Consultation on exemption application for correction of Annual UFG factor at Tawa A for 2012/13

The Gas (Downstream Reconciliation) Rules 2008 (the Rules) provide for exemptions from the Rules to be granted. Exemptions provide a means for assisting the effective implementation and operation of the Rules. Standard exemptions under rule 19 require consultation with allocation participants and must be assessed against the criteria in rule 19.

This paper considers a standard exemption application enabling the allocation agent to recalculate the annual UFG factor (AUFG) for the Tawa A (TWA35610) gas gate for the 2012/2013 gas year, commencing 1 October 2012. The application is attached as Appendix A.

Submissions have already been sought on whether participants consider such an exemption appropriate in the paper issued on 15 October entitled 'Consultation on exemption application and special allocations' (*previous consultation paper)*. Now that the exemption application has been formally received, this paper is being sent out to meet the consultation requirements for the exemption process. Much of the information contained in this document was contained in the previous consultation paper.

Any Submissions are sought on these issues and may be made through the Gas Industry Co website. The deadline for submissions is **midday** on **Wednesday 31 October**. All submissions will be published on the Gas Industry Co website. Please note that comments provided on this matter in response to the previous consultation paper will also be taken into account when considering whether to grant the exemption.

Background

Contact Energy Limited has discovered an error in the submission of consumption information at Tawa A (TWA35610) which affects the following consumption periods and allocations:

Consumption Period	Allocation Stage	Affects AUFG
March 2011	Final	Yes
April 2011	Final	Yes
May 2011	Final	Yes
June 2011	Final	No
July 2011	Final	No
December 2011	Interim	Yes
January 2012	Interim	Yes
February 2012	Interim	Yes

The error relates to an ICP which was re-classified from non-TOU to TOU in March 2012 and was subsequently omitted from the non-TOU submissions at the gas gate for the allocations above. The under submissions vary between 500GJ and 1500GJ per month.

The impact of the error is twofold. First there is the effect on the allocated quantities for the months where consumption was reported incorrectly, second is the impact on the calculation of the annual UFG factors for the 2012/13 gas year. The former is addressed by determining whether it is necessary to perform special allocations under rule 51 of the Rules, the latter can be corrected by granting an exemption to the allocation agent to allow the annual UFG factor to be recalculated and republished. The special allocation has been previously consulted on and a decision paper will be issued in relation to that shortly.

Analysis of exemption

Annual UFG factors are calculated at the end of June each year, in accordance with rule 46, using consumption information from March in the previous year to February in the current year. This entails using data from three final allocations and nine interim allocations. The allocation agent is required to publish the annual UFG factors for all gas gates by the first business day in July.

The error identified at Tawa A affects six of the months used in the calculation of the annual UFG factor for the gas year beginning 1 October 2012. The impact of the error is a slightly higher annual UFG factor than would otherwise have existed, which means that TOU allocation groups will receive a larger allocation of UFG for each of the months in the current gas year.

The Rules do not currently provide for the correction of an annual UFG factor, although this is the subject of another proposal in the forthcoming Recommendation to the Minister. There has been one occasion in the past where a correction was required (at Greater Hamilton) and this was done by the allocation agent applying for an exemption which allowed it to publish after the required deadline. If participants agree that there is merit in correcting the annual UFG factor in the present case then this process could be repeated.

The table below provides an estimate of the likely difference if the annual UFG was recalculated. The ‘corrected’ figure incorporates the missing consumption information for the ICP that changed allocation groups. The ‘corrected & updated’ figure also takes into account improvements in the accuracy of other retailers’ consumption information since the annual UFG report was published in June.

Published AUFG	Corrected AUFG	Corrected & updated AUFG
1.0232	1.0193	1.0191

The reduction in the annual UFG factor translates to around 1500GJ of UFG being allocated to non-TOU allocation groups instead of TOU allocation groups each year based on current flows.

