



Consultation on Rule 37 Determination under the Gas (Downstream Reconciliation) Rules 2008

Date issued: 9 September 2013
Submissions close: 23 September 2013





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.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

Submissions close: 23 September 2013

Submit to: www.gasindustry.co.nz

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Introduction

1.1 Purpose

Rule 37 of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) requires Gas Industry Co to determine and publish the percentage of error for the accuracy of initial consumption information prior to the beginning of each gas year. The purpose of this paper is to consult on the accuracy threshold for the 2013/14 gas year.

The proposal for the gas year beginning 1 October 2013 is to maintain the current threshold of $\pm 10\%$ for a fourth consecutive year.

1.2 Submissions

Feedback is sought from participants on the appropriate accuracy threshold for the gas year beginning 1 October 2013. The deadline for submissions is 5pm on Monday, 23rd September 2013. This is a short-form consultation on the basis that the matters covered in the paper have been consulted on several times before and the proposal will maintain the status quo operation of the Rules.

Submissions can be made by logging on to the Gas Industry Co website, navigating to the Downstream Reconciliation work programme and uploading your submission in the Consultation section. All submissions will be published on the website after the closing date. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to uploading their submissions.

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Rule 37 determination

2.1 Background

Each year Gas Industry Co is to determine and publish an accuracy threshold, in the form of a permissible percentage of error, for the non-TOU consumption information submitted to the allocation agent for the initial allocation. For each gas gate, the aggregated consumption information in allocation groups three to six must, when compared with submissions for the final allocation, fall within the required percentage of error. This requirement is set out in rule 37 of the Rules. Table 1 shows the accuracy threshold for each year since the commencement of allocations under the Rules.

Table 1. Previous rule 37 accuracy thresholds

Gas year	Accuracy threshold
1 October 2008 to 30 September 2009	±15.0%
1 October 2009 to 30 September 2010	±12.5%
1 October 2010 to 30 September 2011	±10.0%
1 October 2011 to 30 September 2012	±10.0%
1 October 2012 to 30 September 2013	±10.0%

In making a determination, Gas Industry Co must have regard 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 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; and
- any other matter it considers relevant to its determination.

The gas year beginning 1 October 2013 will be the sixth year of the operation of the reconciliation arrangements under the Rules. With the go-live of the new reconciliation arrangements there was

scope for improvements to be made. The threshold was therefore gradually tightened for the first three years, to provide a strong incentive to retailers to do all they reasonably can to improve estimation accuracy. Last year's determination maintained the threshold at $\pm 10\%$ on the basis that a further tightening was expected to lead to only a marginally greater level of accuracy, which would be outweighed by the burden created by a larger number of breaches.

Themes in the submissions on the 2012 consultation paper (which proposed maintaining the $\pm 10\%$ threshold) included:

- all submitters supported (or were not opposed to) maintaining the $\pm 10\%$ threshold; and
- one submitter¹ noted that any further tightening of the percentage threshold would not incentivise improved accuracy as all reasonable steps to improve had already been taken.

On the latter point, work is still progressing on alternative approaches to the initial allocation which could address the 'harm' caused by retailer accuracy. The following options will be addressed in a consultation paper on initial allocation accuracy to be published later in the financial year:

- daily allocation methodology;
- top-down allocation algorithm;
- Balancing and Peaking Pool ('BPP') wash ups; and
- early publication of seasonal adjustment daily shape values ('SADSVs').

2.2 Past performance

In previous years, Gas Industry Co provided a high-level analysis of the incidence of breaches to date. With the availability of another 12 months of allocation data, a clearer picture of breach activity is evolving. Chart 1 shows the total number of breaches, with those found to be material represented by darker shading. Note that the percentage threshold for breaches was different in previous gas years as presented in Table 1. The materiality of the breaches has so far been determined by the application of a gigajoule threshold, that is, where the difference between the initial and the final submissions is greater than 200 GJ for a retailer at a gas gate, the breach is considered to raise a material issue.

¹ Vector submission on Consultation on exemptions and rule 37 determination (2012), available [here](#)

