

5 September 2008

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Dear Bas,

### **SUBMISSION ON INITIAL EXEMPTIONS UNDER THE GAS (DOWNSTREAM RECONCILIATION RULES) 2008**

1. Vector appreciates the opportunity to submit its views to the Gas Industry Company on the proposed initial exemptions. We are aware of the large amount of time this project has taken for everyone involved and will continue to provide feedback to the GIC on a best endeavours basis.
2. Vector supports the Downstream Reconciliation Rules in meeting the stated outcome in the 2008 Gas Policy Statement, "[to provide] accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities<sup>1</sup>." To meet this outcome, the GIC and Industry set out to design a system that made significant improvements to the accuracy of reconciled downstream gas quantities through minimizing UFG.
3. On that basis, a reasonable starting point for the new system would be that it provide all functions of the current system, except where these functions had been reviewed and were deemed unnecessary. Improvements on this base would provide greater accuracy in a more efficient and timely fashion, where this passed appropriate cost-benefit criteria.
4. Vector has reservations that the project will meet these aims and submits the following key recommendations, based on the issues canvassed below.

#### **Vector's Key Recommendation**

5. In consideration of the ongoing issues raised in this and previous correspondence with the GIC, Vector recommends that the GIC review the go live date of 1<sup>st</sup> October 2008, with a view to:
  - actioning necessary rule changes;
  - allowing time for necessary testing of systems and processes;
  - providing for an independent governance review to ensure risks have been well managed, the project is delivering its intended outcomes and that these outcomes are "fit for purpose".

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<sup>1</sup> Gas Policy Statement on Gas Governance (April 2008) pg. 4

## **Developing a Consistent Approach to Change**

6. Vector is pleased to see that the GIC is mindful that rule changes will be required and that they have begun to determine a framework for doing so. We suggest that the GIC continue to develop and finalise plans for rule changes, changes to the allocation system and the functional specification and that these are applied across other work streams as needed in order to ensure the GIC is consistent in its approach.
7. There will undoubtedly be further changes that need to be made to the system and we believe that taking the time to ensure that all participants understand the problem and are invited to be involved in the solution, will provide for more constructive outcomes. It is a matter of principle and priority that all change requests be handled appropriately.
8. In that context, we suggest the GIC carefully consider all the issues raised within this Initial Exemption paper. It is our view that several of the exemptions raised should in fact trigger the GIC to consider a rule change. Examples are:
  - the definition of a "gas gate"<sup>2</sup>;
  - deadlines in rules 41 and 42;
  - consistent use of business days; and
  - to align with elements of the VTC.
9. With the above examples in mind, Vector recommends that the GIC embark on the following initiatives to provide participants with further guidance when requesting changes be made to the system:
  - Establish a formal process and set of criteria for considering exemptions to the rules;
  - Establish a set of principles for who pays for change requests (and what is a change request), and other cost driver activities; and
  - Establish robust decision making criteria for changes to the rules that deliver the best outcomes, in terms of the fairness, efficiency and reliability of the process, for all participants and classes of participant.

## **Comment on the Allocation Work Stream Process**

10. Given the complexities of the issues in this area and the in depth working knowledge required to make informed decisions, Vector considers that the time and resources necessary to create a fully functioning allocation system have been underestimated by the GIC. This point has been made repeatedly by Vector, both in submissions and through the GIC's informal processes with industry participants, since consultation on this work stream began in 2006.
11. We continue to maintain the view that, given the size and scope of the project coupled with the number of issues, outlined in this paper and reflected in the number of exemption requests, serious consideration should be given to reviewing the go live date of 1<sup>st</sup> October 2008.

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<sup>2</sup> The numerous discussions that have taken place surrounding the definition clearly show that it has many interpretations and that the GIC's definition is far too narrow given the vast application of the phrase.

