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Bas Walker  
Consultant  
Gas Industry Company Limited  
PO Box 10646  
Wellington

**By Email**

Dear Bas

**Re: Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008 – Consultation Paper**

**Introduction**

1. Vector Gas Limited (**Vector**) appreciates the opportunity to make a submission to the Gas Industry Company (**GIC**) on its Consultation Paper: *Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008 (Report)*.
2. Vector notes that the Report is interim only, based on partial analysis and that the GIC intends to prepare a full report on the continuation of the current exemptions (DR08-15 to 18-S, and DR08-25-S) under the Gas (Downstream Reconciliation) Rules 2008 (**Rules**) once submissions have been received on this Report.

**Summary**

3. Vector supports the *preliminary view* reached by the GIC in its Report that each exemption should continue to apply to 30 September 2010. Vector considers that is the correct and fairest approach to take (especially in the interim) until the GIC has had an opportunity to investigate the possibility of rule changes effective from 30 September 2010.
4. If the exemptions continue:
  - For rule 41, the current exemption to provide injection information to the Allocation Agent by 1200 hours should continue. Vector does not accept that there is any need for, or substantive evidence to support, a modification to the timeframe to advance it to either 10am or 10.30am; and

- For rule 42, Vector's preference is for the exemption to continue on the current conditions. However Vector would not object to all gas gates without telemetry continuing to be exempt, all gas gates with telemetry continuing to be exempt on non-business days, and the 21 gas gates with live SCADA data no longer being exempt. (**Note:** it is important to understand that live SCADA data is unchecked information and is not unvalidated data which Vector equates to 'estimated daily energy quantities'). Vector would however object to any condition which required it to make all reasonable endeavours to comply with rule 42 in respect of all gas gates with telemetry on non-business days (ie weekends and statutory holidays) by 30 September 2010.
5. Vector has not breached the exemptions since they were granted, nor is it aware of any negative impact on Shippers or the Allocation Agent as a direct consequence of the exemptions.
  6. Any modification of the current exemptions (for rule 41) to 10am or 10.30am in the interim would be unnecessary, and any benefits would be negligible and disproportionate to the decrease in the accuracy of the injection information that may result due to insufficient time in some cases.
  7. Vector submitted on 16 March 2009 (in respect of the expiry of exemptions for rules 41 and 42), and again on 31 March 2009 (in respect of unmetered gas gates and anticipated costs associated with rule 42) that on the expiry of the exemptions it will be unable to fully comply with either rule for several interrelated reasons. Those reasons included substantial cost for extra staff and capital for meters, and the need for extended timeframes to manually check a few files each month (containing erroneous data) to ensure reasonably complete accuracy.
  8. Continuation of the exemptions would not undermine the statutory objective of 'efficiency' under s 43ZN of the Gas Act 1992 with which the GIC has to comply. Further, the fairness requirements of the Government's April 2008 Policy Statement on Gas Governance would not be enhanced by insistence on compliance with the prescriptive requirements of the Rules.
  9. Since the exemptions were granted, a major policy review is planned for the Rules. This is an important and relevant new factor that supports continuation of the exemptions in the interim. Continuing the exemptions to 30 September 2010 will give all industry participants and the GIC the opportunity to find a permanent and balanced solution based on empirical evidence.
  10. Should the GIC recommend continuation of the exemptions, Vector would be prepared to apply for those except if the timeframe was advanced to 10am or 10.30am for rule 41. Vector is opposed to that suggestion and believes that it

would be compromised and acting inconsistently if it was required to apply for an exemption with such a condition.

## **Background and Comment**

### *Preliminary Views Reached by GIC*

11. The GIC has reached preliminary views on rules 41 and 42 as follows:

#### "Rule 41

Gas Industry Co's preliminary view is that there appears sufficient reason to continue applying an exemption, possibly with a modified time frame, to the rule 41 deadline until 30 September 2010 – along with the expectation that prior to that time the possibility of a rule change will be investigated and considered.

Gas Industry Co is not aware of any reports of concern or of problems encountered, resulting from the operation of the existing exemption." (*Report, Issues, para 5.1, page 11*)

#### "Rule 42

On the information currently available, Gas Industry Co's preliminary view on the most appropriate approach is to continue an exemption until 30 September 2010 which:

Exempts TSO's from complying with rule 42 for gas gates without telemetry metering; and

In respect of gas gates with telemetry, exempts TSO's from complying with rule 42 on non-business days until 30 September 2010:

for all but the 21 gas gates with live SCADA data; or

provided TSOs make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010.

