Consultation on exemption application and special allocations

This paper considers two issues under the Gas (Downstream Reconciliation) Rules 2008 (the Rules). The first is an exemption application for a new direct connect gas gate and the second is whether, and how, to address the impacts of corrected consumption information received for an ICP at the Tawa A gas gate.

Submissions are sought on these issues and may be made through the Gas Industry Co website. The deadline for submissions is close of business on Tuesday 23 October 2012. All submissions will be published on the Gas Industry Co website.

New direct connect gas gate: Kaimiro Mixing Station

The application for a permanent exemption under rule 19 is attached as Appendix A. This application was received from Greymouth Gas for the Kaimiro Mixing Station Delivery Point (KAI07602) which will be commissioned in October 2012.

The exemption sought is the same as an existing exemption which applies to 39 gas gates where a single consumer, rather than a distribution network, is directly connected to the transmission system. At these gas gates the benefits of the reconciliation arrangements are not deemed sufficient to outweigh the costs of compliance. The direct connect gas gates currently under exemption are listed in the following exemption notices:

Exemption (DR10-03-S: Direct Connect Gas Gates) Notice 2010

Exemption (DR10-02-S: Te Rapa Cogen) Notice 2010

Gas Industry Co considers that the new delivery point satisfies the definition of a direct connect gas gate (it is a single consumer supplied by a single retailer) and should therefore be exempted in order to maintain consistency with the treatment of similar gas gates.

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. This assessment is similar to previous assessments for other direct connect gas gates:

Criterion	Assessment
1. Allocations are fairer (Rule 2).	The exemption will have no impact on allocations.
2. Allocations are more efficient (Rule 2 and section 43ZN(a) of the Act).	An exemption for this gas gate will mean the allocation system will be able to operate slightly more efficiently in respect of the current number of gas gates, and retailers will not be required to incur additional compliance costs in respect of this gas gate.
3. Reliability of allocation and	The exemption is unlikely to have any impact on the reliability of

Criterion	Assessment
supply is enhanced (Section 43ZN(a) of the Act).	allocation or the enhancement of supply.
4. Other section 43ZN objectives.	Any effect on the incentives for investment in gas processing facilities, transmission and distribution will be minor, but declining the exemption may lead to increased costs being incurred by the transmission system owners at this gas gate. If the exemption (and exemptions for other direct connects) were declined on a long term basis, this could in turn reduce incentives for investment in such new gas gates and metering at existing gas gates. Declining the exemption (and similar direct connect exemptions) also has the potential for any retailer compliance costs incurred at these gas gates to be passed on to consumers through increased prices.
5. Departure from uniform processes.	An exemption does represent a departure from uniform processes, but there are no particular consequences. It would also be in line with a previous exemption granted so there is uniformity in that regard.
6. Any other relevant considerations.	It should be noted that a proposal to recognise direct connect gas gates as non-allocated gas gates under the Rules will be included in the upcoming Recommendation to the Minister on the Downstream Reconciliation Rules Review. If the Recommendation is accepted this will obviate the need for the exemption.

Q1: Do you agree that the new Kaimiro Mixing Station Delivery Point (KAI07602) should be exempted as a direct connect gas gate?

Error in submission of consumption information: Tawa A gas gate

A retailer 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. These issues are considered below.

Special allocations

Under rule 51, Gas Industry Co may direct the allocation agent to perform a special allocation if it is satisfied that:

- the current allocation results are sufficiently unfair that it is not appropriate to wait until the next scheduled allocation (if any) is performed; and
- the unfairness of the current allocation results outweighs any commercial reasons for retaining the current allocation results

A guideline on special allocations is available on the Gas Industry Co website which sets out the process followed and factors taken into consideration in determining whether to direct special allocations. Particular weight is given to the magnitude or materiality of the error, the financial impacts, and the degree to which the unfairness would be remedied by directing a special allocation rather than waiting.

The threshold for materiality in the guideline is a change to a retailer's allocated quantity at a gas gate by 500GJ or more or a change in a retailer's total allocated quantities across all gas gates by 1000GJ or more. The table below provides an estimate of the likely changes in allocated quantities. The gigajoules refer to the amount by which the under-submitting retailer's monthly allocation would increase if a special allocation were performed; the other retailers at the gas gate would receive an equal and offsetting reduction in their allocated quantities proportionate to their share of non-TOU consumption.

Consumption Period	Change in AQ (GJ)
March 2011	549
April 2011	776
May 2011	905
June 2011	1089
July 2011	1117
December 2011	493
January 2012	495
February 2012	417

All of the final allocations would change by more than 500GJ and the interims would change by between 400GJ and 500GJ[1]. On this measure it therefore appears that special allocations would

[1] Note that the overall amount of gas allocated would not change, only the split between retailers

be 'materially' different for the final allocations but to a lesser extent for the interim allocations, which do not pass the threshold. This perhaps reflects the time of year since the finals cover autumn/winter 2011 whereas the interims are for summer periods.

Consistent with the above is the consideration of the extent to which any unfairness would be remedied by directing special allocations. For the five months where final allocations have already occurred there will be no further opportunity to correct allocated quantities if special allocations are not directed. This is not the case for the three months where the interim allocations were impacted since the corrections can be applied at the final allocations, all of which will happen over the next six months.

The last consideration is financial impact. Allocation results are used for transmission and (for some network owners) distribution billing as well as being a factor in the calculation of running mismatch which affects the allocation of BPP charges. The first two categories are washed up after each allocation stage but the BPP charges are allocated based on initial allocation results and are not revisited.

The submission error has had no effect on BPP charges as no initial allocations were affected by the under-submission. Gas Industry Co believes that the financial impact of the error is therefore limited to the effect on transmission and distribution charges. For the three interim allocations affected these charges would be corrected at the finals as would normally occur so the only gain associated with special allocations would be the time value of money in having the corrections performed up to five months sooner. Conversely, because the final allocations would not otherwise change, any financial impacts of the error would not be addressed unless either special allocations are performed or compensation is sought through the compliance process (ie the settlement of the associated rule breaches). The latter option would be a more expensive, uncertain and time consuming process to achieve the same result as would be achieved by directing special allocations.

One further reason to correct the final allocations, aside from financial impacts, is to ensure that the highest quality historical allocation data is available for use in the identification and analysis of options to improve the initial allocation.

In conclusion, Gas Industry Co's view is that special allocations should be directed for the March 2011 to July 2011 consumption periods to correct the final allocations but should not be directed for the remaining months where final allocations have yet to take place. Any comments from allocation participants will be taken into account before a final view is reached.

Q2: Do you support Gas Industry Co's view that special allocations should be directed for March 2011 to July 2011 final consumption periods only?

Annual UFG factor

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 for the gas year beginning 1 October 2012. These are highlighted in the table on page 2. 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	1.0208	1.0206

The reduction in the annual UFG factor by 0.0026 translates to around 1000GJ of UFG being allocated to non-TOU allocation groups instead of TOU allocation groups each year based on current flows (an average of 84GJ per month). This is an order of magnitude smaller than the previous instance of an annual UFG factor being corrected, where 400GJ to 500GJ would have been mis-allocated each month. There is therefore an issue of materiality to be considered.

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[2]:

- 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.

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

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. 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.

Gas Industry Co will consider feedback from allocation participants; if there is sufficient support for making the correction we will work with the allocation agent to implement the exemption.

Q3:	*Would you support Gas Industry Co granting an exemption to the allocation agent to allow for the recalculation and republication of the annual UFG factor for the Tawa A gas gate?*

Appendix A Exemption application