Downstream Reconciliation Options Paper - Analysis of submissions

GAS INDUSTRY COMPANY LIMITED

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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'.

Executive summary

In December 2011, Gas Industry Co published the Downstream Reconciliation Options Paper. The Options Paper was essentially a review of the Gas (Downstream Reconciliation) Rules 2008 ('the Rules') that have been in place from October 2008 ('go-live'). The review sought to improve specific aspects of the Rules, rather than fundamentally reviewing the intent and purpose of them.

The Options Paper considered the following issues. For each issue, options were presented for feedback or participants were asked whether they had any suggested options for Gas Industry Co to analyse:

- initial allocation;
- atypical gas gates:
  - direct connect gas gates;
  - application of global 1-month methodology; and
  - unmetered/oversized gas gates.
- correcting AUFG factors;
- allocation of ongoing fees;
- compliance related issues:
  - estimated data for TOU sites;
  - breach notifications to meter owners; and
  - late trading notifications.
- process for granting exemptions.

Submissions on the paper were called by 6 February 2012. Eight submissions were received and are available on Gas Industry Co's website www.gasindustry.co.nz.

Summary of submissions

This paper summarises the submissions received and outlines Gas Industry Co's intended next steps. In short, Gas Industry Co will convene an advisory group to consider the development of rule changes. The rule changes will be outlined in separate Statement of Proposals - the first to be released by June 2012 and the second by June 2013.

The table below summarises whether the issues from the Options Paper will be considered by the advisory group and which (if either) Statement of Proposal they will be addressed in.

Table summarising issues, whether the issue is to be considered by the advisory group and which Statement of Proposal the issue is intended to be addressed in

Area	Issue/option	To be considered by the allocation group?	Statement of Proposal June 2012 or June 2013?
Initial allocation	• Better information • Allocate UFG to causers • D+1 • Top-down algorithm	Yes	2013
Atypical gas gates	• Direct connect • Global 1-month • Unmetered gas gates • Oversized meters	Yes Yes Yes Yes	2012 2012 2012 2012
Correcting AUFG factors		Yes	2012
Allocation of ongoing fees		Yes	2012
Compliance related issues	• Estimated data for TOU sites • Breach notifications to meter owners • Late trading notifications	Yes Yes Yes	2012 2012 (or neither) Neither
Process for granting exemptions		Yes	2012
Miscellaneous	Refer section 2.7	Yes	2012

Next steps

Gas Industry Co will call for nominations for the advisory group by e-mail. The group will be comprised of industry participants that are familiar with how the downstream reconciliation process works in practice. At this stage, it is intended that the group will meet at least monthly with the first meeting to take place in late March 2012.

The advisory group will be used to assist Gas Industry Co's development of rule changes and they will also provide feedback on the draft Statements of Proposal. Another objective for the group will be to analyse which option for the initial allocation is the best to move forward with.

Contents

1 Introduction

1.1 Background

Gas Industry Co published the Downstream Reconciliation Options Paper on 16 December 2011 and called for submissions by 6 February 2012. Eight submissions were received. Those submissions are summarised in this document. In section 3 of this document, Gas Industry Co will outline its proposed next steps based on the feedback it received from submitters.

1.2 Submissions received

Submissions on the Downstream Reconciliation Options Paper were received from:

- Contact Energy Limited (Contact)
- Energy Direct NZ Limited (EDNZ)
- Genesis Power Limited (Genesis)
- Greymouth Gas Limited (Greymouth)
- Maui Development Limited (Maui)
- Mighty River Power (MRP)
- Powerco Limited (Powerco)
- Vector Limited (Vector)

These submissions are available on Gas Industry Co's website www.gasindustry.co.nz.

1.3 Approach to submissions analysis

This paper will summarise the submissions received according to the order of issues as presented in the Options Paper.

