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23 September 2010

Andrew Walker
Gas Industry Company
PO Box 10-646
Wellington

Dear Andrew

SUBMISSION ON RULE 37 – ACCURACY OF CONSUMPTION INFORMATION UNDER THE GAS (DOWNSTREAM RECONCILIATION) RULES 2008

Vector welcomes the opportunity to submit on the consultation by the Gas Industry Company ("GIC") on the appropriate consumption error threshold under the Gas (Downstream Reconciliation) Rules 2008 ("the Rules") for the 2010/2011 gas year.

Vector believes that a change to the existing error margin is not only highly appropriate but urgently required, and therefore supports the GIC's proposal to reduce the error margin from 12.5% to 10%. However, the error margin should be tightened further to 5% for the 2011/2012 gas year to better meet the accuracy objectives of the Rules and the Government Policy Statement on Gas Governance. This will contribute to a fairer and more efficient operation of the gas market, reducing overall costs for industry and the GIC, and ultimately benefitting New Zealand gas consumers.

Vector also supports the GIC's proposal to exempt breaches that are less than 200GJ from compliance with rule 37.2. This would remove a sizeable number of breaches, reducing compliance costs while retaining those breaches that are likely to have impacted market participants.

Our responses to specific questions in the consultation paper are indicated in the attached submission form.

Thank you for considering this submission. If you have any questions, or require further information, feel free to contact me at John.Rampton@vector.co.nz or 04 803 9036.

Kind regards

John Rampton

John Rampton
Manager Industry Governance and Policy

Appendix A: Responses to specific questions

Submission from: Vector Limited Contact: John Rampton, Industry Governance and Policy Manager, John.Rampton@vector.co.nz or 04 803 9036

Question	Comment
Q1: Do submitters support the determination of a ±10% percentage of error for consumption periods in the 2010/2011 gas year under rule 37.3? Please provide reasons for your preference and indicate your views in respect of each option.	Vector strongly supports the GIC's proposed ±10% consumption error margin under rule 37.3 for the 2010/2011 gas year. We believe this will provide greater incentives for retailers to improve the accuracy levels of their downstream reconciliation processes, particularly the reporting of initial allocation information. Currently, incentives for retailers to improve the accuracy of their initial reporting are insufficient. We note that the level of breaches has declined by 20% between October 2009 and April 2010. This clearly indicates that industry practices are improving as predicated, which suggests to Vector that a further tightening of the tolerances to 10% should not be difficult to meet. While Vector supports the proposed 10% threshold, this should be a transitional step towards a 5% threshold to take effect on the fourth year of the implementation of the Gas (Downstream Reconciliation) Rules 2008 ("the Rules"). As indicated in our previous submission on this issue, further tightening the error margin is appropriate as this is more likely to lead to the achievement of the 'accuracy' objectives of the Rules and the Government Policy Statement on Gas Governance ("GPS"). We note that the initial discussion paper by the GIC on the development of downstream arrangements suggested a 2% error margin on the basis that a margin of this size better meets policy and regulatory objectives. Specifically, we support a tightening of the threshold because this will: • promote the accuracy objectives of the Rules and the GPS; • provide incentives for retailers to improve the accuracy of their consumption reporting, thus reduce compliance and associated administrative costs for

Question	Comment
	market participants; • reward those who made investments in improving the robustness of their estimates; • reduce opportunities for gaming; • contribute to improving the accuracy in upstream transmission balancing, reducing balancing costs; and • help avoid the distortion of market information, ensuring that the gas market functions well and provides a platform for market competition, which ultimately benefits consumers. If the threshold is not tightened, retailers that manage their downstream reconciliation more accurately can be exposed to significant transmission balancing costs. In addition, retailers that have made investments in processes to improve the accuracy of their measurement systems are not sufficiently rewarded, and will not have the incentives to maintain or improve the accuracy of their existing processes. Vector also supports other work being undertaken by the GIC to enable retailers to make more accurate estimates, including the early publication of seasonal adjusted daily shape values ("SADSVs") by the Allocation Agent and the adoption of an alternative algorithm that would allocate Unaccounted-for-Gas ("UFG") based on retailers' accuracy performance. We agree that initial allocation estimates based on SADSVs will improve reporting accuracy and potentially reduce the number of cases overshooting the consumption error threshold. An alternative algorithm that would make causers of UFG pay for UFG is consistent with the 'causer/beneficiary pays' principle that Vector has constantly advocated for since the GIC's inception. In addition, we believe the performance audits of retailers will contribute to improving the accuracy and robustness of retailers' downstream reconciliation processes.

