20/7

20 February 2007

Reconciliation Submissions
Gas Industry Company Limited
PO Box 10 646
Wellington

Dear Sirs

**RECONCILIATION OF DOWNSTREAM GAS QUANTITIES**

Thank you for the opportunity to comment on the above discussion paper. I am responding on behalf of the energy business within Wanganui Gas.

Please find enclosed a copy of our submission on the Statement of Proposal for Compliance Regulations in the form provided.

I would be more than happy to discuss any of the above comments or issues with the Gas Industry Company.

Yours sincerely

Jim Raybould

Jim Raybould
**COMMERCIAL MANAGER**

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# Appendix A: 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: Jim Raybould (Wanganui Gas – Jim Raybould)

| Question | Comment |
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| Q1: Do you agree with the definitions adopted by Gas Industry Co in this Discussion Paper? If not, what do you suggest? | WGL agrees with the definition of downstream and whilst we cannot suggest a better definition of upstream we would have preferred to see a notional point at where upstream and downstream interconnected.<br><br>Under the proposed definitions these two points are separated by the length of the Vector transmission pipeline. |
| 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? | Yes |
| Q3: Do you agree with Gas Industry Co's preferred approach towards standardised file formats? If not, how should it be improved? | Yes |
| Q4: Do you agree with the proposed estimation accuracy criteria and proposal to require normalisation of data? If not, why not? | WGL agrees with the requirement to normalise data for the month although we believe that the concerns raised by Vector On Gas regarding month beginnings and month ends that fall on weekends should be given some consideration.<br><br>Our own concerns with this part of the proposals are with regards to the proposed estimation accuracy criteria. By combing groups 3-6 to calculate |

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| | accuracy the GIC has make a simple statistical adjustment to the figures but has not actually improved the accuracy of the estimating process within the groups where the difficult lies i.e. groups 5 and 6.<br><br>Group 4 customers (we have no Group 3 customers) in our case are read every month at or near the month end as required by the Reconciliation Code.<br><br>In WGL's opinion it is in Group 6 (we have no Group 5 customers) that the root cause of the accuracy problem lies as these customers are, as you are aware, read throughout a billing cycle. In WGL's case we have both monthly and 2 monthly billing cycles for our residential gas customers.<br><br>If these customers' meters are being read every month then a simple pro rata estimating process may provide a suitable outcome. However our investigations into these matters have resulted in the recent installation of a revised estimating system which includes seasonal adjustments even for our monthly billed customers. When estimating monthly consumption within a two or three month reading cycle then WGL believes that there must be some seasonal adjustment to the estimating process. |
| Q5: Do you agree with the proposed minimum meter reading requirements? If not, why not? | Yes, if anything a higher standard of more frequent meter readings is required to improve data quality. |
| 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? | Yes as it must be remembered that it is important not only to increase the accuracy of the overall gas allocated each month it is equally important that this gas is allocated on a daily basis as accurately as possible.<br><br>In our opinion given the new wholesale gas contracts the importance of more accurate daily data and therefore more accurate residual profiles cannot be overestimated.<br><br>Our figures indicate that if we installed TOU devices on customers using 5TJ we would increase reporting on daily gas consumptions by at least 12%, but |

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| | would need to install new TOU devices in less than 0.5% of our customer base.<br><br>WGL does however accept that the GIC would need to make an industry wide assessment of such a decision to essentially move more customers in Groups 1 and 2. We would therefore suggest that the GIC collates information of the number of customers in specific bands of annual consumption to determine the potential benefits of setting a lower threshold rate for TOU devices.<br><br>Customers could also benefit from such a move with regards to cost allocation leading to better and possibly lower overall gas prices.<br><br>In the meantime the GIC should implement the requirement for all 10TJ and above customer to have TOU devices installed eliminating the discretionary options that incumbent retailers have on this matter. |
| Q7: Do you agree with the proposed process for the calculation and publication of loss factors appropriate? If not, how should it be improved? | Yes but we do have some sympathy for the Powerco point of view of garbage in garbage out.<br><br>In our opinion it is unreasonable to expect network operators to be able to calculate and publish meaningful UFG figures until the questions on the accuracy of reporting data have been addressed and solutions implemented. |
| Q8: Do you consider that the current month end timeframes for the provision and calculation of allocation information are appropriate? | The timeframes are tight but WGL believes that they are still appropriate particularly given the upstream implications of changing them. |
| Q9: Do you consider transitional provisions and/or exemptions will be required prior to the central registry go-live date? | WGL believes it is too early to tell if exemptions will be required but would not be opposed to these if are needed. |
| Q10: Do you agree with the preferred approach of implementing a mandatory requirement on all industry | WGL has no concerns about the principal of moving to a global methodology of allocation. However the Industry cannot make such a move until there is an |

