

An aerial photograph of a city, likely Auckland, New Zealand, showing a dense urban landscape with numerous high-rise buildings and a harbor area with ships. A series of white, wavy, semi-circular lines are overlaid on the top half of the image, creating a decorative border.

Resolving the financial impact of consumption and injection errors

Date: Submissions close 5pm on Wednesday 22 June 2022



Gas Industry Co.



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1. Introduction

The purpose of this paper is to consult with allocation participants on the resolution of financial impact of errors in consumption or injection information submitted to the allocation agent where the interim and final allocations have occurred, and the window for a special allocation has closed.

This paper proposes, and seeks allocation participants' views on, materiality thresholds for resolution of financial impact, costs that Gas Industry Co should include in its calculation of financial impact, and general process.

This paper does not limit, or replace, the process for determining breaches in the Gas Governance (Compliance) Regulations 2008. However, the financial impact of breaches on other allocation participants is considered as part of the Market Administrator's assessment of the materiality of alleged breaches under the Compliance Regulations.

Gas Industry Co invites feedback on this paper from all allocation participants.

Submissions from allocation participants on this consultation paper are due by 5pm on **Wednesday 22 June 2022**.

Submissions should be emailed consultations@gasindustry.co.nz



2. Background

2.1 Correction of errors under the Gas (Downstream Reconciliation) Rules 2008

From time-to-time errors are discovered in the consumption information or injection information that retailers and the transmission system owner submit to the allocation agent and consideration is given as to whether it is necessary to correct allocation results. These errors are commonly caused by metering errors, or errors in the processing of metering data for submission to the allocation agent.

The Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) allow for various types of corrections to be made:

1. Rule 44 sets out the processes for the notification of errors in consumption information submitted to the allocation agent and, where such errors would have resulted in a materially different allocation, allows the allocation agent to amend results (if time permits) or requires Gas Industry Co to consider whether to direct a special allocation.
2. Rule 46A allows an annual UFG factor to be recalculated and republished if an error is discovered which Gas Industry Co considers may have, or have had, a sufficiently unfair impact on allocation results.¹
3. Rule 51 sets out when Gas Industry Co may require the allocation agent to perform a special allocation, either in addition to, or replacing, the allocation results from the previous allocation of gas quantities.

A special allocation may be performed up to 12 months after the final allocation run (i.e., up to 25 months after the affected consumption period). After this deadline, allocation results cannot be corrected through existing rule-based processes.

Gas Industry Co has published guidance on how rules 44, 46A and 51 are to be given effect to by allocation participants and by Gas Industry Co (referred to as the Guidelines for Special Allocations).² Importantly, these guidelines set certain materiality thresholds for recalculating annual UFG factors and undertaking special allocations. This ensures that these processes are not undertaken for minor discrepancies, or where the cost to industry of undertaking these corrections outweighs the impact of inaccurate allocation results.

¹ Gas Industry Co may require the allocation agent to correct and republish an annual UFG (AUGF) factor up to 15 months after the AUGF factor has been determined. This period covers the three months between the publication of the AUGF factors and the start of the gas year (July to September) plus the 12 months of the gas year to which the AUGF factors apply (October to the following September).

² The guideline note for rules 44, 46A and 51 – correction of allocations by allocation agent, correction of an annual UFG factor and special allocations can be found at <https://www.gasindustry.co.nz/assets/WorkProgrammeDocuments/2856Guideline-note-rules-44-46A-and-51-correction-of-allocations-by-allocation-agent-correction-of-annual-UFG-factor-and-special-allocations.pdf>

2.2 Compliance process

The Reconciliation Rules require that an allocation participant must provide the information required under the Rules in a manner that is accurate and complete, not misleading, or likely to mislead, and timely.³ This general obligation applies across all the rules, but particularly to consumption and injection information that retailers and the transmission system owner provide to the allocation agent under rules 31, 32, 33 and 41.

Errors in consumption information and injection information submitted to the allocation agent are subject to the process in the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations), regardless of whether the error is, or is not, able to be corrected through a subsequent allocation. That is because regulation 11 of the Compliance Regulations requires the allocation agent to report alleged breaches of the Reconciliation Rules.