This is somewhat smaller than the previous instance of an annual UFG factor being corrected, where 400GJ to 500GJ would have been mis-allocated each month.

When considering a draft rule to allow for correcting annual UFG factors, the Downstream Reconciliation Advisory Group (DRAG) agreed that materiality should be a determining factor in whether or not to publish a correction. The intention was for the assessment to be made according to thresholds to be published in a guideline. The DRAG considered the following thresholds to be a good starting point[1]:

- a change in the magnitude of the annual UFG factor in the order of 0.01 (for example a change from 1.035 to 1.025); and/or
- that a material movement of 1000GJ between TOU and non-TOU allocations would result after making an annual UFG correction in any one month.

On the basis of the above criteria the annual UFG factor for Tawa A would not be corrected. However as this threshold has only been discussed within the DRAG it is appropriate to seek wider input.

However, one factor supporting the correction is that the opportunity exists to change the annual UFG factor before any allocations have been performed for the gas year. The first initial allocation will not be finalised until 7 November 2012 so there is a window of opportunity to fix the error before any impact occurs. Half the submitters on our earlier consultation paper agreed that the annual UFG factor should be recalculated.

Assessment of application

Subject to any further comments made in submissions, Gas Industry Co is satisfied that the exemption is desirable to better achieve the objectives set out in section 43ZN of the Gas Act 1992 and the purpose of the Rules. The below table is an assessment against the determination criteria.

Criterion	Assessment
1. Allocations are fairer (Rule 2).	If the exemption is granted, all participants are allocated the amount of UFG that would have been allocated under the Rules had Contact submitted the correct quantities initially. Without the correction TOU allocation groups will receive a larger allocation of UFG that intended under the Rules, contrary to the 'causer-pays' ideology.
2. Allocations are more efficient (Rule 2 and section 43ZN(a) of the Act).	Granting the exemptions allows the annual UFG factor to be corrected before the annual UFG factor takes effect. All future allocations can be corrected with one action.
3. Reliability of allocation and supply is enhanced (Section 43ZN(a) of the Act).	Gas Industry Co considers it is important to produce allocation results that are reliable given that the Rules anticipate using historical results and observations for UFG allocation, future estimation, profiling, directing audits etc. Part of providing reliable results is acting to correct errors when they are identified.

[1] Taken from DRAG minutes 27/04/2012 available here

Criterion	Assessment
4. Other section 43ZN objectives.	Networks with persistently high UFG are unattractive to all industry participants and to consumers. As well as the cost of UFG being borne by the industry (and inevitably being passed on in the delivered gas price) there is inherent uncertainty at gas gates with high UFG which makes it difficult to accurately forecast consumption. Granting the exemption effectively reduces the annual UFG factor at Tawa A which, assuming the fall in cost of UFG is reflected to consumers, will place downward pressure on delivered gas prices. This is congruent with several of the s43ZN objectives.
5. Departure from uniform processes.	The methodology proposed by the allocation agent for recalculation of the annual UFG factor is, in essence, the process set out in the Rules. The only distinction is that the AUFG is being calculated at a later date (but still before the AUFG takes effect) than set out in the Rules to correct the error in consumption quantities that has come to light.
6. Any other relevant considerations.	None.

Overall, Gas Industry Co considers the initial assessment is positive and that it is appropriate to grant an exemption to the allocation agent to allow for the annual UFG factor to be corrected and republished. Further, Gas Industry Co considers that the timeliness of the correction is important given that the first allocation (for the October 2012 consumption period) to which the 2012/2013 Annual UFG factor applies is fast approaching.

Please provide a submission if you have any comments on, and/or concerns about, the recalculation of the annual AUFG factor at Tawa A to apply for the 2012/13 gas year. Note that submitters views on the previous consultation paper will be taken into account so there is no need to repeat an earlier submission.