2 Overview of submissions received

2.1 Options for the initial allocation

The Options Paper discussed that it is unfair to assume that all mass market retailers are roughly equal in their submission accuracy. Smearing unaccounted-for-gas (UFG) on a *pro rata* basis across mass market retailers punishes those retailers who provide accurate submissions because they will be attributed UFG that they did not cause. While apportionment of UFG ought to become more accurate at later allocation stages as better information is procured by retailers, the initial allocation is used by Vector to calculate Balancing and Peaking Pool (BPP) charges.

Rule 37 of the Gas (Downstream Reconciliation) Rules 2008 ('the Rules') specifies the maximum degree of inaccuracy between a retailer's initial and final allocations. Gas Industry Co determines this maximum degree of inaccuracy prior to each gas year (currently set at 10%). If this constraint is exceeded the allocation agent will allege a breach of the Rules. Administering breaches of rule 37 is a lengthy and time-consuming process. Any change to the initial allocation would likely obviate the need for rule 37.

The salient issue for investigating a change to the initial allocation is that under the current Rules, there is little incentive for retailers to improve their submission accuracy because they would wear the cost of the improvement while the benefit of that improvement would be shared across other retailers at the relevant gas gate(s).

Four options were discussed in the paper for improving the initial allocation.

2.1.1 Option 1 - make better information available

Option 1 investigated whether changing the timing of allocation and submission processes could improve retailer submissions. The method discussed in the paper involved the allocation agent calculating and releasing the seasonal adjusted daily shaped value (SADSV) prior to retailers making their initial submissions for allocation groups (AG) 4 and 6.

Submissions received

For	Against
EDNZ supports investigating the option further.	**Contact** does not agree making the SADSV available prior to submitting AG4 and AG6 is worth pursuing because there would only be a marginal accuracy improvement to balance a more complex reconciliation process.
Genesis supports pursuing the option further but has concerns about the reliability of the published SADSVs.	
Greymouth supports investigating the option further.	
MRP supports investigating the option further.	
Vector supports investigating the option further and suggests another alternative.	

2.1.2 Option 2 – preferentially allocate UFG to causers

Option 2 outlines a method of allocating UFG to identifiable causers. The method would incentivise those causers of UFG to make a trade-off between "wearing" UFG costs and improving their systems and processes to reduce that UFG.

Submissions received

For	Against
EDNZ supports the idea of allocating UFG to causers and looks forward to further analysis but outlines a number of concerns with preferentially allocating UFG to causers. EDNZ would prefer the measure of accuracy to be the difference between the initial and final allocations along with a materiality threshold.	**Contact** considers trying to allocate UFG to causers would create uncertainty. Causers cannot be identified until after any improvements are made.
Genesis supports pursuing the option further but has concerns with the method outlined in the paper. Genesis supports using the measure of accuracy as the difference between the initial and interim allocations.	**MRP** does not agree that this would be a feasible option, primarily because in order for the method to be done fairly, the method would require actual meter readings.
Greymouth supports investigating the option further provided that there is no change to how AG1 and AG2 are allocated at present.	
Vector supports allocating UFG to causers but would prefer this to be implemented with Option 1.	

2.1.3 Option 3 – daily allocations

Gas Industry Co has previously undertaken work in respect of daily allocations (D+1) as a replacement for the initial allocation but when the option was investigated at the gas gate level, support from shippers was mixed and the implementation of the system was expected to come at considerable cost. The Options Paper discusses an alternate method called "D+1 light" which would be similar in concept to the original proposal(s) but would apply at a pipeline level.

Submissions received

For	Against
Contact considers that the D+1 light proposal has merit and warrants further consideration.	**EDNZ** believes that the costs of implementing D+1 will outweigh the benefits
Genesis supports pursuing the option further.	**Vector** does not believe D+1 is a viable option and suggests that allocations may become less accurate than under the status quo.
Greymouth is supportive of there being further analysis into whether D+1 light is a viable option.	
MDL supports Gas Industry Co carrying out further analysis.	
MRP is a keen advocate for D+1.	