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| participants to submit accurate data and comply with all data submission requirements? | agreement within the Industry on what form the "Global" methodology will take.<br><br>Regardless of the methodology applied the fundamental issue here is the accuracy of the data being provided and normalisation, which is an estimating process, by its very nature creates inaccuracies.<br><br>Further as the Industry adopts a methodology for Groups 5-6 reporting that is essentially all based on estimates then WGL believes that this in turn increases the importance of having accurate month end data based on readings for Groups 1-4. |
| 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? | Given the arbitrary nature of the decision WGL suggests that the initial regimes should be based on a 6 month rolling interim allocation and move to a 4 month interim regime if in light of the outputs of the 6 month regime that this is required.<br><br>We do however agree with the 13 month final allocation proposal.<br><br>Our suggestion is based on the fact that under the 4 month rolling scheme the interim allocation may be based on 1 meter reading for some customers whilst the 6 month regime should as a minimum include two readings.<br><br>WGL has no strong opinions about the terminology but would perhaps favour the alternative terminology, first revision etc. |
| Q12: Do you agree with Gas Industry Co's proposed restriction of the correction process (i.e. limiting 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? | Yes |
| Q13: Do you agree with the preferred approach of publishing gas gate, UFG and specified allocation | WGL agrees with the proposal as far as UFG is concerned. However at the risk of stating the obvious, the accuracy of any calculations of UFG will |

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| information? | ultimately be dependant upon the accuracy of the reported gas sales by the retailers. See our answer to Question 7.<br><br>WGL has no objections to the publication on a daily basis of daily gas metered quantities. We do however fail to see how this helps with regards to the improving the accuracy of the allocation and reconciliation process. We have similar concerns about the publication of the aggregated monthly gas figures. |
| Q14: Do you agree with the preferred approach of mandating the 1 month UFG global method? | As an incumbent WGL has not to date experienced the problems that other incumbents appear to have had to deal with. We cannot explain why this may be except that we only review our allocated gas purchased verses our sales on an annual basis and do not attempt to reconcile these figures monthly.<br><br>WGL remains to be convinced that a move to the 1 month UFG Global methodology will help resolve the issues that some incumbent retailers appear to be experiencing.<br><br>It is our opinion that the basic underlying cause of all of the problems so far discussed in this paper come back to one issue and one issue alone which is the quality of data being supplied at month end.<br><br>With regard to in particular Group 4-6 customers there are inherent problems with data accuracy that can be improved upon but can never be eliminated including meter faults and meter reading errors. As mentioned in the paper our previous submission suggested the introduction of a standard estimating process. WGL accepts that all retailers believe that they have good quality data based on an accurate estimating process. However each estimating process will by their very nature create in accuracies unique to that particular process. If the industry were to adopt a standard estimating process then as least we will have a consistency across the process rather than the best and |

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| | worst from each individual estimating process. |
| 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? | Yes, however at a recent meeting on Maui Pipeline issues there was some support for having mandatory day end allocations to resolve MPOC issues. |
| 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? | Yes and Yes. The flaws in the current appointment process have become apparent with the inability of retailers to unanimously agree on an allocation agreement for 1 October 2006. |
| 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)? | A pan-industry agreement would be the preferred governance approach, however WGL regrets that it believes that given recent experience this would be difficult to establish. We therefore reluctantly believe that a Rules base governance system will be required. |
| 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 you agree with Gas Industry Co's preliminary view that the arrangements should be funded by retailers according to the number of ICPs? | WGL believes that funding of the reconciliation process should be via the levy. The main advantage of this is that when based on ICP numbers retailers will recover the cost of this work by and large from their customers on a month by month basis. Recover through the levy would mean that retailers would not be advantaged or disadvantaged by significant movements in their customer bases following acquisition campaigns throughout the year or years that the costs are recovered. |
| 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? | Yes we are in general agreement but do wonder about the 3 year rule when the contractual arrangements with transporters in particular only go back a maximum of 2 years. |

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| 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)? | Yes |
| Q21: Are the proposed arrangements for Allocation Agent compliance appropriate? What do you think is a suitable liability cap for non performance? | Yes, however the proposed liability cap appears to be on the low side |
| Q22: Do you agree that reporting of breaches should be voluntary for participants (not mandatory)? | Yes |
| 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? | Given the current contractual arrangements WGL would suggest a time limit of 2 years rather than the proposed 3 |
| 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? | WGL agrees. |
| Q27: Do you agree that there is a need to provide for special allocations? Do you agree with the proposed process for special allocations? | Yes there will always be a need for special allocations. |
| Q28: Do you have any comments on the detail in | D6 – WGL agrees that the start date for the new arrangements should |