Errors in consumption information and injection information have a financial impact on allocation participants due to the over- or under-allocation of gas. Whether the financial impact is material and enduring or not depends on when the error is discovered:

1. **Errors that relate to consumption periods where an interim or final allocation has not occurred.** These errors generally have no enduring material financial impact on other allocation participants if the incorrect allocation results will be corrected as part of the next allocation run.
2. **Errors that relate to consumption periods where a final allocation has occurred but are within the window for a special allocation.** These errors generally have no enduring material financial impact on other allocation participants if Gas Industry Co determines that a special allocation will occur, and the incorrect allocation results will be corrected as part of the special allocation. As previously mentioned, Gas Industry Co applies a materiality threshold for determining whether to conduct a special allocation in accordance with its Guidelines for Special Allocations.
3. **Errors that relate to consumption periods where final allocations have occurred and the window for a special allocation has closed.** These errors may have a material financial impact on other allocation participants as the Reconciliation Rules do not provide for correcting consumption or injection information in these circumstances.

When a breach allegation is raised in relation to errors in consumption information and injection information submitted to the allocation agent, the Market Administrator is required to assess whether the alleged breach results in a material issue. The Compliance Regulations require the Market Administrator to consider several factors when determining materiality. Financial impact on other participants is one factor impacting materiality. However, whether a breach is material will depend on assessing the circumstances of the breach against all the factors.

³ Rule 26.2 of the Reconciliation Rules.

2.3 Historical approach to errors where no allocation is available

Gas Industry Co supports voluntary actions by industry participants to address the financial impact of errors in consumption information or injection information submitted to the allocation agent.

Allocation participants who have made errors relating to consumption periods for which final allocations have occurred and the window for a special allocation has closed have often requested that Gas Industry Co calculate the financial impact of the error on other allocation participants and inform impacted parties of that financial impact⁴. Those parties may then elect to invoice the allocation participant who made the error. In this case, voluntary payments are made in respect of the financial impact, but there is no change to allocation results. This process has generally been based on the outcome of previous settlements approved by the Rulings Panel in accordance with the Compliance Regulations. Examples are contained in impact below.

Table 1: Previous resolution of financial impact

Breach	Resolution
Nova submission error at GTA03610 from May 2013 to July 2017 (breach notice 2018-159)	The error totalled 37,821 GJ across the affected parties. Financial impact is currently being resolved via voluntary payments. The MA is determining if this breach is material.
Contact submission error at GTA03610 and WAG21501 from April 2015 to June 2015 (breach notice 2017-015)	The error totalled 3,331 GJ across the affected parties. Financial impact is currently being resolved via voluntary payments. The MA is determining if this breach is material.
Rule 51 breach, OnGas under-metering error at GMM08001 (March 2014 to June 2018)	The error totalled 100,157 GJ across the affected parties. Financial impact was resolved via voluntary payments. After the payments were made, the MA determined this breach as not material.
OnGas submission error at Rotorua (breach notice 2016-137)	The error totalled 6,502 GJ across the affected parties. Financial impact was resolved via voluntary payments. After the payments were made, the MA determined the breach as not material.
Rule 37.2 breaches (May 2015 – November 2015)	Financial impact totalling \$176,511 was resolved via voluntary payments. The MA determined the breaches as not material.
Rule 37.2 breaches (June 2013 – April 2015)	Financial impact totalling \$197,738 was resolved via voluntary payments. The MA determined the breaches as not material.
Rule 37.2 breaches (April 2012 – May 2013)	Financial impact totalling \$49,994 was resolved via voluntary payments. The MA determined the breaches as not material.

⁴ Gas Industry Co must perform the calculations because individual retailers do not have access to all the necessary information (i.e., other retailers' consumption submissions)

Breach	Resolution
Rule 37.2 breaches (April 2011 – March 2012)	The MA determined the breaches as material. A settlement totalling \$76,378 was arranged via the investigator and approved by the Rulings Panel.
Rule 37.2 breaches (December 2009 – March 2011)	The MA determined the breaches as material. A settlement totalling \$62,629 was arranged via the investigator and approved by the Rulings Panel.
Rule 37.2 breaches (October 2008 – November 2009)	The MA determined the breaches as material. A settlement totalling \$379,649 was arranged via the investigator and approved by the Rulings Panel.
Genesis submission error at Palmerston North (breach notices 2011-122 & 2011-138)	The MA determined the breaches as material. A settlement was arranged via the investigator and approved by the Rulings Panel.
OnGas submission error at Greater Hamilton (breach notice 2010-362)	The error totalled 46,808 GJ across the affected parties. The MA determined the breach as material. A settlement was arranged via the investigator and approved by the Rulings Panel.