2.1.4 Option 4 – new "top down" algorithm

Option 4 posits changing the algorithm used for the initial allocation and whether submitters had any suggested algorithms that Gas Industry Co could investigate.

Submissions received

For	Against
Contact considers that changing the initial allocation algorithm as well as implementing D+1 would improve the accuracy of the initial allocation.	**EDNZ** does not believe there is merit to changing the initial allocation algorithm. EDNZ suggests that to change the algorithm to the one suggested by Gas Industry Co would require EDNZ to invest in metering equipment upgrades and would create timing issues for market share calculations.
Genesis supports pursuing the option further and suggests a document for Gas Industry Co to read.	
Greymouth is supportive of Gas Industry Co carrying out further analysis of the initial algorithm.	
MDL supports further investigation of a different initial allocation algorithm.	
MRP supports further investigation of a different initial allocation algorithm.	
Vector agrees that further investigation of a different initial allocation algorithm is justified.	

Evaluation

Gas Industry Co considers that of the four options listed for changing the initial allocation, none of them would be a simple change. Given that each option would require further investigation by Gas Industry Co, testing by the allocation agent, trialling by reconciliation participants and the development of the rules themselves, Gas Industry Co considers it would be unlikely to include any preferred option(s) in a Statement of Proposal by June 2012.

Given the above and that most of the submitters agreed that the establishment of an advisory group to progress certain rule changes was worthwhile (refer responses to question 25 of the Options Paper), Gas Industry Co proposes that it will (a) establish an advisory group; and (b) have that advisory group further consider the options discussed above with an eye to issuing a separate Statement of Proposal by June 2013.

2.2 Atypical gas gates

The Options Paper discussed that shortly after go-live, the application of the global allocation methodology was found to be impractical for a number of gas gates and for which the purpose of the Rules would not be furthered by applying the Rules at those Gates. Where difficulties were discovered by participants or Gas Industry Co after "go-live" of the Rules, those difficulties were dealt with until now using the exemption processes in the Rules. This review of the Rules enables Gas Industry Co to consider how to best deal with those situations and to possibly codify certain exemptions.

2.2.1 Direct connect gas gates

Direct connect gas gates are currently subject to an exemption from the Rules. Retailers applied for an exemption from the Rules for direct connect gas gates shortly before go-live because all UFG at such gates would be allocated to a single party. Applying the allocation processes would only serve to unnecessarily increase the workload of those retailers, the allocation agent and transmission system owners.

In the Options Paper, Gas Industry Co proposed to effectively codify the current exemption whereby a "direct connect" gas gate would be defined and certain retailer and allocation agent obligations would be removed from such gates. Gates where a single retailer is trading to multiple customers (non-shared) will continue to be subject to the Rules.

Submissions received

For	Against
Contact agrees that the Rules do not need to be applied at direct connect gas gates and also agrees with Gas Industry Co's proposal that a specific rule should be created for direct connect gates.	**MDL** argues that its direct connect gas gates should not (and should never have) be subject to the Rules. MDL argues that the Rules should not apply at direct connect gas gates and MDL's direct connect gas gates should have no coverage by the Rules.
EDNZ agrees that the Rules do not need to be applied at direct connect gas gates and also agrees with Gas Industry Co's proposal that a specific rule should be created for direct connect gates.	
Genesis agrees that the Rules do not need to be applied at direct connect gas gates and also agrees with Gas Industry Co's proposal that a specific rule should be created for direct connect gates.	

For	Against
Greymouth agrees that the Rules do not need to be applied at direct connect gas gates and also agrees with Gas Industry Co's proposal that a specific rule should be created for direct connect gates.	
Vector agrees with Gas Industry Co's proposal but requests also that transmission system owners no longer have to neither provide daily injection information nor publish estimated day-end volume injection quantities each day for direct connect gas gates.	