As indicated above, Gas Industry Co is not aware of any reports of concern or of problems encountered, resulting from the operation of the existing exemption." (*Report, Issues, para 5.2, pages 11, 12*)

12. Vector considers that the preliminary views reached by the GIC in the Report are correct. We further consider that the paper represents a fair and balanced view of the issues, the respective positions of the industry participants and reaches a fair conclusion on the current exemptions for each of the rules. We note that Vector made some cost estimates available to the GIC on 31 March 2009 which also supports the exemption in respect of rule 42.

13. Vector also notes and confirms that there have been no breach notices issued under the Gas Governance (Compliance) Regulations 2008 in respect of Vector's compliance with rules 41 and 42 as modified by the exemptions. Moreover, Vector is not aware that the exemptions have caused any problems for Shippers or the Allocation Agent.

*Vector's Previous Reports on Expiry of Exemptions, and Exemption DR08-14-T: Unmetered Gas Gates*

14. Vector made submissions to the GIC on 16 March 2009 (on the expiry of the exemptions), and on 31 March 2009 in respect of Expiry of Exemption DR08-14-T concerning rules 41 and 42 (unmetered gas gates). In brief, the comments were:

- Vector is unable to comply with rules 41 and 42;
- Costs of compliance at all gas gates on all days would be uneconomic, installation of meters would not materially affect the energy quantities provided under rules 41 and 42, and installation would not be technically feasible at many sites;
- Shipper consumption information has been used historically at certain sites and has not resulted in any material negative impact on Shippers or the Allocation Agent;
- Shippers were divided on the exemption applications in 2008, accordingly there was no unanimous opposition;
- Exemptions would not undermine the statutory objective of 'efficiency' under s 43ZN of the Gas Act 1992 with which the GIC has to comply; and
- The fairness requirements of the Government's April 2008 Policy Statement on Gas Governance would not be enhanced by insistence on compliance with the prescriptive requirements of the Rules.

*Costs*

15. The GIC has correctly noted in its Report that the cost of installing meters at each unmetered gas gate would be in the region of \$20,000 (para 3.3, page 7).

16. Vector has done further work on the staff costs of providing injected energy quantities on a daily basis (including weekends and statutory holidays) and provided these to the GIC on 31 March 2009. While the costs are estimates only, we believe that they are reasonably accurate and can be relied upon.

*Benefit of Operational Practice*

17. The industry now has invaluable information, based on 6 months of operational practice, which was not available when the exemptions were granted in 2008. Although the Report is only based on partial analysis, it has concluded that the exemptions have not caused any difficulties for Shippers or the Allocation Agent. In particular, the Report notes:

"The extension does lessen the available time by four hours for the allocation agent to identify and remed[y] errors in the initial allocation results under rule 43. However, Gas Industry Co understands there have been no difficulties to date for the allocation agent in operating under this restricted timeframe." (*Report, Analysis, para 4.1, page 8*)

"There has been approximately six months of operational experience with the exemptions in place. In that time there have been no reports to Gas Industry Co of problems in relying on the modified timeframes for providing daily injection information in the situations covered by the exemptions." (*Report, Analysis, para 4.1, page 9*)

18. The Report has also indicated that operational practice has shown that rule 41 appears to be workable if the deadline was extended only to 10am or 10.30am. While we acknowledge that Vector's metering and measurement team may be able in some cases to achieve those timeframes, Vector does not accept that is either sufficient or reasonable justification for advancing the timeframe in the interim. While Vector uses its best endeavours to submit information before the timeframes in the Rules, there will be occasions when it cannot meet those timeframes. On those occasions Vector would be exposed to breach of the Rules if those timeframes were advanced. Further, the current timeframe in the exemptions achieves maximum accuracy of information. That outcome would not be achieved consistently (as is currently the case) if the timeframes were advanced. Vector believes that the outcome of accuracy is more important to Shippers and the Allocation Agent than the saving of an hour or 2 in some circumstances. Vector does not consider that it would support the intent of the Rules to submit inaccurate information on time due to advanced timeframes in order to prevent exposure to breach. More importantly, if that was the sole reason for such a change, Vector believes that it would be contrary to the 'fairness' objective in the Government's April 2008 Policy Statement on Gas Governance.