Question	Comment
Q2: Do submitters consider the information available since go-live indicates that a change to the existing percentage of error is appropriate or not? Please provide reasons.	Vector considers that the information available since go-live indicates that a further tightening of the threshold is appropriate. Data analysed by the GIC indicates that the number of breaches is falling year-on-year since the implementation of rule 37. The tighter error margin in the second year of implementation resulted to a 20% decline in the number of breaches. This implies that this measure provided the right incentives for retailers to reduce inaccuracies. Forecast breaches for the period October 2008 to April 2010 (Chart 3) show a generally lower number of total breaches than the preceding period. As the number of breaches is expected to decline, there is no compelling reason why the current threshold should be retained. Retailers are entering the third year of the Rules' implementation, and should now be more aware and experienced in the application of the Rules. The consultation paper refers to some anecdotal evidence that retailers are addressing the accuracy issue through changes and improvements in their reconciliation systems. This again shows that a tighter margin provides the right incentives. It is further expected that the performance audits will provide additional incentives for retailers to improve the robustness of their estimation processes.
Q3: In respect of the proposal for the percentage of error, do submitters have any comments or information in relation to the following matters? • The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation. • The extent to which retailers are able to comply with the percentage of error for the accuracy of	Vector agrees that the initial allocation information should be as accurate as possible compared to the final allocation information. Thus, we are supporting the proposed reduction of the error margin to 10% and are recommending a tighter margin of 5% for the 2011/2012 gas year. We believe that a 10% error margin is a reasonable and achievable threshold. The consultation paper shows that some retailers are already complying well with this requirement. The additional volume threshold of 200GJ (see our response to Q4) should further cut off a substantial number of breaches that need to be reported. Vector does not have any issue with the consultation paper's analysis being based

Question	Comment
consumption information provided for initial allocation. • Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for the accuracy of consumption information provided for initial allocation. • Any other matters relevant to Gas Industry Co's determination.	on initial and interim allocation data. We note that the biggest difference is usually between these numbers rather than between the interim and final allocation. We believe interim allocation information provides a reasonable indication of the final allocation numbers. Vector does not anticipate substantial costs arising from the further tightening of the error margin as no new processes will need to be established. Instead, the additional volume threshold will exempt a sizeable number of breaches. It should be noted that submitters on the initial error margin of 15% (subsequently reduced to 12.5%) were aware that it was a generous and transitional figure that needed further refinement. There was considerable industry support for introducing estimation accuracy criteria. Further tightening should therefore not come as a surprise for retailers, who are also now more aware of the Rules and their application. On the contrary, we believe more accurate estimates will improve efficiency levels and therefore reduce overall costs for market participants (e.g. the costs of joining up to GIC notices of alleged breaches by other retailers and upstream balancing costs).
Q4: Do submitters support an exemption for all percentage of error breaches that are less than 200GJ outside compliance with rule 37.2? Please provide reasons.	Vector supports the application of a 200GJ materiality threshold, which will remove around 80% of the breaches while retaining the larger breaches which are more likely to have impacted other participants. We believe this will significantly reduce retailers' compliance costs without obscuring the magnitude of the accuracy problem. We prefer that the volume threshold be applied by way of a rule 19 exemption rather than the Market Administrator determining materiality. The rule 19 exemption option will reduce compliance costs significantly by eliminating the process of reporting breaches below the volume threshold altogether. This will also reduce associated administrative costs for relevant parties and the GIC's cost of processing reported breaches. The other option in which the Market Administrator determines materiality is not much different from current arrangements, and will not substantially reduce costs

Question	Comment
	for retailers and the GIC. For greater clarity, we would like the application of the 200GJ volume threshold to be made clear that it is to be applied to estimates that have already breached the 10% error margin (not in isolation). For consistency reasons, we support the application of the 200GJ volume threshold to existing breaches, noting that they would need to be reassessed by the Market Administrator. Vector proposes that the GIC revisit the volume threshold in the next review of rule 37 to assess its impact on retailers' accuracy performance and the overall need for this measure to remain in place.