2.2.2 Application of global 1-month methodology

The former Reconciliation Code applied, for some gas gates, a global 1-month methodology instead of the prevailing difference method. The rationale was that for certain gates with a high proportion of TOU load (i.e. 90%) it would be likely that any UFG at that gas gate would be caused by differences between the gas gate metering and that of the TOU load. The global 1-month methodology therefore applies a monthly UFG figure to certain gas gates rather than an annual UFG figure. This methodology was carried over into the Rules by way of an exemption as requested by Contact and Genesis in 2008 and continues in effect today for the Reporoa, Pahiatua and Kiwitahi 2 gas gates.

Gas Industry Co proposed in the Options Paper to codify this exemption but acknowledged that further work was necessary on the application and approval process, the criteria for approval and provision for a review of whether those gates to which the global 1-month methodology applied was still justified.

Submissions received

For	Against
Contact agrees that the global methodology fails to produce acceptable results at high-TOU load gas gates and argues for the global 1-month methodology to be applied at all gas gates, particularly as it has concerns with the "most favoured nation" status of TOU meters. If the latter is not feasible then Contact suggests a threshold of 80% of TOU load for when a gas gate is to have the global 1-month methodology applied to it.	**Greymouth** does not agree with Gas Industry Co's proposal due to the lack of evidence presented. Greymouth would want to see further evidence before expressing its view but suspects that there is a problem with regard to certain gas gates.
EDNZ agrees with Gas Industry Co's proposal.	
Genesis agrees with Gas Industry Co's proposal.	
MRP agrees with Gas Industry Co's proposal but suggests in doing so is to question the validity of the application of AUFG to AG1 and AG2 sites.	
Vector agrees with Gas Industry Co's proposal.	

2.2.3 Unmetered gas gates and oversized meters

Although the Rules require all gas gates to have meters installed, seven gas gates currently do not have any such meters. At present, these gates have an exemption applying to them so they do not have to comply with certain rules.

In the Options Paper, Gas Industry Co outlined three options for the ongoing treatment of these unmetered gas gates. The three options were: (1) to maintain the status quo; (2) to require that meters be installed; (3) to incorporate a materiality threshold. Gas Industry Co's preference is for option 2, i.e. to require those seven gas gates to have meters installed.

Two gas gates are currently exempted from the Rules because the meters installed are "oversized" – that is, the meters installed at those gates are too large to accurately meter gas quantities. As is the case for unmetered gas gates, the allocation agent uses the sum of consumption information at downstream sites to estimate the relevant injection quantities.

The Options Paper proposes to treat "oversized" gas gates the same as unmetered gas gates. Given Gas Industry Co's preference for all gas gates to be metered, the effect would be to have appropriate replacement meters installed at the Flockhouse and Te Teko gas gates (the two current "oversized" sites).

Submissions received

For	Against
Contact agrees that all gas gates should have meters installed. Contact suggests that gates with low throughput could have non-TOU meters installed and for daily throughput to be the monthly throughput divided by the number of days per month. Contact agrees that gates with oversized meters should be treated in the same way as unmetered gas gates.	**Powerco** does not agree that all gas gates should be metered. A cost-benefit analysis should determine whether a gate requires metering. Powerco does agree that all new gas gates should be metered, as the incremental metering cost is small. Powerco suggests that the same test should apply for gates with oversized meters.
EDNZ's preference is for all gas gates to be metered. If this is not to be the case, then EDNZ would prefer for exemptions to be considered on a case-by-case basis with materiality taken into account. EDNZ agrees that gates with oversized meters should be treated in the same way as unmetered gas gates.	**Vector** disagrees with Gas Industry Co's preference to have gas measurement systems at all gas gates. Vector states that it would cost between $15,000 and $50,000 to install a meter at each of the seven remaining unmetered gas gates despite all of those gates having a relatively low throughput per year. In Vector's view, the costs of installing meters at those gates outweighs the benefits to the extent that it would make commercial sense for Vector to decommission the gates.

