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8 October 2007

Dear Jay

#### **ALLOCATION AND RECONCILIATION OF DOWNSTREAM GAS QUANTITIES**

1. This submission is Vector's response to the Gas Industry Co's (GIC) Statement of Proposal on Allocation and Reconciliation of Downstream Gas Quantities (the "Proposal").
2. Vector has provided specific responses to the questions raised by GIC in the Proposal and these are attached as Appendix. A. In addition, Vector wishes to summarise its general views on allocation and reconciliation of downstream gas quantities.

#### **Vector's General Views on the Allocation and Reconciliation of Downstream Gas Quantities**

3. Vector maintains its support<sup>1</sup> for the work undertaken by GIC and the desire to resolve downstream gas allocation and reconciliation issues.
4. Vector believes that much progress has been achieved by industry participants in discussing the current issues and the need to amend existing arrangements that better reflect the requirements of industry participants.

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<sup>1</sup> Please refer to Vector's "Submission on the Discussion Paper Regarding Reconciliation of Downstream Gas Quantities" to GIC dated 23 February 2007.

5. The issue of allocation and reconciliation of energy quantities is, by nature, a complex subject. Any proposed solutions that seek to improve the equitable allocation and reconciliation of gas quantities will need to be carefully considered to ensure the right outcomes for industry participants are achieved. It is worth noting that the electricity sector took around five years to arrive at a preferred solution. It is therefore pleasing for Vector to observe that many of the major issues for industry participants have already been identified and solutions sought.
6. Vector acknowledges GIC's Proposal as an important step in arriving at the most appropriate and efficient solution for the industry in the longer term. However, the Proposal in its current form requires further discussion on both the 'technical' issues and on the most efficient way to implement the outcomes sought prior to a recommendation being prepared and submitted to the Minister.
7. Vector suggests that GIC reconsider the most suitable model and timeframes for implementing revised allocation and reconciliation arrangements, the skill base required and how this will impinge upon other work streams whilst seeking to ensure a quality outcome.

#### **Model and Timeframes for Implementing Revised Allocation and Reconciliation Arrangements**

8. The commercial risks, to retailers in particular, that are associated with determining equitable allocation and reconciliation of gas quantities necessitate a well constructed and robust approach to all of the issues prior to a recommendation being made to the Minister.
9. Vector agrees with the GIC Board<sup>2</sup> that:

*".....a decision made based on quality analysis.....potentially can be more beneficial to the industry, than a decision made on insufficient analysis, but delivered within the set timeframes."*

We believe this to be particularly applicable to reviewing the allocation and reconciliation of downstream gas quantities.

10. The Proposal also clearly states that GIC have assumed a central gas registry will be operational at the date the Proposal will become effective, namely 1 October 2008.

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<sup>2</sup> Gas Industry Co Annual Report 06/07; page. 3

11. Vector understands the recent Registry Establishment Team meeting convened by GIC identified the possibility that a central gas registry will not become operational before 1 March 2009.
12. Vector has previously supported GIC in recommending that a central gas registry be implemented. We remain of the view that this is of importance to the gas industry. In addition, a central gas registry will be an important source of robust data for all industry participants to perform efficient allocation and reconciliation activities. It is therefore critical, in our view, that a central gas registry be fully operational prior to the onset of any revised allocation and reconciliation arrangements.
13. If a gas registry does not become operational until March 2009, Vector does not consider it appropriate for any rules and/or regulations relating to allocation and reconciliation of downstream gas quantities to become effective before this date.
14. Under these likely circumstances, it also appears to Vector that a pan-industry arrangement may provide more benefit to the industry as opposed to rules and/or regulations.
15. Feedback received at the GIC workshop on the Proposal<sup>3</sup> has led Vector to conclude that there is general agreement amongst industry participants on how to improve current allocation and reconciliation practices. This not only relates to the need for change, but extends to the remedies being sought. Vector has previously commented on the appropriateness of industry agreements as an integral part of the co-regulatory model<sup>4</sup>.
16. In light of all these issues, Vector is of the opinion that GIC should investigate further the possibility of achieving a pan-industry agreement on this issue. In Vector's view, this could provide a more efficient outcome for the industry in delivering the GPS objectives.

### **Skill Base Required for Delivering a Quality Outcome**

17. Vector believes that achieving a quality outcome will be reliant upon sufficient expertise being available to work through the issues that we believe remain with the Proposal. This will need to cover both the technical nature of allocation and reconciliation and the change management processes that will need to be adopted by industry participants to ensure successful implementation. There will also be a need to overcome obstacles quickly and efficiently where these arise.