Appendix A Exemption application

Gas Industry Company Limited DR12-01-S

Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008

1. Please complete a separate form for each type of exemption sought.
2. Complete sections 1 to 4 of the form for all exemption types. Complete section 5 only in addition for urgent exemptions, and section 6 only in addition for transitional exemptions.
3. Please provide all relevant information. Expand the sections of the form as necessary to provide reasonably full information, but detailed supporting information should be set out in attachments to the form.
4. Gas Industry Co may request additional information after receiving and reviewing the application

1. Name and contact details for the participant(s) seeking exemption:

Company name: NZX Limited

Contact Name: Kate Turner

Email: alla@nzx.com

Phone: 04 498 2184

Mailing Address: NZX Energy, Level 2, NZX Centre, 11 Cable Street, PO Box 2959, Wellington

2. Type of exemption sought (delete all but one):

Standard (under rule 19)

3. Provisions of the Rules from which the exemption is sought:

Rule 46.1 – When performing an initial allocation, an interim allocation or a final allocation, the allocation agent must calculate the UFG factor in accordance with this rule. The exemption is limited to the annual UFG factor applicable at the Tawa A (TWA35610) gas gate for the 2012/2013 gas year (commencing 1 October 2012).

4. State the reasons why you are seeking the exemption and why the exemption sought should be granted

Annual UFG factors are calculated at the end of June each year, in accordance with rule 46, using consumption information from March in the previous year to February in the current year.

This entails using data from three final allocations and nine interim allocations. The allocation agent is required to publish the annual UFG factors for all gas gates by the first business day in July.

The error identified by Contact Energy at Tawa A affects six of the months used in the calculation of the annual UFG for the gas year beginning 1 October 2012.

The impact of the error is a slightly higher annual UFG factor than would otherwise have existed, which means that TOU allocation groups will receive a larger allocation of UFG for each of the months in the current gas year.

The table below provides an estimate of the likely difference if the annual UFG was recalculated. The 'corrected' figure incorporates the missing consumption information for the ICP that changed allocation groups. The 'corrected & updated' figure also takes into account improvements in the accuracy of other retailers' consumption information since the annual UFG report was published in June.

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The rules do not currently allow for an annual UFG factor to be corrected after it is published by the allocation agent in July. This means that the impact of any material error which affects calculation of AUFG factors that is discovered after publication cannot be addressed (other than by way of an exemption). It is proposed that Gas Industry Co exempt the allocation agent from rule 46.1 for the Tawa A gas gate annual UFG factor for the 2012/13 gas year. In other words, allow the allocation agent to use an annual UFG factor other than the factor previously published for that gas gate and gas year under rule 46.4.2.

Gas Industry Co should place conditions on the way the new annual UFG factor for that gas gate and gas year should be calculated. In particular, Gas Industry Co should specify that the allocation agent use the calculation methodology set out in rule 46.3 to calculate the new annual UFG factor but substitute the corrected Contact consumption information for the Contact data previously used in that calculation. Gas Industry Co should also specify whether or not the corrected AUFG factor would be "corrected and updated" or merely "corrected".

The alternative to correcting the AUFG factor would be to leave the AUFG factor as it is. But this would prevent the achievement of the most accurate allocation results possible.

Describe how the exemption sought may affect other participants (including service providers) and any costs and benefits to them:

The exemption will provide for more efficient allocations at the Tawa A gas gate by using a more accurate figure for allocating UFG to TOU consumption. The corrected AUFG factor will mean that the effect of the AUFG on participants is what it should have been (had Contact Energy's error not occurred).

Specify how long the exemption sought is to be in effect for. Give reasons for the period that you specify:

This is a one off exemption to allow the AUFG factor for Tawa A to be corrected. Once the new AUFG factor has been published the exemption is redundant. The impact will be limited to the allocations for the 12 consumption periods in the 2012/2013 gas year.

Specify what conditions and/or alternative arrangements relating to the exemption sought are appropriate: The exemption should only apply to re-publishing the AUFG factor for Tawa A (and only for the 2012/2013 gas year).
Please email this form to exemptions@gasindustry.co.nz