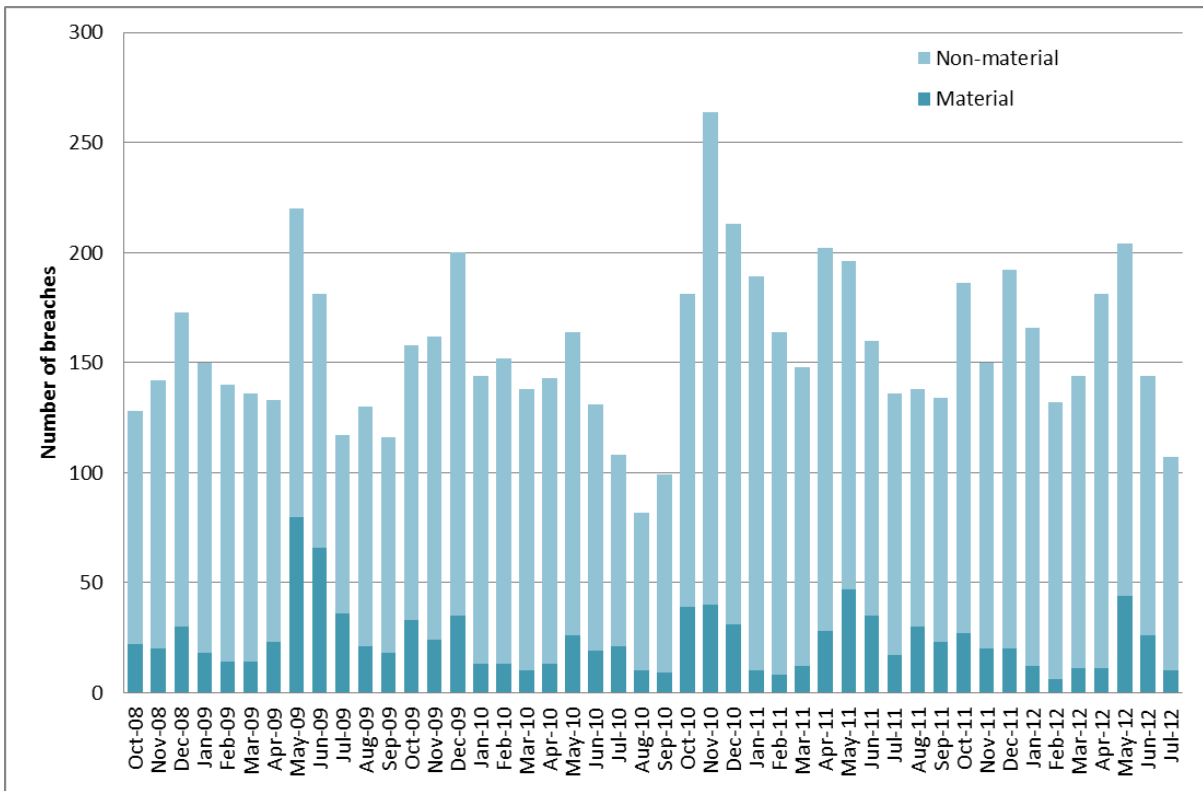


Chart 1. Total number of breaches of rule 37, October 2008 to July 2012

In the years commencing October 2008 and 2009, the accuracy thresholds were $\pm 15\%$ and $\pm 12.5\%$, respectively. The threshold narrowed to $\pm 10\%$ commencing October 2010, hence the higher overall level of breach activity. The number of material breaches is reasonably flat, peaks in shoulder months can be observed: in May and June 2009, Oct and December 2009, October and November 2010, May 2011 and May 2012.

The seasonal trend in the number of breaches is more visible in Chart 2 which separates breaches due to underestimation or overestimation. The pattern of underestimation going into winter and overestimation during early summer appears to continue and even with non-material breaches ignored: there are noticeable spikes centred around the shoulder periods of May 2009, October 2010, May 2011, October 2011 and May 2012. The volumes of these breaches in gigajoules are shown in Chart 3 which demonstrates a slight declining trend of the breach volumes of seasonal spikes.