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<sup>3</sup> GIC workshop convened on 18 September 2007.

<sup>4</sup> Please refer to Vector's submission to GIC "Information Disclosure by Owners of Gas Processing Facilities" dated 28 September 2007.

18. Vector suggests that it may be appropriate for GIC to request the GART to undertake this task. This may result in the most efficient resolution of any outstanding issues for the industry and Vector support such an approach.

### **General Co-ordination of GIC Work Streams**

19. Vector appreciates that GIC will soon begin moving into a period of implementation across a number of work streams. It is therefore important, in Vector's view, for GIC to maintain communication with industry participants on how various work streams are likely to impinge upon each other. It may not be efficient for GIC to solely rely upon individual work stream leaders to perform these functions.

20. Vector believes there may be a need for GIC to allocate resource to specifically manage this as a separate work stream in its own right. In effect, this would entail creating a work stream responsible for co-ordinating other work streams and for identifying issues that may arise across existing arrangements as a result of industry change. GIC would then be better placed to comment upon the likely impacts across its entire work programme prior to making a recommendation to the Minister on any issue.

21. Thank you for considering this response. If you have any queries, or require further information, please feel free to contact me in the first instance at [ewan.gebbie@vector.co.nz](mailto:ewan.gebbie@vector.co.nz) or on 04 462 8657.

Kind regards

A handwritten signature in cursive script that reads "Ewan Gebbie".

**Ewan Gebbie**

Group Manager Regulatory Performance

# Appendix A: Allocation and Reconciliation of Downstream Gas Quantities

Submission prepared by: **Vector Limited – Ewan Gebbie, Group Manager Regulatory Performance**

QUESTIONS	COMMENTS
<p>Q1: Do submitters have any general comments on the proposal or the process adopted by Gas Industry Co?</p>	<p>Vector supports the work undertaken by GIC in issuing its Proposal for reviewing allocation and reconciliation of downstream gas quantities.</p> <p>Vector acknowledges that much progress has been made in addressing areas of concern for the industry and this should be commended.</p> <p>However, Vector believes that the Proposal, including the associated rules, is not yet at a point where a recommendation should be made to the Minister. From Vector's perspective, there appears to be scope to further improve the outcomes and efficiencies for the industry as whole, both in terms of revising current arrangements and addressing anomalies that exist within the rules.</p> <p>Vector suggests that GIC consider asking members of GART to address the 'technical' issues that currently exist with the Proposal. It may also be useful for the current Proposal and rules to be benchmarked against practices for reconciling energy quantities across other utility sectors. Vector would support GIC in adopting such an approach prior to further consultation on this issue.</p> <p>Vector believes that GIC should undertake at least one further round of formal consultation on any revised proposal prior to making a recommendation to the Minister on this issue.</p>
<p>Q2: Do submitters have any comments on the analysis and findings in the Energy Acumen report?</p>	<p>Vector supports GIC commissioning this piece of work and the report's findings.</p> <p>However, GIC should note that Vector transmission's arrangements with its shippers do <b>not</b> allow for the ability to re-allocate balancing costs in the event of a wash-up. This concept of re-allocation only applies to transmission costs.</p> <p>The report also suggests that any wash-ups resulting from downstream allocations can be easily accommodated by subsequent adjustments in upstream allocations. In practice, upstream shippers will have already taken action based upon their position prior to wash-ups. This cannot always be rectified after subsequent wash-ups and these consequences may not always be negated through the settlement process.</p>

QUESTIONS	COMMENTS
<p>Q3: Do submitters agree that, provided compliance with the conversion processes in NZS 5259:2004 is mandated, it is inappropriate to introduce a standardised billing methodology at this time?</p>	<p>Vector supports the proposal to mandate the conversion of measured volumes to standard values of energy in NZS 5259:2004 (please also refer to our general comment on the application of NZS 5259:2004 to owners of metering equipment under Q11).</p> <p>It is important for GIC to note that the provisions of NZS 5259:2004 apply to retailers as well as owners of GMS equipment. Compliance with NZS 5259:2004 may provide scope for differences in application (such as what temperature profile a retailer applies).</p> <p>Compliance with NZS 5259:2004 should not preclude introduction of a standardised billing methodology. Vector believes a standardised billing methodology would improve the quality of data provided to, and between, allocation participants and lead to an improvement in the accuracy of reported UFG across the industry. The introduction of standardised billing methodologies may also be appropriate particularly if audits reveal wide discrepancies between retailers' practices.</p> <p>Vector would emphasise that data used by retailers for billing purposes should align with data supplied to the allocation agent and network owners. A standardised billing methodology would assist in this regard.</p>

