

Consultation on special allocation

Introduction

This consultation paper invites submissions from allocation participants on the merits of directing special allocations under the Gas (Downstream Reconciliation) Rules 2008 for the consumption periods May 2012, June 2012 and July 2012. The consultation will inform Gas Industry Co's determination of whether or not to give the necessary direction to the Allocation Agent.

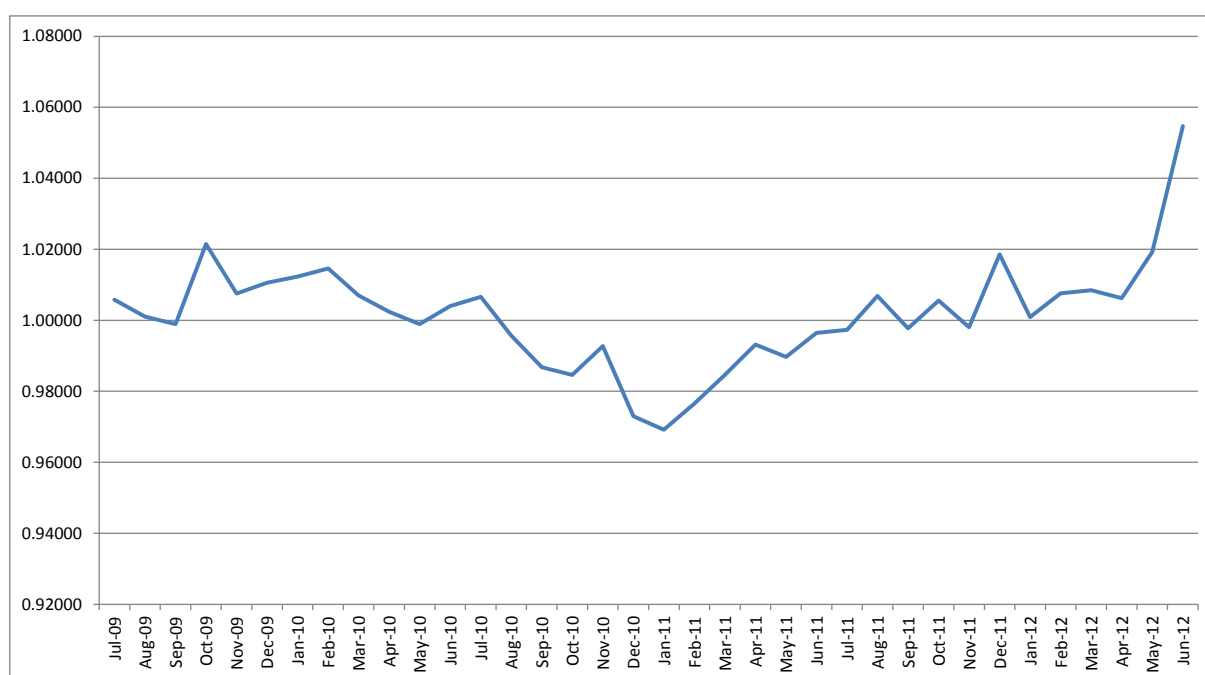
Please provide submissions via the Gas Industry Co website by **12pm on Monday 26 August 2013**. All submissions will be published after the deadline.

Background

A metering error at Westfield (part of the Greater Auckland notional gas gate) meant that injection volumes were under-reported for the initial and interim allocations of May to July 2012. Shortly after the error was discovered Gas Industry Co consulted on whether or not to direct special allocations to correct allocated volumes. The decision was to keep to the business-as-usual process and use the final allocation of each consumption period to apply the corrections.

When the final allocation for June 2012 was published in mid-July 2013, it was noted that at the Greater Auckland gas gate the exceptionally low monthly UFG factor from the interim allocation (0.951385) had been replaced by an exceptionally high monthly UFG factor (1.054696). Chart 1 below illustrates monthly UFG factors at the final allocation for Greater Auckland. June 2012 is clearly an outlier and May 2012 also appears relatively high.

Chart 1 Greater Auckland monthly UFG factor for final allocations July 2009 to June 2013



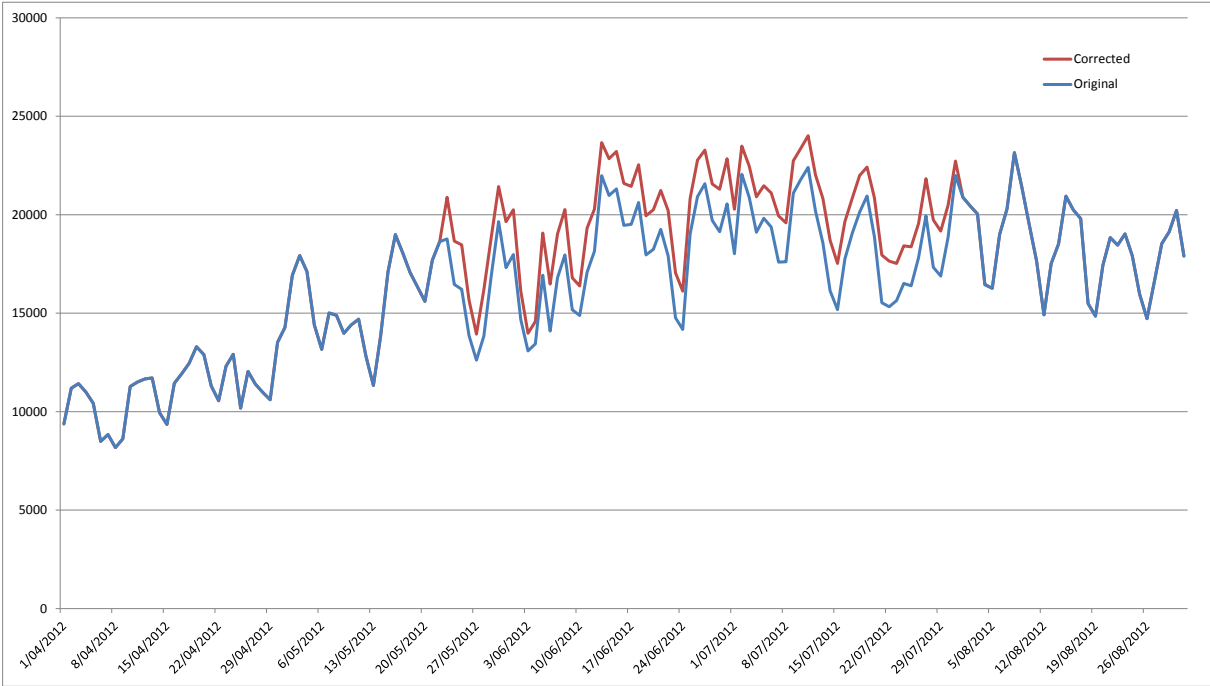
It was initially thought that the metering correction applied by Vector was the cause of the high positive UFG, that is, Vector had replaced an under-submission with an over-submission. Following discussions with Vector, Gas Industry Co is satisfied that retailer submissions, rather than any flaws in Vector’s estimation methodology, caused the high positive UFG.