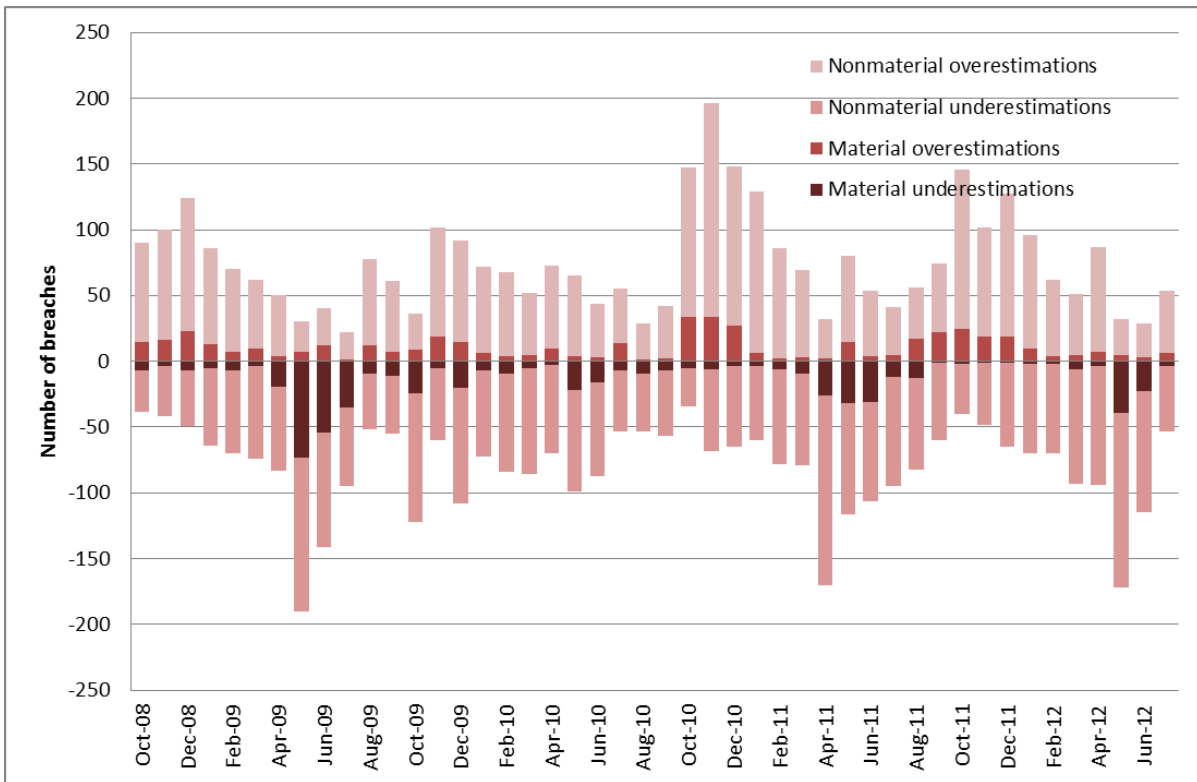


Chart 2. Breaches of positive and negative thresholds, October 2008 to July 2012

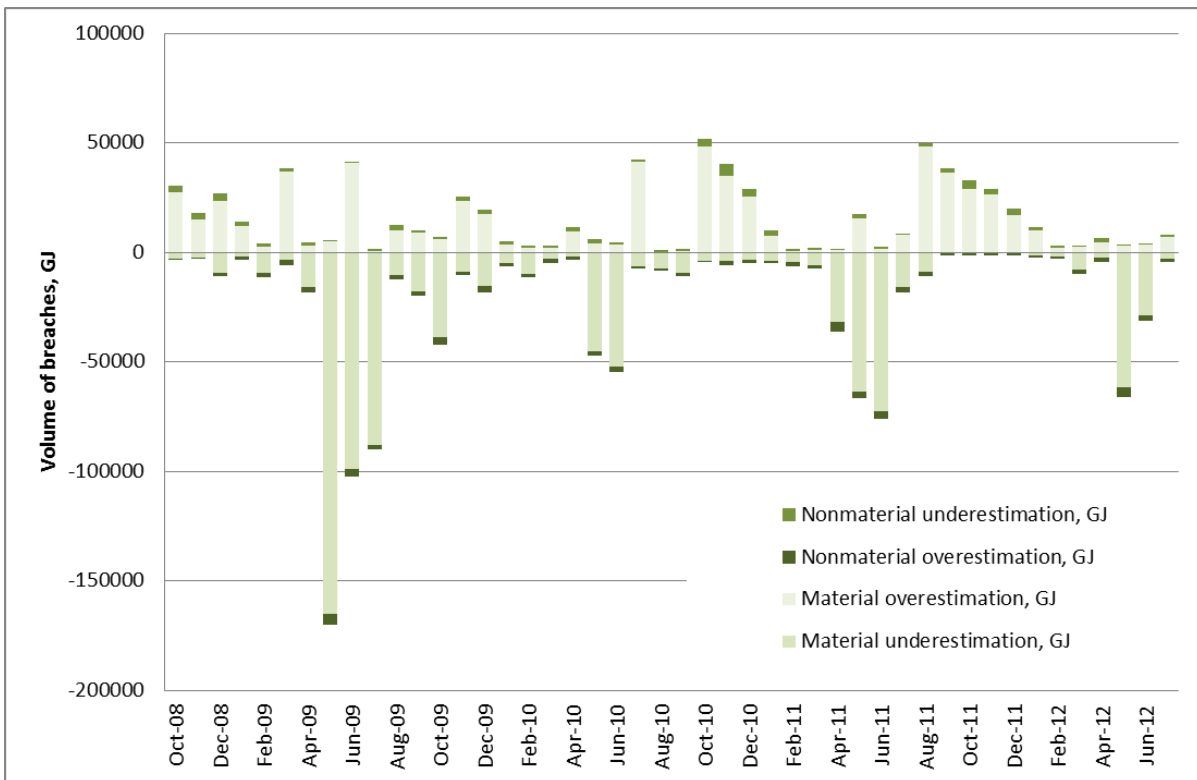


Chart 3. Volumes associated with material and nonmaterial breaches, October 2008 to July 2012