For	Against
Genesis agrees that it would be preferable for all gas gates to have metering installed. However, it argues that it could be uneconomic to require this at all gas gates and that a trade-off exists between installation costs and allocation errors created by estimated injection quantities. Genesis agrees that gates with oversized meters should be treated in the same way as unmetered gas gates.	
Greymouth agrees that gas gates should be metered but cautions against strict compliance as Vector may decommission some gas gates. Greymouth agrees that gates with oversized meters should be treated in the same way as unmetered gas gates.	
MRP agrees that all gas gates should be metered and that unmetered gas gates should be treated the same way as gates with oversized meters.	

Evaluation

Gas Industry Co considers, based on its initial thinking set out in the Options Paper and taking into account submissions received, that exemptions will be codified for the following:

- direct connect gas gates; and
- the application of the global 1-month methodology in certain circumstances.

Gas Industry Co will work towards having these included in a Statement of Proposal by June 2012 and intends to use the advisory group to help finalise its thinking and drafting of the new rules.

Gas Industry Co remains of the view that unmetered gas gates (and gates with oversized meters) should have appropriate meters installed as that would be the only way of ensuring alignment with the purpose of the Rules. Gas Industry Co intends to discuss this issue with the advisory group and will finalise its next step based on that discussion.

2.3 Correcting AUFG factors

The AUFG factor is used to allocate quantities of gas to AG1 and AG2 customers. There have been two instances where the data used to calculate the AUFG factor has been found to be erroneous. The Rules do not contain a provision to enable the correction of erroneous AUFG factors so in those cases the compliance arrangements and exemption processes were used.

Given the imperfect nature of those responses, Gas Industry Co welcomed feedback from submitters on whether it should create a specific rule enabling the correction of AUFG factors when they are found to be incorrect.

Submissions received

For	Against
EDNZ agrees with Gas Industry Co's proposal.	**Contact** disagrees that a specific rule is necessary and favours relying on the exemption provisions to deal with corrections of AUFG factors. Contact also believes that AUFG factors should not be corrected unless there would be a material effect by not correcting them.
Genesis agrees with Gas Industry Co's proposal.	**Greymouth** does not agree with Gas Industry Co's proposal and prefers to rely on the exemption provisions to correct AUFG factors. Greymouth also suggests reviewing the concept of fully allocating UFG to retailers.
MRP agrees with Gas Industry Co's proposal	
Vector agrees with Gas Industry Co's proposal.	

Evaluation

Gas Industry Co's emerging view is that it will develop a new rule to be consulted on in a Statement of Proposal by June 2012. That rule will enable the correction of AUFG factors where there is a likely to be a "material" effect on the allocation results if it is not corrected. The materiality threshold will be the subject of further analysis by Gas Industry Co in the meantime.

2.4 Allocation of ongoing fees

Currently, the ongoing costs of funding the allocation system are met through fees based on allocated volumes of gas. When the Rules were being designed it was a close call as to whether the ongoing fees would be met by allocated volumes or by total numbers of ICPs. In hindsight, that decision should have factored in that the major beneficiaries of the change to the Rules from the Reconciliation Code would be the incumbent retailers, i.e. those who would also be the major beneficiaries from an ongoing cost system based on volumes rather than ICP-based.

Gas Industry Co sought feedback on the Options Paper where it was discussed that on the basis that neither the volume-based approach nor the ICP-based approach was superior, that a 50-50 apportionment between the two was a preferred middle ground.

Submissions received

For	Against
Vector agrees to change the allocation of ongoing costs but would prefer if this was done fully on an ICP basis. The status quo is only defensible if it can be shown that TOU sites drive the costs of the allocation system (which Vector refutes). Vector suggests that most of the time, TOU-sites only require one allocation while non-TOU customers require three.	**Contact** does not find there is any compelling evidence to change from the status quo. The status quo also reflects what the case in the electricity market is. Contact would not support an ICP-based approach.