#### *Rules Review*

19. Following the GICs *Guidelines for the management of proposed changes to gas governance rules and regulations*, in March 2009 the GIC established a Register of Proposed Changes to the Gas (Downstream Reconciliation) Rules 2008 and on 18 March 2009 invited industry participants to submit proposals for changes to the Rules. Further, in the Report, the GIC has described the proposal for such rule changes as a 'major policy review planned for the Rules in mid-2010' (para 4.1, page 9). The GIC has also noted that it proposed to consider amendments to the Rules to address issues that have arisen since the Rules were promulgated because:

"In the process of implementing the Reconciliation Rules for the go-live date, Gas Industry Co has become aware of some unforeseen issues in the arrangements set out for downstream allocation and reconciliation." (*Initial exemptions under the Gas (Downstream Reconciliation) Rules 2008, 21 August 2008, para 3.1, page 10*).

20. The Report acknowledges that continuation of the exemptions will give the GIC the opportunity for the exemptions to operate further in practice so that potential rule changes can be properly considered. Vector agrees. A permanent solution is required and the most appropriate solution is by way of Rule changes. A review of the Rules in general will give the GIC and industry participants the

opportunity to critically assess the effectiveness of the exemptions based on empirical evidence. Irrespective of the outcome of the review, the GIC is dealing with an interim measure at this stage. More importantly, a review of the Rules was not a consideration when the exemptions were granted in September and November 2008. The review is a new consideration and a very relevant one to which the GIC should give due weight when making its recommendation to the Board to deal with the exemptions in the interim.

*Initiation of Application for Extension of Exemptions*

21. Vector believes that given the preliminary views that the GIC has already reached; that further consultation will be carried out and submissions taken into account in preparing the full report; and that rule changes are likely to be considered as a permanent solution to the issues, it would be appropriate for the GIC to initiate a variation to the exemptions under rule 21.2 of the Rules. While Vector would be prepared to submit a formal application for variation of the exemptions if the GIC recommends to its Board that the exemptions be continued, a difficulty would arise if there was a proposal to advance the timeframes in rule 41 to either 10am or 10.30am. As indicated, Vector is opposed to that suggestion so would be both compromised and acting inconsistently if it was required to apply for a continued exemption for that rule on that basis. The GIC would not be so compromised and would also be acting in accordance with its preliminary view.

**Vector's Recommended Course of Action**

22. Vector will not be making a submission in the recommended template format, but answers the questions posed in the template as follows:

*Rule 41*

- There should be continued relaxation of the 0800 hours deadline;
- The 1200 hours deadline is the most appropriate. Vector is opposed to any earlier deadline of 10am or 10.30am and considers that advancing the timeframe in the interim is unnecessary, and any benefits would be negligible and disproportionate to the decrease in the accuracy of the injection information that may result due to insufficient time in some cases;
- We confirm that the staff and capital costs to comply with the 8am deadline are substantial;
- The GICs preliminary view that the exemption should be extended is correct and supported on its partial analysis of the relevant information in its Report; and
- Vector is not aware of any unreported problems caused by the existing exemption.

*Rule 42*

- The GICs preliminary view that the exemption should be extended is correct and supported on its partial analysis of the relevant information in its Report. The correct approach would be to continue the exemption until the GIC has had the opportunity to investigate the possibility of rule changes effective from 30 September 2010. Vector's preference is to continue the exemption on the current conditions. However, Vector has no objection to the conditions being extended on the basis that:
  - Gas gates without telemetry are exempt on all days;
  - Gas gates with telemetry are exempt on non-business days; and
  - The 21 gas gates with live SCADA data are not exempt. (**Note:** it is important to understand that live SCADA data is unchecked information so is not unvalidated data which Vector equates to 'estimated daily energy quantities').
- Vector is unable to comply with the requirements of this rule in respect of weekends and statutory holidays, and does not believe that any approach other than a rule change is appropriate; and
- Vector considers that any approach based on a standard or temporary exemption is appropriate only as an interim measure and that a rule change is necessary as a permanent solution.

23. Please call me if there is any aspect of this submission that you would like to discuss further.

Yours sincerely



Bob Sheppard

Jo Murray  
Commercial Manager - Gas Transportation

JoV