The resolution of financial impact via voluntary payments has the following benefits:

1. The full investigation and Rulings Panel processes in the Compliance Regulations may not be necessary if there are no other factors that the Market Administrator considers justifying an investigation. This is particularly the case where similar errors have already been subject to a similar resolution through settlement processes under the Compliance Regulations.
2. It enables a more effective inclusion of allocation participants who may have been impacted by the error but have not joined as a party to the breach allegation under the Compliance Regulations.⁵ In our experience, very few parties join breaches, even where they may be financially impacted.

⁵ In the Market Administrator's experience, very few participants join breaches, even if the participant is impacted by a breach allegation. Under the Compliance Regulations, parties who do not join breach allegations do not participate in the determination of the breach.



3. Problem Assessment

Gas Industry Co has identified the following issues during recent errors:

1. There is currently no materiality threshold for resolution of financial impact. This creates two potential issues:
 - (a) Inefficient use of industry time and resources resolving errors with minimal financial impact.
 - (b) Inconsistency with errors that fall within the window for special allocations. Gas Industry Co has published guidelines that contain a threshold for it to direct the allocation agent to conduct a special allocation. Gas Industry Co's decision to direct the allocation agent to correct allocation results via a special allocation will depend on whether the allocation results are sufficiently unfair.
2. Some allocation participants have suggested that additional costs be included within Gas Industry Co's calculation of financial impact.⁶ The inclusion of some of these costs has the potential to result in an inconsistent approach with other errors, which may create uncertainty over settlement calculations.
3. There is no generally accepted process for the determination of financial impact. This creates two potential issues:
 - (a) The process can take some time to progress through to completion due to the number of parties involved.
 - (b) The involvement of allocation participants who have not joined alleged breaches under the Compliance Regulations but may be impacted, is unclear.

⁶ Consideration of costs to include in financial settlements can be found in **Table 2: Gas Industry Co's initial views of costs to include in a determination of financial impact**



4. Proposed solutions

Gas Industry Co proposes, and invites feedback from allocation participants on, solutions to the above issues.

4.1 Materiality threshold

Resolution of financial impact will only be considered where the allocation results are sufficiently unfair.

Gas Industry Co will consider the total impact of the error across all allocation participants and the impact of the error on individual allocation participants. This follows the same materiality tests as Guideline note for rules 44, 46A and 51 – correction of allocations by allocation agent, correction of an annual UFG factor and special allocations (Guidelines for Special Allocations) in relation to whether a correction of allocation results via a special allocation would occur.

Gas Industry Co will form a preliminary view on whether resolution of financial impact is appropriate and consult with impacted allocation participants.

Q1: *Do you agree with aligning the materiality threshold for resolution of financial impact with the threshold for undertaking special allocations? If not, what alternative approaches should be considered?*

4.2 Costs to be included in calculation of financial impact

Financial impact will generally be determined based on a wholesale gas price and a carbon price. The amounts will be determined using published data from MBIE for wholesale gas reference prices⁷, Climate Change (Stationary Energy and Industrial Processes) Regulations 2009 for emissions factors, and Ministry for the Environment (MfE) for carbon prices.

Gas Industry Co will determine financial impact for each allocation participant by:

1. Multiplying the total volume of gas that falls within the scope of the impact for each allocation participant by:
 - (a) An appropriate wholesale gas reference price. Gas Industry Co will generally use publicly available data from MBIE as the wholesale gas reference price unless it has informed and consulted with allocation participants on an alternative reference price.
 - (i) *Impact (GJ) X Quarterly nominal wholesale MBIE gas price*
 - (b) An appropriate emissions factor and carbon price. Gas Industry Co will generally use publicly available data for emissions factors from Climate

⁷ This price captured by MBIE within its quarterly retail sales survey (QRSS) which is designed to capture the cost of the energy only (i.e., excludes delivery/transmission/distribution charges).