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| Appendix D? Are there any additional matters that should be included in this framework? | coincide with the gas contract year on 1 October. We appreciate the likely reasoning that this will be 2008 but are however disappointed that the new arrangements could not be in place this year.<br><br>D16 – The nature of the gas retail business is such that no retailer can deliver complete and accurate energy consumption information. The use of estimates within the allocation process means that whilst retailers will endeavour to carry out these tasks they will never be able to achieve these objectives.<br><br>D21 – Given the need to improve data quality the industry may at some time in the near future need to increase/improve the Standard meter reading frequency.<br><br>D23 – Group 3-4 deviations on meter readings should be 1-2 business days rather than calendar days.<br><br>D28 – As stated above WGL does not believe that a simple pro-rating normalisation system would provide an acceptable degree of accuracy and that some form of seasonal profiling is required when normalising Group 5 and 6 data.<br><br>D33 – Following the change in the definition of an allocation Day starting at 0.00 the timeframes for reporting moved by 1 day therefore retailers to provide data to the Allocation Agent by 8.00 am on the fourth business day not the third.<br><br>D35- WGL would like to understand better the consequences of a breach in its obligations resulting from having to estimate Group 1-4 customers’ data as a result of meter failures.<br><br>D40 – We believe that our comments on D33 also apply here.<br><br>D50 – WGL seeks clarification as to what form such notification would take, |

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| | e.g. for commencing deliveries to a particular gas would the switch request be adequate or is a separate notification required.<br><br>Under the current switching arrangements there is some retrospective switching therefore a retailer may have become responsible for supplying gas to a gate prior to the customer signing with that retailer.<br><br>D52 – Add meter multipliers<br><br>D60 – WGL is of the opinion that as the funding is based on ICP's that the Levy would be an appropriate funding mechanism as retailers are then only responsible for funding the customers that they supply gas to at any given time of the year.<br><br>D71 – See our comments on D33 therefore the reposts to retailers should be on the 5$^{th}$ working day<br><br>Schedule 3 A as per D 33 and 71 all the days within this schedule need to move out by 1 day to the 4$^{th}$ and 5$^{th}$ business day of the month. |
| 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? | Not necessarily but in the event that a pan industry agreement was reached it would be better to be proactive with the Commerce Commission than to await a reaction from them. |
| 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)? | History suggests that it is unlikely that a pan industry agreement could be made within the timeframes required even for a go live date of 1 October 2008. WGL is therefore of the opinion that whilst a pan industry agreement is feasible it is unlikely to occur. |

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

| Question | Comment |
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| **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? | WGL believes that any benefits from this proposal should be clearly identified within 5 years. |
| **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? | The baseline scenario is in WGL's opinion only partially correct. Work on the Reconciliation Code was ongoing up until the time the GISG was established at which point this work program was put on hold awaiting the formation of the Gas Industry Company.<br><br>It is therefore likely that if this hold had not been put in place that some progress would have been made on the five problem areas.<br><br>In particular WGL believes that that:-<br><br>The Industry would eventually agreed on issues such as standardised file formats and the need for improvements in data quality both from retailers in allocation submissions and network operators on UFG.<br><br>Given we have not experienced the same problems as other incumbents with regards to the difference methodology we see no real urgency in changing to the global methodology in our incumbency areas.<br><br>WGL does however agree that progress on issues such as audits, appointment of an allocation agent and governance would not have progressed. |

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| **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? | WGL agrees. |
| **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? | As stated in a previous discussion paper WGL would like to see the development of a standard estimating process for Group 5 and 6 customers to bring some degree of consistency to the data being provide for these customer groups. The GIC may therefore wish to include this cost within the CBA.<br><br>In addition the GIC should also make an allowance for the development of an appropriate Global methodology as the current models are not universally accepted as appropriate.<br><br>Finally before incurring the costs associated with a CBA on the pan industry agreement we think it would be best to gauge the likelihood of success on this type of agreement. |
| **CBA Q5:** Is there any relevant information on electricity market reconciliation that could be used to inform the cost estimates? | Unable to comment as not involved in the electricity industry to this level of detail. |
| **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 the benefits or how they might, in practice, be estimated? | Any reduction in costs has the potential benefit of making a retailer more competitive if they chose to pass such reductions in cost onto their customers. The reverse is also true.<br><br>The real question that has to be asked and answered is will this proposal reduce or increase costs, will potential operating cost reductions be neutralised by increase compliance costs.<br><br>In our opinion it is likely that costs will increase rather than be reduced as systems are modified to adapt to the new processes. The potential for cost |

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| | saving from a retailers' perspective is the potential removal of doubt over the allocation process and the introduction of true governance within the allocation process. |
| **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? | No. Even if the wealth transfers were zero, and we doubt that they would be, if one retailer's cost increase whilst another's reduces then you have an external party changing the competitive dynamic, which may not be to the publics' benefit. This would be true particularly if a large inefficient retailer's cost were to come down but a small efficient retailer's costs were to go up.<br><br>You are also assuming that cost reductions will be passed onto the customers as opposed to be retained by the retailer or network operator |
| **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? | No comment |
| **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? | Yes. |