outcome being sought and resolution of these are the conditions to which our support is tied. In addition to our responses to the questions in the attached appendix, several issues are raised below.

Responsibilities of the Allocation Agent to Vector

4. As previously mentioned, Vector has a contractual obligation to ensure confidential information remains as such. A concise process for handling confidential information would ensure that the integrity of data is maintained. Vector suggests that the GIC consider all aspects of the Allocation Agent's role when designing contractual obligations, including all systems outside of the Allocation website that the agent will interact with.
5. The Allocation Agent's use of Vector's Open Access Transmission Information System (OATIS) should be carefully considered in order to ensure interactions with OATIS remain confidential and secure. Vector would like to highlight that the Allocation Agent is required to sign up to terms of use detailing how they will interact with the system. These terms will need to be agreed upon prior to the Allocation Agent's training in the system's use. From Vector's perspective it is critical that the GIC includes the terms within the Allocation Agent's contract.

¹ Gas Industry Co Strategic Plan 2009/11, pg. 6

6. Vector is able to supply the GIC with examples of what the terms of use will include by providing them with appropriate examples from the Vector Transmission Code (VTC) and Maui Pipeline Operating Code (MPOC). We are willing to work closely with the GIC on the terms in order to ensure the protection of this asset.

Calculation of Corrections

7. The Rules lack a formula or process for determining how corrections made by the Allocation Agent will be calculated. Vector notes that this is one of the only principles from Section 12 of the old Reconciliation Code that the GIC has failed to include. Although seemingly minor, the calculation will be an important one for all allocation participants to transparently understand when subject to a credit or debit to a previous invoice.
8. Vector suggests that the GIC consult with the previous allocation agent to see how such arrangements were reached. Consultation with GMS owner and users may also prove useful when determining the components of the calculation. The consultation in addition to the publication of the formula will help the GIC reach its goal of achieving greater transparency of information.

Clear Process for Disputes

9. Vector would like to point out to the GIC the importance of having a process in place for disputing allocations. If an industry participant feels they were wrongly allocated an amount of gas and/or UFG, then an appropriate way to address the situation should apply. This process should equally apply for fees and any other information the Allocation Agent provides to the industry. Vector suggests that the GIC include the following when determining the process:
 - A proposed time period in which the concerned party is able to raise the dispute after receiving the correction;
 - A clear process for notifying the Allocation Agent of the dispute;
 - A visible path for how the two parties will resolve the dispute; and
 - If the situation arises where the two parties are unable to reach agreement, a process for involving a third party will need to be defined.

Consistency between GIC Work streams

10. Vector notes the importance of the GIC maintaining consistency across all workstreams. For example, the naming of gas gates across the industry has left us with more questions than answers. Vector details the uncertainty surrounding the proposed groupings in Question 18, Appendix A. It is important that the GIC consider recognising and resolving overlap between work streams wherever possible in order to reduce unnecessary confusion and inefficiency.

Transitional Exemption Request

11. Unless significant changes to rectify these issues are made, Vector will be requesting a transitional exemption to the deadlines outlined in Rules 41 and 42. Our response to Question 20 details reasons for our inability to comply with the inflexible timing for supplying energy quantities to the Allocation Agent. In addition to reasons for the exemption, we site ideal circumstances

that would need to take place in order for Vector to comply. Citing Rule 81.2, Vector would happily suggest to the GIC alternative arrangements for complying with Rules 41 and 42.

12. Vector is pleased to once again be able to submit to the GIC. We are confident that the GIC will help to ensure that the new allocation rules will lead to increased information quality and transparency levels across the industry. If you have any further questions please feel free to contact me at ewan.gebbie@vector.co.nz or 04 462 8657.

Kind Regards

A handwritten signature in black ink that reads "Ewan Gebbie". The signature is written in a cursive, flowing style.

Ewan Gebbie
Group Manager Regulatory Performance

Appendix A Recommended Format for Submissions

To assist the Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Consultation Paper. Submitters are also free to include other material on the proposed Determinations in their responses.

Matters for Consultation by Friday, 11 July 2008

Submission prepared by:

VECTOR GAS LIMITED – GAS TRANSPORTATION, Ewan Gebbie

Question	Comment
<i>Q15: Do submitters agree with the +/- 15% percentage of error that Gas Industry Co proposes to determine under rule 37.3? If not, please explain why and please propose a different percentage of error with supporting information and reasons.</i>	<p>Vector submits that the proposed $\pm 15\%$ is unacceptable, even for the initial allocation. On the one hand it provides no incentive for mass-market retailers to improve their performance. On the other hand, retailers supplying commercial customers, with monthly-read meters and/or TOU meters (some with telemetry) do not need such latitude as gas volumes passing through these meters provide sufficient financial incentives on all parties to be as accurate as practicable.</p> <p>Vector believes that the best incentive for participants to fine tune their forward estimation processes is by publishing the percentage error as per rule 37.1.3, and listing allocation participants by the level of accuracy they achieve. This would provide consumers with transparency to make more informed decisions.</p> <p>Vector has not provided a different percentage of error because it is of the view that this percentage of error can not be set in isolation of other work streams within the GIC. This issue needs to be considered and reviewed with the Transmission Balancing work stream as this could allow parties to 'game the system,' as running mismatch positions and balancing costs are allocated on their initial allocations.</p>

