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23 February 2007

Kelly Rastovich
Gas Industry Company Ltd.
PO Box 10-646
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Dear Kelly

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

1. Vector supports the GIC's ongoing commitment to resolving downstream gas reconciliation issues. Vector generally agrees with the majority of issues the GIC has identified but has concerns in regards to their proposed resolution.
2. All solutions must be viewed in the context of the current Gas GPS which stipulates better reliability, equity and enforceability. Vector believes that equity will ultimately be achieved through improved information transparency, standardised processes and ongoing compliance reviews across the entire industry.
3. Vector has concerns that significant changes to the Reconciliation Code are being proposed without full and complete information on specific issues. Specifically, four areas warrant further GIC investigation:
   - How loss factors and UFG physically occur,
   - The differences between retailers' reporting processes,
   - The impact of the reconciliation code changes on upstream balancing, and
   - The impact of upstream regime changes (e.g. daily rather than monthly) on distribution level information requirements.

   With further investigations into these areas Vector believes that proposals could be greatly refined and improved.

   Vector has provided answers to the questions posed in the discussion paper within the Appendix at the end of this submission. In addition, Vector would like to offer comment on specific issues, below.

Focus upon fundamental policy drivers more effective

4. A number of failures of the reconciliation system have been clearly identified but investigations into the fundamental drivers behind these failures have not been explored. Vector believes that tailoring policy to combat these fundamental drivers is likely to be significantly more effective than taking an ad hoc approach.

5. In line with this, Vector is concerned at the limited technical investigations and the occasional reliance on anecdotal information to drive proposals. A key concern is the proposed Global 1 Reconciliation Methodology which doesn't solve the observed problem of UFG; rather it takes a 'scattershot approach' at sharing the problem around. In Vector's view, this generates a less equitable system that discourages the improvement of data quality and puts it at odds with the GPS in terms of equitability and transparency.

6. Vector believes that with further investigation into the causes of UFG and reconciliation error, a significantly fairer allocation methodology can be developed. This investigative process does not need to be onerous and more equitable measures can be implemented in the interim. This is elaborated on in our response to question 14.

Impact upon key stakeholders upstream needs further examination

7. While the GIC's efforts to improve the downstream reconciliation process is commendable, Vector believes that a number of key upstream stakeholders that will be impacted by these proposals have been left out of the consultation process. Vector would be interested to include as part of any further work on downstream reconciliation issues some consideration of the upstream consequences of downstream reconciliation processes[1], and some development of the understanding of the potential competition issues across customer classes.

8. The main purpose of reconciliation is to determine gas purchases as well as balancing and transmission charges for upstream parties. The proposed changes will have significant commercial consequences upstream (on both the Vector and Maui systems), and specific daily balancing functions may become untenable in conjunction with the current reconciliation proposals. In recent upstream industry forums, significant discussion have revolved around downstream allocations resolving balancing issues, signaling a strong reliance and interest in this area. Vector believes it is highly prudent to consider the upstream consequences of any proposed downstream reconciliation activity.

9. Vector would welcome the opportunity to provide further input upon any of the issues discussed above. Please contact myself or Ewan Gebbie in the first instance.

Kind Regards

Paul Hodgson
Divisional Manager, Gas Transportation Services

[1] Section 2.7 of the discussion document states that this is "out of scope".

APPENDIX - Recommended Format for Submissions

To assist 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 throughout the body of this consultation document. Respondents are also free to include other material in their responses.

Submission prepared by: Vector (Transmission and Distribution)

Question	**Comment**
Q1: Do you agree with the definitions adopted by Gas Industry Co in this Discussion Paper? If not, what do you suggest?	Vector is happy with the definition of upstream and downstream. The scope of the reconciliation changes should be limited to downstream, but shouldn't ignore the impacts the downstream processes might have on the upstream.
Q2: Do you agree with the proposed Regulatory Objective for downstream reconciliation? If not, what do you think would be a more appropriate regulatory objective?	Vector agrees with the GIC interpretation of the regulatory objective.
Q3: Do you agree with Gas Industry Co's preferred approach towards standardised file formats? If not, how should it be improved?	Vector agrees that standardised file formats should, and can be implemented, in the short-term.
Q4: Do you agree with the proposed estimation accuracy criteria and proposal to require normalisation of data? If not, why not?	Vector agrees that it is important to identify and set minimum quality standards in respect to estimation accuracy. Vector sees significant merit in the introduction of a forward estimation procedure, and is somewhat disappointed that the GIC believes this to be premature. Vector understands that between the retailers, network owners and allocations agent there should be sufficient information to generate an estimation process significantly more accurate than that currently observed. Vector is aware that significant value (transmission charges, gas purchases