Seasonal Adjustment Daily Shape Values (SADSV)

Further analysis by Gas Industry Co revealed that the likely cause of the UFG spike was the SADSV produced at the interim allocation (before the correction had been applied) that were used by retailers to create submissions for the final allocation.

As Chart 2 shows, the SADSV for May, June and July published at the interims were lower than they should have been. For mass market consumers with monthly or bi-monthly reads the lower SADSV push volume out of the winter months and into shoulder months. For submissions for the June 2012 final this effect was amplified because the May 2012 SADSV had been corrected in the previous month (the May 2012 final took place in June 2013), thus pushing more volume out of June and into May.

Chart 2 Greater Auckland SADSV (gigajoules), April 2012 to August 2012



The overall impact of this intra-month shift of volume is limited in percentage terms,¹ as reflected in the monthly UFG factor, but in aggregate due to the size of the Greater Auckland gas gate the associated volume of UFG is around 40TJ. Whilst the high monthly UFG was anticipated to some degree in the previous special allocation consultation, this was based on forecasted submission data, so it was attributed to data quality rather than an issue that could be addressed via special allocations.

¹ Analysis indicates that using the correct June SADSV would have increased retailer mass market submissions for the June 2012 consumption period by around five per cent

Factors to consider in special allocation decision

The primary consideration for directing a special allocation is the degree of unfairness in the current allocation results. Whilst all mass-market retailers would have been affected by the SADSV issue, and therefore could have potentially under-submitted, the magnitude is dependent on each retailer's consumer base and its frequency/timing of meter reads. Therefore it is unlikely that the UFG would have been allocated fairly to causers.

The other major consideration for the present situation is that there is no further scheduled allocation stage for the relevant consumption periods. This issue is addressed in the recently updated [Gas Industry Co guideline](#) on corrections and special allocations:

Final allocations in error

- 3.13 Where an error has been identified in relation to an initial or interim allocation one of the considerations, in deciding whether or not to direct a special allocation, is that the error can be corrected at the next allocation stage (interim or final). However, if there is an error in a final allocation then there is not a further allocation stage in which to correct the error.
- 3.14 Given that allocation results are used as the basis for a range of charges in the gas industry, there is great reliance on the accuracy of the final allocation. Some final allocation results will be used as input into the calculation of annual UFG factors and G1M gas gates and it is important that these figures are as accurate as possible. In addition, when using final allocation results for further analysis it is essential that the data series is sound.
- 3.15 Gas Industry Co's interpretation of rule 51.2.1 is that the lack of a subsequent allocation stage after a final suggests that errors in final allocations will need to be addressed by special allocations unless the errors are immaterial or there are compelling commercial reasons for retaining the results of the final allocation.

Gas Industry Co considers that these factors alone are sufficient to push the balance in favour of directing special allocations. If participants are aware of opposing factors, or other commercial reasons for not directing special allocations these should be highlighted in submissions.

Process for special allocations (if directed)

If Gas Industry Co determines that special allocations should be directed for May, June and July 2012 then certain steps will have to be followed to achieve the desired outcome:

- First, the July 2012 final allocation must be performed as normal so that corrected SADSV are produced that span the entire period. The deadline for publication of the final allocation results by the Allocation Agent is Thursday 22 August.
- Second, all retailers must use the corrected SADSV produced for July 2012 alongside the other corrected shape files and recalculate the monthly profiled energy quantities that comprise the GAS040 submission files for May 2012, June 2012 and July 2012.
- Third, all retailers must submit the corrected GAS040s for the three affected consumption periods to the Allocation Agent. A suitable deadline would be determined but it would be preferable to have this occur mid-next week.

- Fourth, the Allocation Agent must perform the special allocations using the newly created GAS040s and publish the results in late August/early September interspersed around other allocations but to occur before the August 2012 final allocation.

Any retailer who cannot re-profile its GAS040 submissions for May 2012, June 2012 and July 2012 in line with the process discussed above, or would have any other issue complying with such directions should contact Gas Industry Co.

Q1: Do you consider that the current allocation results for May to July 2012 at Greater Auckland are sufficiently unfair that Gas Industry Co should direct special allocations?

Q2: Are there any commercial reasons for retaining the current allocation results for May to July 2012 at Greater Auckland?

Q3: Would the proposed process set out above for carrying out special allocations present any problems if specials are directed?