QUESTIONS	COMMENTS
<p>Q4: Do submitters have any comments on Gas Industry Co's proposed method of global allocation which would cap the UFG allocated to allocation groups 1 and 2?</p>	<p>Vector observes an inconsistency in the wording of this question between that shown here (i.e.: 'capping' UFG allocation to Groups 1 &amp; 2) and the same question within the main body of the Proposal (i.e.: 'fixing' UFG allocation to Groups 1 &amp; 2). Vector has assumed that 'fixing' UFG allocation relates to GIC's preferred Option. 4 and we have prepared our response to this question on that basis.</p> <p>In principle, Vector prefers Option 4 to the other alternatives proposed by GIC. The setting of an annual UFG percentage appears to provide greater certainty for all participants and is supported by Vector.</p> <p>Vector accepts that it is inequitable for UFG to only be allocated across retailers in the mass market (i.e.: Groups 5 &amp; 6). However, Vector believes that Option 4 as it currently stands does not provide sufficient incentives for retailers to improve the quality of consumption data arising from Group 5 &amp; 6 customers and places an unfair burden on TOU customers.</p> <p>Vector considers that the Maunsell Report acknowledges that, on average, TOU sites contribute less to overall UFG in percentage terms. Allocating UFG between retailers based upon TOU and non-TOU usage patterns could lead to gaming by some participants and provide no incentive for participants to invest in smarter technology that will ultimately improve data flows.</p> <p>As a remedy to this issue, Vector suggests that it may be appropriate to apply a cap on the maximum level of UFG that can be attributed to retailers of TOU customers at any given gas gate. We would suggest that the maximum level should be set at 2.45% (the aggregate national average as indicated by Maunsell). In all circumstances, Vector suggests that UFG calculations should be by gas gate, network or region specific inclusive of the transitional period relating to any rules.</p>

QUESTIONS	COMMENTS
	<p>Vector believes that, assuming the timeframes for implementation of the Proposal do not change, enough data should be available by mid-2008 to set interim UFG percentages by gas gate, network or region<sup>5</sup>. This may be fairer than smearing a national UFG percentage across gas gates/areas that may not be contributing to this issue.</p> <p>Vector suggest GIC consider making the installation of correctors, incorporating pressure (essential for all installations) and temperature correction as a minimum, mandatory for all sites consuming &gt;10TJ p/a. Retailers should also be encouraged to install correctors at other sites consuming &lt;10TJ p/a. As greater use of such technology is likely to reduce unit costs over time, GIC should also consider phasing-in this approach across installations consuming &gt;5TJ p/a. Ultimately, Vector believes that correctors should be installed on all installations consuming &gt;1TJ p/a.</p> <p>In order to encourage efficient use of gas, as required by the GPS, it is important that GIC preserves incentives for the deployment of more sophisticated (or 'advanced') metering technology. While there may be a consumption level at which advanced metering is not economic for gas, the roll-out of advanced electricity meters at the residential level cautions against artificially foreclosing the options for gas. This will ultimately improve actual consumption data supplied to the allocation agent and network owners and lead to an overall reduction in UFG generally.</p> <p>Vector observes that the Proposal does not identify how advanced meters will be classified under the new arrangements? Vector suggests that GIC be mindful that the use of such meters is likely to increase over time and the Electricity Commission have recently consulted with industry on this issue<sup>6</sup>. Vector assumes that, where an advanced meter has been installed, this will be considered the same as a TOU meter. It would be useful for GIC to clarify this point in any future consultation.</p>

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<sup>5</sup> The Electricity Commission has previously undertaken work on grouping network supply points. GIC may wish to refer to the EC's paper "Balancing Area Guidelines and Network Supply Point Implementation Details"

<sup>6</sup> The Electricity Commission's consultation paper can be found at <http://www.electricitycommission.govt.nz/consultation/advancedmeteringinf/view?searchterm=advanced%20metering>