	etc.) is associated with downstream load on a daily basis. Limiting the accuracy to 2% “over a rolling 3 month period” intentionally smothers important demand-related price signals. Reporting flatter profiles results in an inequitable distribution of upstream costs, and it can still occur even with proposed reporting rules in place. Hence, Vector would be keen for the GIC to actively pursue a forward estimations process. It may be necessary for Vector Transmission to require daily nominations in order that the Maui and Vector systems operate in the most efficient manner possible. Vector agrees that the same reporting processes should be used by all retailers. In addition, Vector would like the data provided to the distributors to match the data provided to the allocations agent. This alignment of data would significant increase the transparency on the distribution networks and allow a clearer picture of the UFG.
Q5: Do you agree with the proposed minimum meter reading requirements? If not, why not?	Vector believes that all retailers should conduct meter reads on a minimum bi-monthly basis. While it is difficult for all meters to be read in one cycle, 95% of reads in this period is not unreasonable, and would provide add value in correcting seasonality estimation issues.
Q6: Do you consider the 10TJ threshold for allocation groups 1 and 2 should be reviewed? If so, do you have any information that would assist Gas Industry Co to perform this review?	Vector would agrees that a reduction to TOU thresholds should be investigated
Q7: Do you agree with the proposed process for the calculation and publication of loss factors appropriate? If not, how should it be improved?	Vector disagrees with both the definition and calculation of loss factor. There will always be a difference between gas metered ‘in’ at a gate and the reported consumption ‘out’ from retailers. This difference is driven by 3 factors. 1. Technical Losses – Gas physically escaping from the network 2. Metering error – Meters running fast or slow

	3. Reporting error –Retailers under/over estimating or losing track of ICPs To clarify the definitions: 1 = Loss factor. 2+3 = Unaccounted for gas (UFG) Vector is disappointed that the GIC has not fully understood that distribution networks are only in a position to determine the combined value of 1,2 and 3 Isolating and determining 1 (loss factor) is nearly impossible as this quantity cannot be metered. The loss factor is also hidden by the fact that 2+3 , in some cases are orders of magnitude larger. Vector has reports from overseas distribution networks that suggest physical gas losses are generally relatively small (0.3 – 0.6% of total gas flow.) Hence if a UFG of 8% is being observed at some gates it must be assumed that the majority of this percentage is being driven through poor reporting and metering processes (not a loss factor issue) In theory 2 & 3 should contribute to both positive and negative UFG. Hence for some gates to report substantial UFGs (e.g. 8%) consistently in one direction is concerning. This indicates poor reporting and metering processes in place, and asking distributors to review loss factors will not resolve this issue.
Q8: Do you consider that the current month end timeframes for the provision and calculation of allocation information are appropriate?	Yes – under current arrangements. Upstream reconciliation requires allocation information to be available by the 5th working day at the latest. There would be significant commercial and balancing impacts if this was extended. If upstream requirements change change then downstream processes may need to be modified to accommodate greater information requirements for

	retailers.
Q9: Do you consider transitional provisions and/or exemptions will be required prior to the central registry go-live date?	If required, Vector would support reasonable transitionary provisions, but believes that central registry work should not hinder the development and enforcement better reconciliation processes. It seems premature to define central registry processes when upstream changes may impact downstream information requirements.
Q10: Do you agree with the preferred approach of implementing a mandatory requirement on all industry participants to submit accurate data and comply with all data submission requirements?	Yes, Vector strong agrees that all participants must be required to submit accurate data. Vector also strong believes that the methodologies for deriving this data should be mandatory and prescribed.
Q11: Is Gas Industry Co's proposed regime for rolling 4 month (interim allocation) and 13 month (final allocation) revisions appropriate? Is the terminology ("interim allocation" and "final allocation") appropriate or would alternative terminology (e.g. "first revision" and "second revision") be clearer?	No. Vector has stated emphatically that gas allocations are primarily used for upstream reconciliation. Hence 4 and 13 months 'wash-ups' will require the revisiting of all upstream reconciliations. Furthermore, current upstream balancing arrangements will become untenable if washups over long periods are to be considered. Vector is concerned with statement 6.127 which seems to suggest that the impacts of changing gas allocation methodology are irrelevant and outside the scope of the proposal document. Vector is also concerned that a number upstream participants have not been engaged in regards to these changes – as they are the primary stakeholders of resulting allocation information (not retailers or network owners). Vector is surprised that GIC has not engaged the industry on this matter, and advises that a suitable methodology for handling washups upstream must be found before these reallocations can occur.
Q12: Do you agree with Gas Industry Co's proposed restriction of the correction process (i.e. limiting	With the tight timeframes required for industry reconciliation, corrections should only be allowed if the allocation agent still has sufficient time to meet