Question	Comment
<i>Q16: Do submitters have any general comments to note on the choice of a percentage of error between +/- 10% and +/- 20%?</i>	As raised above, Vector believes that $\pm 20\%$ is too large and that $\pm 10\%$ is sufficient. Consumers should be able to have some comfort that their service providers are not allowed unreasonably large margins of error. This should allow incentives to be more aligned with consumer requirements, rather than based on the lowest common denominator.
<i>Q17: Do submitters have any comments or information in relation to the matters that Gas Industry Co must have regard to when determining an appropriate percentage of error?</i>	<p>The possibility of targeting consumer classes should be investigated. A retailer whose customers' meters are all fitted with TOU meters should be allowed a lower percentage error than a retailer who supplies predominantly residential customers.</p> <p>In addition to publishing the percentage there must be a clear path established to reduce this percentage of error so that a clear signal and timescales is transparent to the industry.</p>
<i>Q18: Do submitters have any comments on the proposed grouping of gas gates for the purposes of the Reconciliation Rules? Are there any other gas gates that need to be considered as a group for the purposes of the Reconciliation Rules?</i>	<p>Vector notes the statement '<i>Grouped gas gates will not form gas gates for the purposes of the Gas (Switching Arrangements) Rules 2008, but will be recognised as gas gates for the purposes of the Reconciliation Rules. This means that while individual ICPs will be required to be assigned to a specific gas gate within the registry, allocations will be performed at the "grouped gas gate" (ie) Notional Delivery Point level.</i>'¹</p> <p>Vector prefers that there is a consistent approach for both switching arrangements and allocation rules, to avoid confusion. We were therefore planning to update our database so that all Auckland ICPs were connected to GTA03610, rather than BMC17901, etc. Vector is concerned that this arrangement would (apparently) contravene the rules. We request that GIC confirm the position.</p>
<i>Q19: Gas Industry Co notes that the application of the Reconciliation Rules is not limited to shared gas gates. Are there any gas gates that should be validly exempt from the rules? If so, why?</i>	<p>If a Transmission Delivery Point is available, or becomes available to be used by more than one Shipper, then from Vector transmission's point of view, an allocation agreement at such Delivery Point is mandatory.</p> <p>Currently there are many Transmission Delivery Points that are used by only one Shipper, for example. At some of these Delivery Points the Shipper is also the gas-user on the other side. In a number of these cases it is unlikely that there will ever be more than a single Shipper using the delivery point. It would be best if the rules covered Transmission Delivery Points on an as-required basis.</p> <p>NB: Power Stations are a good example of the situation outlined above.</p>

¹ Gas Industry Company, Proposed Determinations and Notifications under Gas (Downstream Reconciliation) Rules 2008 and Other Implementation Matters, PG. 29.

Question	Comment
<p><i>Q20: Transmission owners are asked to provide their views on the discussion regarding the implementation of rules 41 and 42 and respond to the question asked above of them.</i></p>	<p>Rule 41– Rule 41 does not recognise that the Allocation Agent has no allocation or reconciliation task to perform in relation to any Transmission Delivery Point used by only a single Shipper.</p> <p>Further, under its VTC Transmission Services Agreements (“TSAs”) with Shippers, Vector Transmission is currently required to supply “validated” energy quantities at month–end for each Delivery Point by 12:00 on the 4th business day of the following month. That deadline is difficult enough, and Vector sometimes struggles to meet it. Rule 41 advances the deadline by half a day, and as Vector has continually stated throughout the discussions on this matter, it is a timeframe that Vector will not be able to meet.</p> <p>Accordingly, Vector requests an exemption from complying with Rule 41 until such a time: (a) as it is able to find the resources to enable compliance with the stated timeframes; (b) as it is compensated be this process for the cost of those resources; (c) as the requirement re provision of information with regards to a single Shipper at a point is removed; or (d) as the requirements of Rule 41 are changed, such that (a)–(c) are no longer necessary.</p> <p>Rule 42– Rule 42 is also problematic for Vector Transmission. Under its TSAs, Vector is required to supply unvalidated energy quantities by 10:00 on the following business day for all delivery points on telemetry, and validated data for such sites by 14:00. For Delivery Points where data is down–loaded manually at the end of the month (ie there is no telemetry), Vector is required to supply validated energy quantities by 12:00 on the 4th Business Day.</p> <p>Vector Transmission objects to Rule 42 for the following reasons:</p> <ol style="list-style-type: none"> (1) Vector does not have the staff or resources to provide the information every day, as opposed to every Business Day and the costs of doing so would be significant, and in Vector’s experienced view not of sufficient value to warrant putting in place; (2) Vector is unable to provide estimates for sites where it does not have telemetry. In such a situation the retailer(s) should be better placed than Vector to produce an estimate; (3) It is not economic to install telemetry at many of the smaller Delivery Points, and in some cases it is not technically feasible (otherwise it would have been done already); (4) Provision of these quantities at gas gates where there are only two Shippers is contrary to the provision of the VTC; and (5) Like Rule 41, Rule 42 does not distinguish between Delivery Points where allocation is required and those where it isn’t. <p>Accordingly, Vector will be requesting an exemption from compliance with Rule 42 until such time as the matters which it has raised above have been resolved.</p> <p>NB: Vector assumes that its term “unvalidated” corresponds to the GIC’s term “estimate.”</p>