## Project Governance

12. The GIC's recent approach to change requests is concerning. In respect of a recent change request it was proposed that Vector fund this as it had raised the request. This completely disregards the potential for participants other than Vector to benefit from the change request and who could effectively free ride on Vector's investment. This approach also represents a departure from the practice in respect of change requests earlier in the project and raises a concern that other factors, such as impending delivery dates or project budget limitations, are driving decisions based on expediency rather than principle. While Vector is cognisant of the importance of meeting deadlines and budget constraints, it is equally important that project outcomes meet the outcome specifications. Any trade-off between meeting deadlines and budgets at the expense of delivered functionality needs to be considered by the industry as significant financial processes rest on the effectiveness of the allocation and reconciliation process.
13. Major projects of this nature are often subject to independent review as a matter of sound governance practice. Such a review provides assurance that the project risks have been well managed, the project is delivering the intended outcomes and that these outcomes are "fit for purpose".
14. It is also a concern to Vector that some key project principles may not be satisfied. In particular, given the significance of the financial processes involved, Vector wishes to reiterate its preference that the systems are adequately tested prior to go live. Vectors' past experience with system developments have included up to three months worth of trial runs to ensure that the business does not suffer any unnecessary or unforeseen costs due to faults in the initial design. The amount of users and interfaces that will be directly involved with the system should indicate that a longer amount of time should be spent on this crucial task.
15. We would be happy to discuss this submission if any aspect of it is unclear. Please feel free to contact me at [ewan.gebbie@vector.co.nz](mailto:ewan.gebbie@vector.co.nz) or 04 462 8657.

Kind regards



Ewan Gebbie  
**Group Manager Regulatory Performance**

# Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of submitters' 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 exemptions in their responses.

Submission from: Vector Gas Limited Ewan Gebbie

| Question   | Comment  |
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| <i>Q1: Do submitters have any comments on the transitional exemption DR08-17-T proposed by Gas Industry Co regarding allocation processes for gas gates without allocation 4 or 6 consumption?</i> | Vector is supportive of this request as long as a clear and timely solution to this issue is presented. Given that the GIC has requested a transitional exemption for these gas gates, we request that timeframes and clear actions for a permanent solution are articulated as a prerequisite. Vector believes that the best solution is a change to the definition of gas gate.  |
| <i>Q2: Do submitters have any comments on the transitional exemption DR08-18-T proposed by Gas Industry Co regarding injection quantities for unmetered gas gates?</i>                             | <p>Vector understood that this issue had been resolved when we received confirmation that M-Co would continue to allocate these gates under the current regime at no additional cost. Vector therefore feels that this issue is no longer a concern. We note also that the GIC has included it as a transitional exemption and suggest that the GIC confirm a change to the rules will be made within a timeframe that allows for the existing arrangement to continue.</p> <p>Vector believes that a rule change to allow for the existing arrangement is both fair and efficient, until it is economical for meters to be installed at these sites.</p> <p>Please see the below "<b>Discussion on DR08-18-T: Un Metered Gas Gates</b>" for more information on this issue.</p> |
| <i>Q3: Do submitters have any comments on the global 1 month methodology exemption applications DR08-02-S from Genesis Energy and DR08-04-S from Contact Energy?</i>                               | Vector has no additional comments.   |

| Question   | Comment  |
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| <p><i>Q4: Do submitters have any comments on the direct consumer and non-shared gas gate exemption applications DR08-06-S from Genesis Energy, DR08-10-S from On Gas and DR08-11-S from Mighty River Power?</i></p>    | <p>Vector notes that Genesis has sought an exemption for Pokuru No. 2. This point and all other interconnection points between two transmission pipelines (VT/VT or MDL/VT) are not Gate Gates (as defined in rule 5) and therefore exemptions are not necessary in respect of these points.</p> <p>Vector believes that the GIC should adopt a principled approach in respect of the subject matter of these exemptions where either all direct consumers/non-shared (or in other situations where a certain set of criteria exists) Gas Gates are exempt or none at all.</p> <p>We note that the GIC has cited the critical contingency regime as a reason to conduct allocations at all Gas Gates – Vector believes there is no need to directly link the two. Calculating quantities for the critical contingency regime can be done under other systems such as nominations or gas transfers; therefore there is no reason why it needs to be associated with the allocation system.</p> <p>In addition, the GIC seems to have misinterpreted what On Gas’s submission is requesting. The analysis reads as though On Gas is only asking for exemptions for single retailer gas gates, whereas, the majority of the submission matches Contact, Genesis and MRP, which are asking for direct consumers to be exempt. On Gas has included an exemption request to rules 26-30, in addition to 65-69 and 75 since On Gas is already required to adhere to standards for metering and auditing these sites under the Vector Transmission Code (VTC).</p> |
| <p><i>Q5: Do submitters have any comments on the exemption application DR08-05-S from Contact Energy regarding unmetered direct consumers?</i></p>   | <p>As in Question 4 above, Vector believes that the GIC should adopt a principled approach in respect of the subject matter of this exemption where either all sites at which no metering is available (or in other situations where a certain set of criteria exists) are exempt for the UFG calculation or none at all. If this exemption were not granted, UFG would be introduced that didn’t exist before and the cost of metering doubled, which in the end will be passed on to end-users. There should be separate requirements for metering – meaning that in set scenarios metering must be present at a site – that would stop people from failing to install or removing metering.</p>   |
| <p><i>Q6: Do submitters have any comments on the ongoing fee exemption applications DR08-08-U from Contact Energy, DR08-07-U from Genesis Energy, DR08-09-U from On Gas and DR08-12-U from Mighty River Power?</i></p> | <p>Vector agrees that these exemptions should be granted. Vector believes a general rule should be developed whereas parties are not required to pay fees at sites in which no allocation is being performed, seeing as there is no cost or economic return involved if these sites were to be allocated. Either a change to rule 16.3 in which the calculation of fees excludes these sites or a change to the definition of a gas gate would be most appropriate. Vector’s preference is for the latter.</p>   |