For	Against
	EDNZ's preference is to retain the volume-based approach. EDNZ suggests that the ongoing costs of the allocation system are more likely to be caused by volume-related issues.
	Genesis supports maintaining the status quo and says that Gas Industry Co has not established a strong case for changing from the current system. Genesis argues that allocation costs are driven by gas volumes whereas registry costs are driven by ICP numbers. If there was a change to a 50-50 apportionment, Genesis recommends making a similar change to the Registry cost allocation.
	Greymouth does not support changing from the status quo. The allocation system allocates volumes of gas so that should form the basis of the costs of the system.
	MRP does not agree that a change from the status quo is necessary.

Evaluation

Gas Industry Co will carry out further analysis of the issues raised in submissions with the intention to include a change (if any) in a Statement of Proposal by June 2012.

2.5 Compliance-related issues

2.5.1 Estimated data for TOU sites

The Rules require that retailers provide actual daily energy quantities for each customer installation in allocation groups 1 & 2. If for any reason a retailer is unable to provide that data, they will receive three breach notices from the allocation agent (one for each allocation stage). The Rules also require that retailers provide their best estimate of consumption information if they cannot provide actual TOU data.

The "most favoured nation" status of AG1 & AG2 data is only justifiable if accurate, non-estimated data is being provided. Participants were asked in the Options Paper which of four options they favoured to address "missing" TOU data. The options were: to eliminate the triple jeopardy; to provide a floor for estimated data; to apply a monthly UFG factor to estimated data; and to permit TOU estimates in some circumstances provided an appropriate estimation methodology is used.

Submissions received

For	Against
EDNZ agrees with Gas Industry Co's proposal and favours option 4 – permit TOU estimates in some circumstances provided an appropriate estimation methodology is used.	**Contact** does not think any of the options set out in the Options Paper were acceptable. Contact suggests an alternate approach.

For	Against
Genesis believes TOU data should still be treated preferentially even where an estimate is made because historical data will be available for those sites ensuring a reasonable degree of accuracy. Genesis prefers that options 1 & 4 be implemented to address the "missing" TOU data problem.	
Greymouth believes that AG1 and AG2 data should continue to receive preferential treatment and prefers option 1, i.e. elimination of the triple jeopardy.	
MRP prefers that options 2 & 3 be implemented together.	
Vector prefers that options 1 & 4 be implemented and that Gas Industry Co publishes an industry guideline for estimating data. This should be reviewed by the advisory group.	

2.5.2 Breach notifications to meter owners

Currently, the Rules do not impose any obligations on meter owners other than ensuring their general obligation to comply with NZS5259:2004. Rules relating to metering otherwise impose the compliance burden on retailers. Gas Industry Co welcomed feedback from submitters on whether they thought a new rule enabling the allocation agent to breach meter owners directly was a good idea.

Submissions received

For	Against
EDNZ agrees that meter owners should be "breachable" and that they have been previously affected by events caused by meter owners yet had no way of dealing with those.	**Contact** does not think meter owners should have any further obligations under the Rules as there are sufficient commercial incentives in place. Contact suggests that meter owners should be held accountable for metering data that they populate in the Registry.
Greymouth favours the creation of a rule so that meter owners will be breached if they do not meet their obligations.	**Genesis** does not agree that meter owners should have any further obligations under the Rules as commercial arrangements are in place between them and retailers.
MRP agrees that meter owners should have more obligations under the Rules.	**MDL** cautions against the creation of a rule that would inadvertently capture upstream meters.
	Powerco does not believe that meter owners should have any further obligations under the Rules beyond compliance with NZS5259:2004 and that commercial arrangements are sufficient.

For	Against
	Vector does not believe that meter owners should have more obligations under the Rules. Vector suggests that metering is a competitive service and if a retailer is unhappy with the service provided by its current metering provider, the retailer could shop around for a new metering provider.

2.5.3 Late trading notifications

The allocation agent often alleges breaches of rule 39 which requires retailers to notify the allocation agent whenever they commence (or no longer) supply to a (any) customer installation(s) at a gas gate or a retailer commences or ceases a transmission services agreement in respect of gas supplied at a gas gate. Gas Industry Co asked participants what the cause of those breaches was and whether there were any suggested remedies for alleviating them.