Change (Stationary Energy and Industrial Processes) Regulations 2009 and a carbon price from Ministry for the Environment (MfE). This is unless it has informed and consulted with allocation participants on an alternative reference price.

(i) *Impact (GJ) X national average emissions factor for all gas fields⁸ X clearing price for NZ ETS Auctions⁹*

2. Reallocating the costs of any event audits where the error would have resulted in a materially different allocation of costs at the time that the audit occurred.

In determining that the above costs should be included in the determination of financial impact, Gas Industry Co has focussed on material costs that it is able to identify using information that is transparent and readily available. Some participants have raised additional costs in response to Gas Industry Co's previous consultations on financial impact. Our view on these costs, as well as other costs that may arise in the future, is summarised in Table 2: Gas Industry Co's initial views of costs to include in a determination of financial impact below.

Q2: *Do you support the proposed approach for including carbon? If not, can you please provide an alternative approach for Gas Industry Co to consider?*

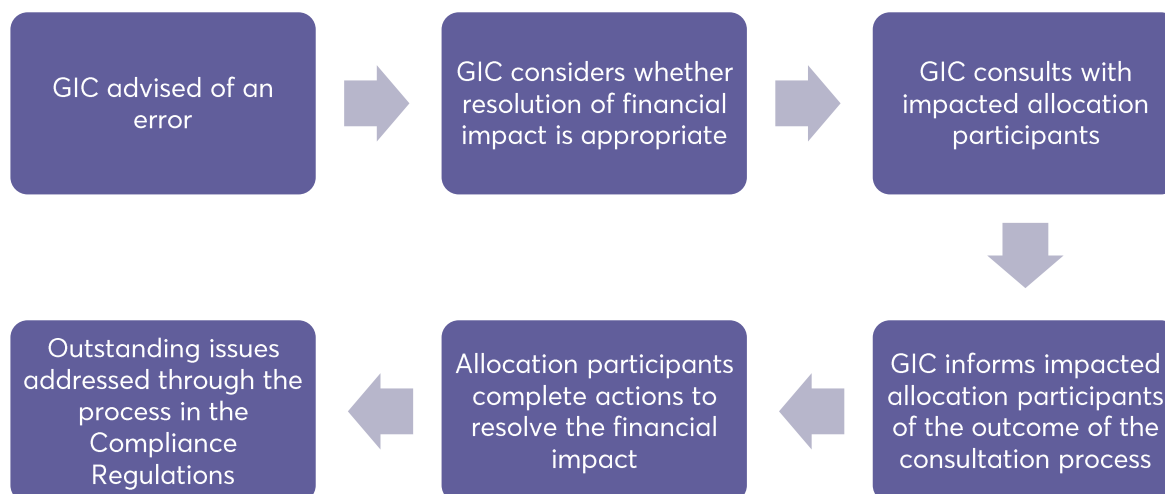
4.3 Process matters

The following diagram provides a high-level overview of the process for errors in consumption or injection information provided to the allocation agent where the error is identified outside the timeframe for the initial, interim, final, and special allocation runs. A detailed description of each step is provided in each of the subsections below.

Allocation participants should note that, at any point, the Market Administrator may determine that it is appropriate for the breach allegations to which the error relates to be resolved through the investigation and/or Rulings Panel processes under the Compliance Regulations. The factors that the Market Administrator considers when making this determination are contained in regulation 19 of the Compliance Regulations. This process does not remove the Market Administrator's or a participant's ability to refer a rule breach to the Investigator, in accordance with the Compliance Regulations.

⁸ Climate Change (Stationary Energy and Industrial Processes) Regulations 2009, Schedule 2, Table 10

⁹ NZ ETS Auction Results



4.3.1 GIC advised of an error

Generally, Gas Industry Co will be informed of errors by the allocation agent. Rule 44 of the Reconciliation Rules requires allocation participants to immediately advise the allocation agent of a material error in consumption information or injection information and provide corrected information. It is likely Gas Industry Co, as the Market Administrator, will receive an alleged breach of the Reconciliation Rules due to the mandatory reporting requirements in regulation 11 of the Compliance Regulations.¹⁰

In some situations, an allocation participant may report a breach of the Reconciliation Rules.