| Question  | Comment  |
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| <p><i>Q7: Do submitters have any comments on the rule 41 exemption applications DR08-16-S from Vector and DR08-14-S from MDL?</i></p> | <p>Vector supports MDL's exemption application (and obviously its own). GIC will be aware that this issue has been raised with them over the course of discussions on the content of the rules – hence the need for this exemption. Like other industry participants, Vector Transmission is having to make a number of changes to its systems to accommodate the new rules however the change to deadlines required here is unrealistic and not one that would be efficiently achievable by us even if we did employ additional resources. No cost effective and efficient alternate arrangements could be made by Vector Transmission to ensure compliance with rule 41 in its current form.</p> <p>We note that the GIC has determined that granting our exemption will not result in other delays. Vector Transmission's request for an "acting reasonably" qualification is to ensure it is not exposed to breaching the rules on an ongoing basis – the presence of an absolute obligation regarding deadlines will not ensure the deadlines are met, it will simply result in Vector Transmission being in breach of the rules.</p> <p>Vector Transmission will work to the deadlines as if they were absolute obligations however it is impracticable to place an absolute regulatory or contractual obligation on us to do so – and this fact is reflected in our contractual arrangements with all relevant parties. The objectives of section 43ZN of the Gas Act are not met by placing obligations on parties that they cannot comply with.</p> |

| Question  | Comment  |
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| <p><i>Q8: Do submitters have any comments on the rule 42 exemption applications DR08-15-S from Vector and DR08-13-S from MDL?</i></p> | <p>Vector supports its exemption application. GIC will be aware that this issue has been raised over the course of discussions on the content of the rules – hence the need for this exemption. Like other industry participants, Vector Transmission is having to make a number of changes to its systems to accommodate the new rules however the changes envisaged by these rules are unrealistic and not ones that would be efficiently achievable by us even if we did employ additional resources. No cost effective and efficient alternate arrangements could be made by Vector Transmission to ensure compliance with rule 42 in its current form. In the VTC we set out the best that Vector Transmission can do on this matter, and we have stated that we are happy to comply with those obligations in this context as well.</p> <p>The GIC has asked for specific information on injection data in respect of each gas gate. As discussed, Vector Transmission will be providing this information shortly.</p> <p>Vector's only concern is how MDL will meet the requirements for providing small gate information on a daily basis, seeing as it is not in their exemption request. We suggest that a cost benefit analysis be preformed to see whether it is economic to install telemetry at any of the gates that currently have none. From this analysis, parties would be able to better judge the benefits to the industry and to its customers</p> |
| <p><i>Q9: Do submitters have any comments on the generic exemption application DR08-01-S from Greymouth Gas?</i></p>                  | <p>Vector empathizes with Greymouth's concerns regarding costs – this has become a very expensive system and process. Vector requests that Greymouth further expand on their exemption request by providing the industry with the appropriate information to assess their economic situation. If they can demonstrate they are materially adversely affected than before the rules, we suggest that the GIC consider adopting a materiality threshold in order to allow for parties to be excluded from the new allocation system if it will be inefficient for them to be included, or the costs create barriers to new entry.</p>  |