Question	Comment
<p><i>Q21: Do submitters have any views of Gas Industry Co's proposed timing for the provision of estimated day-end volume injection quantities each day (ie 10am and 4pm) or any other comments on the proposed implementation of rules 41 and 42?</i></p>	<p>Vector refers the GIC to the comments it has made above.</p> <p>In addition, Vector expects that the GIC will apply the causer pays principle to resolving the issues being addressed in this process and require those concerned to invest in improving their own performance rather than simply spread costs onto the wider industry.</p> <p>Since 2005, Maui open access, Vector has progressively undertaken to provide more timely, information to its Shippers – principally to assuage the difficulties of Shippers supplying the “mass market”. Vector wishes to record however that it does not now accept, and has never accepted, that provision of daily (let alone hourly) information on the day or the day after is a pre-requisite for Shippers to estimate their gas offtake accurately. Any imposed requirement to do so would require costs for services to be recouped.</p>
<p><i>Q22: Do submitters have any comments on the proposed ability for the allocation agent to be able to supply special reports and information to allocation participants? Or comments on Gas Industry Co's proposal to provide for this in the allocation agent service provider agreement?</i></p>	<p>Vector supports the GIC's proposal to make reports GIEP24, GIEP27, GIEP30, and GIEP31 available to Distributors, for the reasons outlined in a previous submission. Vector supports the ability for the Allocation Agent to provide special reports or analysis to allocation participants at a standard rate as agreed with GIC, providing that such reports do not breach confidentiality arrangements (as raised earlier).</p>
<p><i>Q23: Do submitters have any comments on the provision of allocation information by the allocation agent to OATIS, including any comments on the dummy files attached as Appendix D?</i></p>	<p>Vector Transmission notes that each of its TSAs requires the shipper to ensure that:</p> <p><i>'any Allocation Agreement includes a commitment that, within two Business Days of the Allocation Agent receiving the input information from Vector for the Delivery Point to which the Allocation Agreement relates, that Allocation Agent will notify Vector in writing of each Shipper's Gas Delivery Quantities at that Delivery Point, but in any event shall not be obliged to provide those Delivery Quantities earlier than the timeframe required under the Reconciliation Code.'</i>²</p> <p>Clearly, Vector regards the continued provision of such information by the Allocation Agent as crucial. The Allocation Agent must provide the information to OATIS in a format that OATIS can receive. Such format is for Vector alone to specify.</p>

² Vector Transmission Code, pg. 41, Section 6.6: Determination of Gas Quantities.

Question	Comment
<p><i>Q24: Do submitters have any comments on the proposed process by which the allocation agent should be advised by retailers of changes to Vector's supplementary contract codes?</i></p>	<p>Supplementary Contract Codes are generated by Vector when it sets up a transmission Supplementary Agreement in OATIS. (In OATIS such a code is known as a "Contract Reference No".)</p> <p>Although Vector is not party to the Allocation Agreement, it would definitely be best if the Allocation Agent was notified by Vector of the existence of any Supplementary Agreement, and what its Contract Reference No. may be, and not by the retailer concerned. Vector would be concerned at the prospect of spurious Supplementary Agreements being created, or of expired agreement being allowed to continue other than at Vector's discretion.</p>
<p><i>Q25: Do submitters have any comments on the proposed notification form and process?</i></p>	<p>A retailer can not be allowed to generate or amend any transmission contract reference number, whether of a TSA or of a Transmission Supplementary Agreement. This would compromise the integrity of the process.</p>
<p><i>Q26: Do submitters have any comments on the definition of "gas measurement system" in the context of the definition of "gas gate"?</i></p>	<p>Where the gas gate is a Transmission Delivery Point the term "gas measurement system" is inapplicable. This terminology should remain confined to the distribution system ("network") context.</p>
<p><i>Q27: To assist Gas Industry Co's analysis, Gas Industry Co request industry participants provide information relevant to the following:</i></p> <ul style="list-style-type: none"> <i>• An estimate of the number of third party gas measurement system connections;</i> <i>• An estimate of the number (if any) of instances where a third party owns the meter, but not the whole gas measurement system; and</i> <i>• Any other information from participants where they have previously considered the issues of gas measurement systems or meter ownership in the context of the Gas Act definition of "distribution system".</i> 	<p>No Comment.</p>
<p><i>Q28: Do submitters have any comments on any of the other implementation matters detailed in Part 4 of the paper?</i></p>	<p>GIC needs to provide a detailed migration implementation plan to ensure that all participants have ability to test the changes to their systems before go-live on 1st October 08.</p>

Question	Comment
<p><i>Q29: Do submitters have any comments on the migration from current industry arrangements to the allocation arrangements provided under the Reconciliation Rules?</i></p>	<p>See above response to Q28.</p>