The reporting of an alleged breach will trigger the process in the Compliance Regulations. That process will continue to run independent of Gas Industry Co's calculation of financial impact and any action taken by allocation participants in relation to financial impact.

4.3.2 Gas Industry Co considers whether resolution of financial impact is appropriate

Resolution of financial impact will only be considered where the allocation results are sufficiently unfair. This assessment will be made in accordance with the materiality threshold in section 4.1 above.

Gas Industry Co will form a preliminary view on whether financial impact should be addressed and consult with impacted allocation participants in accordance with section 4.3.3 below.

4.3.3 Gas Industry Co consults with impacted allocation participants

Gas Industry Co will consult with allocation participants who are impacted by the error. The allocation participants who are impacted by the error are those allocation participants who would have received a different share of volumes at the allocated gas gate if the error had not occurred.

The consultation will cover the following matters:

¹⁰ The breach allegation is likely to relate to rule 26.2 of the Reconciliation Rules – the requirement that an allocation participant provide information under the Reconciliation Rules in a manner that is accurate and complete, not misleading, or likely to mislead, and timely.

1. The parties who are impacted by error (including relevant volumes).
2. Gas Industry Co's preliminary view on whether resolution of financial impact is appropriate.
3. Gas Industry Co's preliminary assessment of financial impact calculated in accordance with section 4.2 above.
4. If part of the error falls within the period for special allocations, whether the special allocation process should be used for that part of the error, or whether the entire error should be included in the calculation of financial impact to be resolved between the parties.

4.3.4 Gas Industry Co informs impacted allocation participants of the outcome of the consultation process

After considering submissions, Gas Industry Co will inform impacted allocation participants of the actions required to resolve the financial impact, including relevant timeframes for completion of the actions. The timeframes will allow a reasonable period for completing the actions, including internal approval processes.

Table 2: Gas Industry Co's initial views of costs to include in a determination of financial impact

Item	Description	Include in future determinations of financial impact?	Method
Capacity reservations	Errors in consumption information or injection information may impact participants' capacity charges under the Gas Transmission Code (GTC) (e.g., one party's under-submission due to an error could cause another party to be over-allocated UFG and face capacity over-run charges).	No Individual businesses vary in their approaches to capacity reservations, and Gas Industry Co is unable to determine financial impact to reflect individual participants' behaviors. Linking an error to specific capacity reservations is complex.	Not applicable
Throughput fees	The charge on the gigajoules of gas delivered under the GTC.	No Our initial view is to exclude throughput fees in determinations of financial impact. This is because of the small value that this would contribute to financial impact. For example, when we consider the average 12-month MBIE gas price of around \$8.00 per gigajoule, and a throughput fee of \$0.34 ¹¹ per gigajoule, this would only be around 4% of the overall wholesale gas price. However, we could reconsider our position if Firstgas increase these charges in future.	Not applicable
Rule 37.2	Prior to the introduction of D+1, Gas Industry Co facilitated a resolution of breaches of rule 37.2 of the Reconciliation Rules for	No The impact on allocation participants of inaccuracies captured by rule 37.2	Not applicable

¹¹ Throughput Fee (TPF) from Confirmed Transmission Fees 2021-22 memo.doc, OATIS

Item	Description	Include in future determinations of financial impact?	Method
	consumption information provided by a retailer to the Allocation Agent for the initial allocation run not falling within +/-10% of the consumption information for the final allocation. The resolution consisted of payments between allocation participants to effectively compensate for these inaccuracies. Errors in consumption information or injection information uncovered after the completion of these settlements would have an impact on the accuracy of the settlements.	breaches ceased in 2015 when D+1 allocations replaced initial allocations in Firstgas's transmission billing. It is increasingly unlikely as time passes that an error discovered today would have prevailed since 2015. In addition, Gas Industry Co considers that the resource required to effectively recalculate and reapply these amounts between allocation participants would be disproportionate to the financial impact. This is based on work Gas Industry Co undertook to estimate the financial impact of rerunning the rule 37 process for an error that was discovered at Mt Maunganui gas gate (GMM08801).	
Charge interest use on money	Charge interest, to reflect the time value of money, on that money which parties have not had access to due to misallocated gas.	No Most errors in consumption or injection information submitted to the allocation agent are inadvertent (e.g., metering errors). Additionally, although the size of these errors may be material, they may not be large enough to justify the cost of interest on use of money. This is particularly so when we consider the current interest rate such as the 90-day bill rate which is historically low.	Not applicable
Carbon	The carbon component of gas to be reallocated.	Yes Our initial view is that carbon is now a material part of the wholesale gas price. There seems to be publicly available information that could be used to apply a carbon price to determinations of financial impact.	Impact (GJ) X national average emissions factor for all gas fields ¹² X clearing price for NZ ETS Auctions ¹³
Wholesale value of gas (MBIE prices)¹⁴	Nominal gas price reported on quarterly basis. Price is exclusive of delivery, transmission, and distribution charges.	Yes Use of the MBIE pricing information to determine a wholesale gas reference price was used in a previous settlement approved by the Rulings Panel. ¹⁵ Our initial view is that although this is not a perfect price, it does go a long way to	Allocation change X MBIE price