| Question  | Comment  |
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| <p><i>Q10: Do submitters have any comments on the transitional exemption application DR08-03-T from Nova Gas regarding the application of seasonal adjustment daily shape values?</i></p> | <p>Vector supports Nova's desire to develop, implement and thoroughly test all relevant systems. Vector has previously raised concerns about the timeframe to implement the rules – particularly given: (a) the new Allocation Agent's system has not yet been completed and tested; and (b) the consequences for the industry of no allocation or an inadequate allocation occurring.</p> <p>Vector remains of the firm view that it is a mistake to implement this regime from 1 October and that the start date should be delayed until, at the very least, all of the Allocation Agent's systems have been completed and tested. If this does not occur, then Nova should be treated the same as all other parties in the same circumstances – so everyone gets an exemption to ensure their systems work, or no one does.</p> |

### Discussion on DR08-18-T: Un-Metered Gas Gates

Vector would like to take the opportunity to provide comment on one of the GIC's 'issues for consideration' found in the discussion on DR08-14-T, more specifically, the higher policy issue arising from Vector's request to continue the current practice for the allocation of un-metered gates. The GIC asks whether it is fair that these gates continue to be un-metered.

It may be reasonable to pose this question if it results in the GIC gaining a better understanding of the issue. We hope the discussion below will assist in that regard.

Historically, there have always been transmission Delivery Points<sup>1</sup> (Gas Gates):

- (a) with no meter;
- (b) with a meter but with no corrector; and
- (c) where metering originally installed had to be removed because it was not technically viable, (e.g. due to the combination of low-flow/pressure), or was inaccurate for much of the time because of the excessively-wide flow range, and was generally more trouble than it was worth,

while Delivery Points currently exist where:

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<sup>1</sup> NB: The VTC definition of Delivery Point is the closest definition of what the GIC refers to as a 'Gas Gate.' For ease of understanding, the two terms are used interchangeably



(d) transmission revenues are so small that Vector would sooner close down the Delivery Point than spend more capital on it.

The Vector Transmission Code (VTC) contemplates that there need not necessarily be metering at a Delivery Point, and the VTC allows for non-metering arrangements to exist, without going into what such arrangement might be or might need to be. Section 11.1 of the VTC states:

*Vector shall ensure that all gas that flows through and Receipt Point or any Delivery Point is measured<sup>2</sup>:*

- (a) if no Metering existed at a Delivery Point as at 30 November 2005, by the arrangements for determining gas quantities as at (and prior to) that date; or*
- (b) If no Metering exists at a Delivery Point at the data a Shipper first starts using such Delivery Point and there are existing arrangements for determining gas quantities at such Delivery Point, by arrangements for determining gas quantities as at that date.*

The VTC also addresses (up to a point) the matter of “Uneconomic Delivery Points”, for example in section 2.4, which states<sup>3</sup>:

*Vector shall be under no obligation to:*

- (a) enter into a transmission services agreement; or*
- (b) provide additional transmission services under an existing TSA, an Existing Supplementary Agreement or a Supplementary Agreement,*

*where it would involve the construction and/or commissioning of new assets and Vector's transmission charges from the arrangement will not (in Vector's reasonable opinion) cover Vector's capital and operating costs relating to that construction and/or commissioning.*

Currently there are eight Delivery Points on the transmission system without metering. To install accurate metering at these sites would be technically challenging while in only two cases would Vector consider it remotely viable from an economic standpoint.

The estimated capital cost of installing metering (not including any form of telemetry) at all eight sites<sup>4</sup> is roughly \$150,000-\$300,000, with ongoing operational costs of approximately \$10,000 a year. Installing such metering is not a project that Vector regards as sensible,

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<sup>2</sup>Vector Transmission Code, pg. 60

<sup>3</sup> Vector Transmission Code pg. 22

<sup>4</sup> Excluding Oakleigh, where no gas is being taken and which Vector is likely to decommission.

and Vector would only undertake it in the event that a shipper or some other party agrees to pay for it. Vector would regard the cost of such project as one stemming from the Rules, and not a cost that it should be required to absorb.

Vector suggests that if, notwithstanding the above, the GIC retains any interest in pursuing the suggestion that metering be installed at these sites, it should pay for a cost/benefit analysis. That would help the industry understand and quantify the implications.

Therefore, Vector requires the status quo to continue in relation to un-metered gates until the GIC provides the industry with an economic incentive to do otherwise.