QUESTIONS	COMMENTS
<p>Q5: Do submitters have any comments on the proposed transitional arrangements?</p>	<p>Vector is concerned that implementation of the Proposal by October 2008 is unrealistic.</p> <p>A major component of implementing improved allocation and reconciliation arrangements is the need to improve data quality and the establishment of a central gas registry will be essential to achieving this objective. Recent discussions between GIC and industry participants have indicated that a gas registry may not be implemented until March 2009. This will impact upon the rules contained in the Proposal.</p> <p>It is not clear to Vector at this time how the likely timeframes for implementing a central gas registry may impact upon the Proposal in general, and particularly the transitional arrangements. However, it is Vector's view that the transitional arrangements will be much more simple and straightforward if the proposed rules are implemented at the same time as the new gas registry. This would allow the allocation agent to match each participant's submission data to the ICPs that they are responsible for, against an established database of record, and to implement this process from day one.</p> <p>Vector considers it important that the precise implementation dates for both a gas registry and allocation and reconciliation arrangements are established as soon as possible by GIC. Vector suggests GIC reconvene the GART to discuss the appropriateness of the transitional arrangements and of the rules in general. Vector would be willing to offer assistance to GIC in support of this approach.</p>
<p>Q6: Are the proposed exemption provisions appropriate? Do submitters envisage that, if the proposal is implemented, they would seek an exemption? If so, please provide details.</p>	<p>No. Vector believes that the concept of an exemption process is sound but that GIC should elaborate further on the precise detail of the proposed exemption processes.</p> <p>Vector believes that there are a number of scenarios against which industry participants should be able to apply for exemptions. Until the precise descriptive nature of the exemption process is known, it is difficult for Vector to estimate the extent to which an exemption process could be used. Further clarification by GIC on the transparency and criteria for seeking exemptions is important if GIC is to avoid becoming the 'meat in the sandwich' in disputes that may arise between industry participants.</p> <p>Possible examples of exemptions that could be applied for may include those installations where correction devices have been installed (refer to Q4 response) or for TOU sites that are located immediately adjacent to a gas gate (i.e.: supplied with network pressure &gt;7bar and/or within 300m of a gas gate).</p>

QUESTIONS	COMMENTS
<p>Q7: Do submitters have any comments on the cost-benefit analysis, including any comment on NZIER's report attached as Appendix 5?</p>	<p>From the cost-benefit analysis, it is not clear to Vector that the Proposal offers the maximum net benefit to the industry.</p> <p>The cost-benefit analysis indicates that the assumed net benefits of a regulated solution (i.e.: through rules and regulations) as opposed to a pan-industry agreement are achieved only a result of timing effects. This is based on the assumption that a regulated solution will be implemented October 2008 and a pan-industry agreement October 2009.</p> <p>Vector does not believe it to be realistic for the Proposal to be implemented and operational by October 2008. It therefore appears prudent to assume that any new arrangements will become effective from March 2009 at the earliest (to coincide with the implementation of the gas registry) and that any cost-benefit analysis should be based upon this date.</p> <p>Vector believes that, under certain circumstances, more appropriate solutions may be realised by the industry via the attainment of pan-industry agreements.</p> <p>Regarding the appropriation of costs, Vector notes that the Proposal places requirements upon transmission pipeline owners to provide certain information to industry participants. GIC should be cognisant that this will entail additional cost to some industry participants and this needs to be reflected in the cost-benefit analysis.</p>
<p>Q8: Do submitters agree with the funding options for the proposal? If not, please state your reasons.</p>	<p>Vector agrees with the proposed funding options proposed by GIC relating to both establishment and ongoing costs.</p> <p>If development and implementation costs are to be funded via the GIC Levy, it will be important for GIC to detail what these costs will be in advance. It will also be important for GIC to efficiently manage this project against these costs and ensure that the budgeted target is not exceeded. Vector would not consider it desirable for GIC to seek further funding from either industry participants and/or gas consumers for additional project overruns.</p> <p>For these reasons, Vector considers it important that industry participants are actively engaged by GIC throughout the entire process of implementing the preferred solution. As an example, industry participants should be involved in the appointment process for any third party service provider agreements.</p>