¹² Climate Change (Stationary Energy and Industrial Processes) Regulations 2009, Schedule 2, Table 10

¹³ NZ ETS Auction Results

¹⁴ MBIE defines this price as the cost of the gas energy only (i.e., excludes delivery/transmission/distribution charges)

¹⁵ See Record of settlement of alleged breach of rule 26.2.1 of the Gas (Downstream Reconciliation) Rules 2008 (breach notices 2011-122 and 2011-128) available at <https://www.gasindustry.co.nz/our-work/work-programmes/compliance/breach-determinations-and-settlements/approved-settlements-of-alleged-breaches-2011/>

Item	Description	Include in future determinations of financial impact?	Method
		provide a transparent and historically consistent price for capturing wholesale gas costs. This price has been applied to all previous settlements.	
Levies and market fees	<p>These include:</p> <ol style="list-style-type: none"> 1. a wholesale levy charged on each gigajoule, 2. a retail levy charged on each active customer connection (ICP), 3. market fees for service providers, 4. the gas safety, monitoring, and energy efficiency levy (GSMEEL) 	<p>No</p> <p>These costs are not material enough to include. This is based on work we carried out to estimate compensation values of market fees to be redistributed for a TOU metering error at GMM08801. This resulted in an estimated 0.004% of the value of the total error to be redistributed.</p>	Not applicable
Distribution charges	Charges paid to distribution network owners for use of distribution systems.	<p>No</p> <p>Our initial view is not to include distribution charges because these are generally calculated on ICP-level consumption submissions, so not impacted by other parties' errors</p>	Not applicable
Gas event audit costs	Event audits can be commissioned due to high UFG at a gas gate. Costs are allocated to retailers trading at the gas gate in proportion to any issues found or distributed equally if no issues are discovered. If an issue is discovered retrospectively, should these costs be reallocated?	<p>Yes (but see note below).</p> <p>Although costs have been redistributed in the past, our view would be to only reconsider reallocation of audit costs if these costs are material.</p>	Where material, recalculate the costs of the event audit to be allocated to each allocation participant based on the correct volume information.

Q3: Do you agree with the potential costs outlined above in *Table 2: Gas Industry Co's initial views of costs to include in a determination of financial impact?* If not, which costs have we missed or need to reconsider?

Q4: Do you agree with Gas Industry Co's views on whether to include each cost in the determination of financial impact? If not, which views do we need to reconsider?



Questions

Resolving the financial impact of errors in consumption information or injection information submitted to the allocation agent

Submission prepared by: <company name and contact>

Question	Comment
Do you agree with aligning the materiality threshold for resolution of financial impact with the threshold for undertaking special allocations? If not, what alternative approaches should be considered?	
Do you support the proposed approach for including carbon? If not, can you please provide an alternative approach for Gas Industry Co to consider?	
Do you agree with the potential costs outlined above in Table 2: Gas Industry Co's initial views of costs to include in a determination of financial impact? If not, which costs have we missed or need to reconsider?	
Do you agree with Gas Industry Co's views on whether to include each cost in the determination of financial impact? If not, which views do we need to reconsider?	

About Gas Industry Co

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- Develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- Develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- Oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

SUBMISSIONS CLOSE:
5pm on **Wednesday**
22 June 2022

SUBMIT TO:
consultations@gasindustry.co.nz

ENQUIRIES:
robert.gibson@gasindustry.co.nz