

## Submissions analysis on Gas Industry Co's paper *Resolving the financial impact of consumption and injection errors*

Gas Industry Co received responses to this consultation from Vector, Mercury, Contact and Nova.

All parties who submitted agreed with all aspects of the proposed approach in Gas Industry Co's paper *Resolving the financial impact of consumption and injection errors*.

The table below summarises additional points raised by submissions and Gas Industry Co's response to these.

Feedback	Gas Industry Co response
<p>Vector suggested that Gas Industry Co consider the relative potential impacts of the consumption or injection information error on the relevant market participants. For example, what may be immaterial or inconsequential for a large participant may be highly significant for a small participant and its customers.</p>	<p>Gas Industry Co notes that there is an additional check on its decision making to cover such situations. In instances where Gas Industry Co considers that materiality thresholds are not met and determines to take no action on the associated alleged breaches, participants who are a party to the relevant breach notice may direct the market administrator to refer the matter to investigation.</p>
<p>Vector and Nova noted that the price of carbon, as a 'moving price', that the determination process use the carbon price at the time the error occurred.</p>	<p>We will use the carbon price at the time the error occurred in the same manner that we have used the MBIE wholesale gas price for previous settlements.</p> <p>As noted in the consultation paper, we consider the clearing price for quarterly primary market auctions for NZUs to adequately cover periods since the clearing price became available (i.e., since 2021).</p> <p>Prior to 2021 the carbon price was around \$35 per NZU or less (i.e., less than half of the value it is in the current market). This is arguably a transition period for materiality. To capture this transition, we will use the dollar value of the fixed price option (FPO) with appropriate</p>

	<p>adjustments for surrender obligations that existed prior to 2019. These would be annual prices, and as follows<sup>1</sup>:</p> <ul style="list-style-type: none"> <li>• 2015: \$25 per NZU x 1/2</li> <li>• 2016: \$25 per NZU x 1/2</li> <li>• 2017: \$25 per NZU x 2/3</li> <li>• 2018: \$25 per NZU x 5/6</li> <li>• 2019: \$25 per NZU x 1</li> <li>• 2020: \$35 per NZU x 1</li> </ul> <p>Prior to 2015, our view is the carbon price is immaterial because during this time, it was less than \$10 per NZU. This is considering that the current carbon price on secondary markets is around \$75 per NZU with a carbon component of the gas price being around \$4.00 per GJ.</p>
<p>Vector suggested that the Maui transmission pipeline fees be added to Table 2 in the consultation paper, so the materiality/impact of this cost can be duly determined as part of this consultation.</p>	<p>Gas Industry Co acknowledges that Maui transmission pipeline fees should be included in table 2 of the consultation paper.</p> <p>Throughput fees for the Maui pipeline<sup>2</sup> under Fees and Charges, section 19.1 of the Maui Pipeline Operating Code is based on two tariffs<sup>3</sup>; Tariff 1, per GJ.km (\$0.001832 for gas year 2021-22) and Tariff 2, per GJ (\$0.083663 for gas year 2021-22).</p> <p>When we apply these tariffs to the recent financial settlement at GMM08001 which resulted in 89,500GJ of misallocated gas, and a total settlement value of \$501,284, the proportion of that value which would have been associated with Maui transmission fees would have been 1.5% of this value.</p>

<sup>1</sup> For more information on these values see [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_nz/pdfs/ey-nz-ets-ets-price-dont-bank-on-the-bull-run-continuing-v2.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_nz/pdfs/ey-nz-ets-ets-price-dont-bank-on-the-bull-run-continuing-v2.pdf) and <https://www.epa.govt.nz/assets/Uploads/Documents/Emissions-Trading-Scheme/Guidance/ETS-Surrender-Obligations-One-for-two-phase-out-factsheet.pdf>

<sup>2</sup> MPOC working version 04-01-2018, OATIS

<sup>3</sup> [https://firstgas.co.nz/wp-content/uploads/Firstgas\\_Maui-prices-Notice-of-Change-to-Tariff-1--2-for-FY2022.pdf](https://firstgas.co.nz/wp-content/uploads/Firstgas_Maui-prices-Notice-of-Change-to-Tariff-1--2-for-FY2022.pdf)

	<p>For example:  Transmission fee  = (Tariff 1 x distance welded points) + (Tariff 2 x misallocated GJ)  = (\$0.001832 x 230.8km) + (\$0.083663 x 89,500GJ)  = \$0.42 + \$7,487.84  = \$7.488.26</p> <p>Gas Industry Co considers these fees to be immaterial but is willing to reconsider its position if First Gas increase these charges in the future.</p>
<p>Nova agrees with aligning the materiality threshold for resolution of financial impact with the threshold for undertaking special allocations and suggested that the only exceptions to this should be situations where a party or parties have been aware that there has been an uncorrected error in the data previously submitted to the Allocation Agent.</p> <p>Such situations can include:</p> <ul style="list-style-type: none"> <li>• Fraud</li> <li>• Evidence that a party was aware of an error in data submitted, but failed to use reasonable and due care in correcting that, or</li> <li>• When excessive and material UFG was the subject of active and ongoing investigation by the GIC that included periods that while initially within the special allocation time frames had moved outside due to the passage of time</li> </ul> <p>That is to ensure that there is no incentive for parties to avoid self-reporting reconciliation errors in the expectation of financial gain.</p> <p>In such situations the investigation and Rulings Panel process would usually apply, in which case that should determine the appropriate timeframe for recalculating allocations.</p>	<p>The Gas Governance (Compliance) Regulations require the market administrator to consider several factors when determining the materiality of breaches. The matters that Nova mentions would be factored into the market administrator’s determination. If an assessment of all the factors justifies a full investigation, the market administrator may elect to refer the matter to investigation at any point. The investigation or Rulings Panel process may result an outcome regarding allocations.</p>