QUESTIONS	COMMENTS
<p>Q9: Do submitters agree with the allocation of costs for the proposal? If not, please state your reasons.</p>	<p>No. Vector believes that that the allocation of costs should be attributed based on number of ICPs rather than quantities of gas. We consider this to be a fairer reflection of the effort involved in performing allocation and reconciliation activities that are not driven by gas volumes. In our view, this approach will meet the criteria of economic efficiency, simplicity and equity.</p> <p>We also note that this approach was identified, by the majority of industry participants, as the preferred mechanism for the allocation of costs in previous submissions on this subject.</p>
<p>Q10: Do submitters have any comments on the proposed rules attached at Appendix 6? If appropriate, please provide a marked-up copy of the rules (a Word version is available on Gas Industry Co's website for this purpose).</p>	<p>Vector observes that there appear to be a number of inconsistencies between the rules and the purpose of the Proposal. Vector would suggest GIC consider asking members of GART to address these and other 'technical' issues that currently exist with the Proposal. It may also be useful for the current Proposal to be benchmarked against practices for reconciling energy across other utility sectors. Vector would support GIC in adopting such an approach prior to further consultation on this issue.</p> <p>Ideally, Vector would have accepted GIC's invitation to mark-up proposed changes to the rules. However, the tight timeframe for responding to the Proposal has meant that this has not been practical.</p> <p>Vector suggests static and dynamic profiles supplied by retailers to the allocation agent and added to a register should be published. The rationale for not publishing profiles is not clear to Vector at this time.</p> <p>GIC may wish to further consider the appropriateness of the audit and exemption provisions contained within the rules. For instance, it is not clear to Vector what criteria will be applied by GIC when instigating audits and/or exemptions? It will be important for all industry participants to understand the exact criteria to be applied by GIC in these circumstances. Vector suggests GIC elaborate further on these as part of the rules rather than applying its sole discretion in such cases. In our view, this would assist in achieving consistent, transparent and enforceable processes as part of the regulatory objective.</p> <p>Vector notes that the rules generally do not appear to address any issues around the commercial sensitivity of data relating to, and being exchanged by, industry participants. GIC may find it beneficial to consider this further.</p> <p>GIC should note that the comments provided by Vector in response to other questions contained within this submission may also necessitate changes to the rules.</p>

QUESTIONS	COMMENTS
<p>Q11: Do submitters have any comments on the proposed compliance arrangements? If appropriate, please provide a marked-up copy of the regulations (a Word version is available on Gas Industry Co's website for this purpose).</p>	<p>Vector considers that the compliance arrangements generally appear to fit for purpose.</p> <p>Vector has not undertaken a thorough review of the compliance arrangements at this stage as we believe that further work needs to be undertaken in establishing that a regulated solution provides the maximum net benefit for the industry.</p> <p><i>Compliance issues with other statutory requirements</i></p> <p>With regard to GMS equipment, Vector suggests that GIC reconsider the appropriateness of mandating the relevant sections of NZS 5259:2004.</p> <p>Vector believes it is correct to assume that most GMS installations comply with NZS 5259:2004. Vector's understanding is that new GMS installations comply with NZS 5259:2004. However, providers of GMS equipment and associated services have historically been required to comply with the prevailing standard at that time, and as defined under the Gas Regulations 1993. There may be circumstances where GMS equipment installed prior to 2004 may remain compliant with the standard in force at that time.</p> <p>Section 2(2A) of the Gas Regulations 1993 states that the applicable standard for gas measurement systems is NZS 5259:1997. Therefore, GIC may find it difficult to mandate a requirement for all GMS owners to be compliant with NZS 5259:2004 without also seeking an amendment to Section 2(2A) of the Gas Regulations 1993. Vector has previously raised this issue with the Energy Safety Service and agrees with GIC that all industry participants should comply with NZS 5259:2004 as a matter of best practice.</p> <p>GIC may also wish to ensure that metering provisions included within the Proposal do not conflict with those stipulated under the MPOC and VTC.</p>

QUESTIONS	COMMENTS
<p>Q12: Other comments.</p>	<p><i>Allocation Agent requirements</i></p> <p>Vector believes it important that future allocation and reconciliation services should be delivered via a contestable process. Vector's preference would be for this to be achieved via a competitive tendering process that is fully inclusive of industry participants in deciding a future service provider.</p> <p>Vector also considers it desirable that performance measures should apply to the allocation agent to execute their task(s) efficiently. We do not consider that the Proposal is currently robust enough in this regard.</p> <p>Vector also notes that the allocation agent will be required to publish information on gas energy injected. This may present confidentiality issues as information on OATIS is tightly controlled by subscriptions where there are fewer than three parties consuming gas at any given gas gate. Vector suggests that the rules would benefit through more clarity around responsibilities for handling confidential data in general.</p> <p>GIC should remain cognisant that an essential function of any allocation agent must be to perform an allocation, irrespective of the reliability of the data submitted by industry participants. This is a critical requirement for Vector's transmission invoicing purposes.</p>