corrections to within one working day of publication and only if a manifest error is discovered)? If not, what alternative correction process do you propose?	the required deadlines.
Q13: Do you agree with the preferred approach of publishing gas gate, UFG and specified allocation information?	Vector is happy to provide appropriate information.
Q14: Do you agree with the preferred approach of mandating the 1 month UFG global method?	No, Vector does not believe that the proposed 1 month UFG global methodology is equitable, predictable or encourages the right retailer behaviour. Vector acknowledges that UFG is a significant issues on all distributor networks. However to equitably allocate UFG, the causes should first be identified rather than "smearing' UFG across all retailers regardless of information quality and accuracy. Vector maintains a regularly checks and calibrates a large number of TOU meters on both the Maui and Vector transmission systems. In Vector's experience, TOU meters will occasionally runs fast and slow but in most occasions have a level of accuracy far greater than the UFG percentages currently observed on some distribution networks. Similarly at the distribution level, Vector believes that determining a typical accuracy of TOU would not difficult and should be evaluated before a decision to attribute any % of UFG to these devices. If it is found that TOU do contribute a small quantity to UFG then potentially this smaller % can be used (as suggested in 7.19) for allocations to load groups 1 and 2. A similar methodology can be applied to load groups 3 & 4. Vector strongly believes that spreading UFG across all load groups is inequitable and in conflict with the GPS. Not only does it unfairly allocate UFG, but it also disincentivises retailers from installing more accurate TOU devices as the same % of UFG is attracted regardless of accuracy.

	As an interim measure, Vector suggests that the global method as stated in the reconciliation code (which as been agreed by the industry) would alleviate some of the incumbent retailers' immediate concerns, and would be far more equitable while sending out the right drivers to improve information quality. As an ongoing strategy, Vector suggests that audits into retailers' reporting systems and cross checks with the central gas registry would further enhance data quality and UFG.
Q15: Do you agree that the mandatory downstream reconciliation arrangements should not include the day end estimated allocation service and month end monthly allocation service?	Vector believes that some value can be added through a day end estimation service – but it should not be mandatory.
Q16: Do you agree that Gas Industry Co should appoint the Allocation Agent using a service provider model similar to that used in the electricity industry? Do you agree that the initial appointment should be for a 5 year term?	Section 8.06 inaccurately describes the term of the Allocation Agreement on most distributors' networks – the term is not 6 months; the Allocation Agreement goes on ad infinitum unless a majority of Retailers agree and terminate it on 6 months' prior notice or the Allocation Agent terminates it on 6 months' prior notice (such notice not to be given in the first 6 months of the term of the agreement – thus providing the Allocation Agent with a minimum 12 month fixed term). There is a need to develop a formalised service model but feels that 5 years may be too long to provide any degree of competition for the service.
Q17: Is a pan-industry arrangement as described in this section the most appropriate alternative governance structure to the use of regulations and rules under the Gas Act? Which governance structures would you prefer (regulatory or pan-industry)?	Yes, which includes existing reconciliation code arrangements
Q18: Should funding of the reconciliation arrangements be covered by a process detailed in the reconciliation arrangements (rather than, for example, by the levy)? Do	Vector agrees that funding should be user pays (retailers) and based on ICPs.

you agree with Gas Industry Co's preliminary view that the arrangements should be funded by retailers according to the number of ICPs?	
Q19: Do you agree with the proposed audit arrangements? If not, please specify which aspects of the proposed arrangements are inappropriate and how you consider they should be improved?	Vector agrees broadly with the majority of the proposed arrangements. The key to the success of the auditing process is for an obligation on retailers / distributors to provide accurate and timely information. Vector also notes that the same issues raised in question 13 will occur if allocations changes are required post - audit.
Q20: Do you agree that the auditor should be excluded from coverage of the compliance regime (i.e. should compliance be only a contractual matter between Gas Industry Co and the auditor)?	Vector is happy for the auditor to deal directly with the GIC in regards to compliance regimes.
Q21: Are the proposed arrangements for Allocation Agent compliance appropriate? What do you think is a suitable liability cap for non performance?	Due to the upstream implications of allocations it is hard to determine a practical level of liability for the allocations agent. Vector is happy with the levels indicated by the GIC.
Q22: Do you agree that reporting of breaches should be voluntary for participants (not mandatory)?	No, Vector believes that the reporting of breaches should be mandatory for all participants. A materiality threshold could be introduced so that minor events do not require investigation or reporting – but for substantial discoveries there should be an obligation on a participant to "come clean".
Q23: Do you agree that the Allocation Agent should have a mandatory obligation to report breaches and suspected breaches?	Yes
Q24: Do you agree that all other persons (e.g. consumers, Gas Industry Co and auditors) should have the right to report a breach?	Yes