Chart 4 gives the retailer level performance, showing the proportion of all gas gate submissions which fall inside and outside the accuracy threshold. The chart includes all data series since go-live so it does not give an indication of recent improvements. The differences in individual retailers' breach statistics highlight that market share, frequency of meter reading and target market all play a role in the ability to provide accurate initial submissions: mass market retailers² have higher numbers of breaches than retailers focusing more on industrial and commercial sector.³



Chart 4. Proportion of retailer submissions which fall under, over or within the accuracy and materiality thresholds, October 2008 to July 2012⁴

2.3 Proposal

Based on the analysis as presented in this and the 2012 consultation papers and recognising the general intention of submissions on the earlier paper, Gas Industry Co is proposing to maintain the accuracy threshold at $\pm 10\%$ for a further year.

Gas Industry Co takes the following view against each of the matters it has to consider in determining the accuracy threshold:

Primary aim that consumption information is as accurate as possible

The intent of rule 37 is to ensure that initial submission accuracy is as accurate as possible, so as to mitigate the harm caused by under- and over-submissions. Analysis of available data suggests that,

² eg Genesis (GENG and GEOL), Contact (CTCT) and Mighty River Power (MEEN)

³ eg Nova (GNVG) and Ogas (GNGC)

⁴ Please, note that those retailers' submissions that did not breach during the reviewed period are not presented in Chart 4, eg GMTH

while retailers in general have improved in their forward estimations somewhat, they are still liable to misestimations during shoulder seasons and in times of unseasonal weather.

At the same time, Gas Industry Co understands that balancing and peaking pool charges have decreased over the past two years, so that the harm experienced due to inaccurate estimations is not as great as it was when the Rules were implemented.

Both of these factors suggest that $\pm 10\%$ is an appropriate threshold for the coming gas year.

Extent to which retailers are able to comply

Analysis of available data shows that, despite the tightening of the accuracy threshold on two occasions, there has only been a noticeable impact on general compliance with rule 37 after the threshold was tightened to $\pm 10\%$ in October 2010. Minor improvements have been made against the baseline, although given the small amount of actual data available (plus the lack of a baseline before rule 37 existed), the result is not statistically significant in terms of conclusions about changes in retailer accuracy.

It is clear from the pattern of material breaches and also from participant feedback that the factors which drive compliance are either unpredictable (in the case of domestic consumer response to temperature change) or involve significant cost (in the case of meter reading frequency).

Consideration of the extent to which retailers are able to comply also suggests that the accuracy threshold should remain at $\pm 10\%$ for the coming gas year.

Any expected costs to achieve compliance

Given the reported difficulty in forecasting gas demand, and the use of retrospective methodologies that involve calculating past average usage to determine forward estimates, it is not expected that further tightening will drive a step change in retailers' attempts to comply with the accuracy threshold. The data presented suggest that the most successful method of creating accurate submissions is to read meters more frequently. Given that balancing costs have trended downwards over the past couple of years, the benefit of increasing the frequency of meter reads for mass market retailers is not likely to offset the cost of doubling the number of meter reads. Gas Industry Co continues to investigate other approaches to the initial allocation in the hope of finding an alternative effective solution.

Any other relevant matters

A settlement has recently been reached regarding rule 37.2 breaches found material by the market administrator. The settlement involves financial transactions that approximate compensation for the extra charges incurred as a result of over- or under-allocations at the initial stage due to breaching parties' estimation inaccuracies. The settlement (covering April 2011 to March 2012 inclusive) involved

payments of \$76,377.62⁵ which represents an increase compared to last years' settlement (\$51,828.96, for consumption periods between December 2009 and March 2011 inclusive).⁶

Conclusion

Based on the above analysis, Gas Industry Co considers that the accuracy threshold should remain at 10% for the coming gas year.

Q1: Do you agree with the proposal to maintain the rule 37 threshold at $\pm 10\%$ for the gas year beginning 1 October 2013?

⁵ Record of settlement of alleged breaches of rule 37.2 Gas (Downstream Reconciliation) Rules 2008, available [here](#)

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Appendix A Submissions template

Consultation on Rule 37 Determination under the Gas (Downstream Reconciliation) Rules 2008

Submission prepared by: (company name and contact)

QUESTION	COMMENT
Q1 Do you agree with the proposal to maintain the rule 37 threshold at $\pm 10\%$ for the gas year beginning 1 October 2013? If not, please provide your rationale.	