Submissions received

For	Against
Contact considers that the only obligation on retailers should be to provide a trading notification for any new, amended or deleted TSA Supplementary Agreement otherwise the allocation agent should rely on Registry information to identify which gates the retailer is trading at.	**EDNZ** receives late trading notification rarely. When EDNZ does receive them, they are mostly due to back-dated switches and supplies being loaded into their billing system with an incorrect gas gate.
The majority of **Genesis'** late trading notifications are as a result of back-dated switches. The allocation agent should be able to check the Registry for trading information but the retailer will still be in breach of the notification timeline.	**Vector** does not see the need to amend rule 39 at this point.
Greymouth lists a number of concerns with the wording of rule 39.	
MRP suggests that the Registry should be utilised to determine active gas gates.	

Evaluation

<u>Estimated data for TOU sites</u>

Gas Industry Co will conduct further analysis of the options with a view to including a recommendation in a Statement of Proposal by June 2012. Options 1 and 4 were the most popular amongst submitters but options 2 and 3 cannot be discounted nor can the alternate method suggested by Contact.

<u>Breach notifications to meter owners</u>

Based on its initial analysis of submissions, Gas Industry Co's emerging view is that commercial arrangements between retailers and their metering providers and the requirement of meters to comply with NZS 5259:2004 are sufficient enough that specific rules enabling breaches to meter owners are not required. However, Gas Industry Co intends to further consider whether the Rules should be amended to enable auditing of metering equipment accuracy. This will be discussed further by the advisory group.

Late trading notifications

Based on the submissions received, Gas Industry Co does not consider there is a need to change or add the Rules that deal with late trading notifications. Nonetheless, Gas Industry Co will give consideration to the points raised by submitters before drafting a Statement of Proposal.

2.6 Process for granting exemptions

When the Rules were first introduced, there was a range of matters that needed to be addressed by way of exemptions. The exemptions therefore were a pragmatic way of dealing with unforeseen circumstances and as a way to provide participants a degree of breathing space to achieve full compliance. Given that the Rules have been in operation for longer than three years, Gas Industry Co considers that there is little need to continue the exemptions for these purposes.

Submitters were asked which option they preferred for dealing with the exemptions. The options were: retain the status quo; remove the exemption provisions; and prescriptively outline circumstances that will and will not warrant an exemption. Gas Industry Co's preference in the Options Paper was for option 2 – i.e. remove the exemption provisions.

Submissions received

For	Against
	Contact considers that the status quo should be retained.
	EDNZ considers that exemptions should be used where the exemption will better achieve the objectives set out in s43ZN of the Gas Act and the purpose of the Rules.
	Genesis favours option 3 – to prescriptively outline what circumstances will warrant an exemption. Genesis says that exemptions should be available whenever adherence to the Rules would be to the greater detriment of the industry rather than the requesting party.
	Greymouth favours retaining the exemption provisions.
	MDL prefers that the status quo is retained.
	MRP believes that the existing exemption provisions should be retained and that a regular review (2 years) of the exemptions should determine if the exemptions be converted into rules.
	Vector prefers retaining the exemptions but only in exceptional circumstances (i.e. option 3).

Evaluation

Submitters all agreed that either there should be no change to the status quo or that the exemptions should continue but only in exceptional circumstances. No submitters shared Gas Industry Co's view that the exemptions should be removed.

Gas Industry Co will carefully consider its current view on removing the exemption provisions. If it decides that there is merit in keeping the exemptions, Gas Industry Co's preference would be to prescriptively outline the circumstance that would warrant an exemption – i.e. its second-best outcome would be option 3.

2.7 Miscellaneous

Submitters were also asked if they had any further issues they believed warranted consideration before a Statement of Proposal is drafted and whether they thought the indicative timeframe was suitable.

Gas Industry Co will address the timeframe issue below in section 3.2.