Q25: Do you agree with the proposed time limit for reporting breaches?	Yes, 3 years seems like a reasonable time frame.
Q26: The preferred approach for the design of the compliance regime for reconciliation is similar to the compliance regime proposed for switching. Do you agree that the proposed compliance regime is appropriate? If not, how should the compliance regime be changed?	Yes
Q27: Do you agree that there is a need to provide for special allocations? Do you agree with the proposed process for special allocations?	Refer to question 11.
Q28: Do you have any comments on the detail in Appendix D? Are there any additional matters that should be included in this framework?	Please refer to the discussion in On Gas's submission on this discussion paper.
Q29: Do you agree that obtaining unanimous agreement will likely require seeking authorisation from the Commerce Commission of any pan-industry agreement on downstream reconciliation?	Vector would recommend obtaining the Commission's view on this.
Q30: Do you have any views on the feasibility of a pan-industry agreement? Would participants be willing to agree to a pan-industry agreement covering the measures proposed in section 11 of this paper (subject to any necessary approvals, including any necessary Commerce Commission or Ministerial approval)?	Vector believes a Pan-Industry agreement would be possible of the proposed solutions demonstrably improved current arrangements to all.

Submitter responses to the questions that are included in the NZIER cost/benefit framework paper:

Question	Comment
CBA Q1: Is the first five years from the earliest date of the proposals taking effect a long enough time period to capture the resulting changes, particularly the benefits? If not, what period do you propose?	Vector has noted that some of the easy wins can be completed in a reasonably short timeframe; however 5 years would seem more realistic for the more complex issues.
CBA Q2: Is this baseline scenario a realistic representation of what would happen in the absence of the proposals? If not, in what ways do you think it could be made more realistic and why?	Baseline assumptions on the whole seem reasonably. It should be noted that high UFG would not necessarily add to overall higher costs to retailers – rather a potentially unfair distribution of costs.
CBA Q3: Do you agree with assessing the costs and benefits of all of the proposals' options, under each of a regulatory regime and a pan-industry agreement, to simplify and reduce the costs of undertaking the CBA? If not, what alternative approach do you suggest and why?	Vector believes that a lot of the associate costs involved in this analysis are relatively intangible hence any CBA is likely to be quite subjective. In this case considering relatively discrete scenarios (full pan-industry vs. regulatory) should be sufficient as long as the results are viewed as indicative.
CBA Q4: Are there any costs identified in Table 1 that you consider it inappropriate to include in the CBA? Are there any significant costs missing from Table 1? Do you have any suggestions as to the likely magnitudes of the costs or how they might, in practice, be estimated?	If significantly more work is required for the allocations agent (i.e. regular wash ups / audit reports etc) – these costs are likely to flow through to the industry. Additional allocation agents' costs should be included.
CBA Q5: Is there any relevant information on electricity market reconciliation that could be used to inform the cost estimates?	No comment
CBA Q6: Are there any benefits identified in Table 2 that you consider it inappropriate to include in the CBA? Are there any significant benefits missing from Table 2? Do you have any suggestions as to the likely magnitudes of	Benefits on the whole seem reasonably, however Vector believes that audit and compliance costs may not be a net benefit. To achieve better equity the trade off is likely to be an ongoing increase in compliance and audit costs (far

the benefits or how they might, in practice, be estimated?	greater than that currently seen)
CBA Q7: Do you agree that negotiation and agreement would cost less under the regulatory regime and be less likely to involve inefficient compromises? If not, why not?	Yes
CBA Q8: Do you agree that wealth transfers should be disregarded in assessing the net public benefit of the proposals? If not, why not, and what alternative approach do you favour and why?	Yes
CBA Q9: Do you agree with the use of real discount rates of six percent and twelve percent? If not, why not, and what alternative values do you favour and why?	A discount rate range between 6 and 12 % is reasonable.
CBA Q10: Do you agree with the use of sensitivity analysis to test the robustness of the CBA's conclusions? If not, why not, and what alternative approach do you favour and why?	While a sensitivity analysis can be conducted – the subjectivity of the underlying fundamental assumption may drive a wide array of results.