Suggested issues for further consideration were:

- deleting the Part 5 transition provisions (Contact);
- performance audits cover the Rules as well as the "Switching Rules"[1] (Contact);
- references to NZS 5259:2004 should be amended to NZS 5259 (Contact);
- Greymouth's points throughout its submission, including:
  - a review of whether it is valid to fully allocate UFG to retailers; and
  - whether it is feasible to create AUFG factors for specific retailers;
- a further review of the Rules in future (MDL);
- whether MDL's gas gates should be covered by the Rules (MDL);
- codification of Vector Transmission's (current) exemptions from rules 41 and 42 (Vector) – i.e. clarifying what "actual" means;
- codification of the current 200GJ threshold for rule 37.2 breaches (Vector); and
- the removal of the allocation agent's obligation to estimate daily injection data for direct connect gas gates (Vector).

Gas Industry Co will also consider the following, which were issues identified prior to publishing of the Options Paper but that do not necessarily have any identifiable options:

- change the SADSV calculation to reflect the redundancy of AGs 3 & 5;

[1] Gas (Switching Arrangements) Rules 2008

- clarify that only active ICPs are used as the denominator for meter reading percentages;
- enable the ability to deem special allocations a replacement for regular allocations; and
- wash-up market fees on the basis of best available information rather than sticking with initial allocation results.

Evaluation

Gas Industry Co will further analyse each of the issues above before deciding whether to include them in a Statement of Proposal. If it decides to proceed with any of the issues listed above, Gas Industry Co intends to use the advisory group to finalise the form of those changes.

3 Summary and next steps

3.1 Summary

The table below summarises section 2. Given that the work for the initial allocation is expected to take longer to implement than the remaining content from the Options Paper, Gas Industry Co intends to defer the outcomes of that work to a separate Statement of Proposal by June 2013.

Table summarising issues, whether the issue is to be considered by the advisory group and which Statement of Proposal the issue is intended to be addressed in

Area	Issue/option	To be considered by the allocation group?	Statement of Proposal June 2012 or June 2013?
Initial allocation	• Better information • Allocate UFG to causers • D+1 • Top-down algorithm	Yes	2013
Atypical gas gates	• Direct connect • Global 1-month • Unmetered gas gates • Oversized meters	Yes Yes Yes Yes	2012 2012 2012 2012
Correcting AUFG factors		Yes	2012
Allocation of ongoing fees		Yes	2012
Compliance related issues	• Estimated data for TOU sites • Breach notifications to meter owners • Late trading notifications	Yes Yes Yes	2012 2012 (or neither) Neither
Process for granting exemptions		Yes	2012
Miscellaneous	Refer section 2.7	Yes	2012

3.2 Next steps

Gas Industry Co will call for nominations for the advisory group by e-mail. Invitations will be welcomed from participants with a good operational understanding of the downstream reconciliation processes and a solid grasp of how the Rules work in practice. An indicative work plan for the advisory group is provided below. Meetings will take place at Gas Industry Co's offices in Wellington.

Advisory group – indicative meeting dates and agenda items

Meeting #	When	Agenda items	Decisions required
1	Fri 30 March	Introduction and Terms of Reference Issues to be included in June 2012 SoP and preliminary thoughts on rule drafting Introduction to issues for inclusion in June 2013 SoP	Agree on issues for inclusion in relevant SoP
2	Thur 12 April	Gas gate metering, guidelines for application of global 1-month methodology, alternative "zero floor and scaling algorithm", and framework for future exemptions.	Guidance for re-drafting of relevant rules
3	Fri 27 April	Correcting AUFG factors, estimated ToU data, trading notifications, apportionment of market fees,	Guidance for re-drafting of relevant rules
4	Thur 31 May	Finalise drafting for issues to be included in June 2012 SoP	
5	Thur 28 June	Initial allocation	
6	Fri 27 July	Initial allocation	
Further meetings as necessary		Analysis of options for initial allocation and drafting of rule changes	