



# Consultation on exemption under the Gas (Downstream Reconciliation) Rules 2008

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**Submissions close: 22 December 2010**







## **About Gas Industry Co.**

Gas Industry Co was formed to be the co-regulator under the Gas Act.

As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy and Resources on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

## **Authorship**

This paper was prepared by the Market Operations Group



# Contents

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<b>1</b>	<b>Introduction</b>	<b>6</b>
1.1	Purpose and form of exemption	6
1.2	Requirement for consultation	7
<hr/>		
<b>2</b>	<b>Analysis of exemption</b>	<b>8</b>
2.1	Impact of error	8
2.2	Recalculation of annual UFG factor	8
2.3	Other related issues	9
<hr/>		
<b>3</b>	<b>Assessment of application</b>	<b>10</b>
<b>Appendix A</b>	<b>Exemption application</b>	<b>12</b>
<b>Appendix B</b>	<b>Recommended Format for Submissions</b>	<b>14</b>

# 1

## Introduction

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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 set down in rule 19. Rule 20 makes provision for urgent exemptions to be granted ahead of undertaking consultation, but this is subject to consultation taking place following the granting of the exemption.

An information paper on the exemptions process is available on the Gas Industry Co website. The paper can be viewed or downloaded by following this link:

[http://www.gasindustry.co.nz/sites/default/files/u21/Inform\\_paper\\_on\\_exemptions\\_148798.3.pdf](http://www.gasindustry.co.nz/sites/default/files/u21/Inform_paper_on_exemptions_148798.3.pdf)

The matter being considered here is a standard exemption enabling the allocation agent to use a recalculated annual UFG factor for the Greater Hamilton (GTH11301) gas gate for the 2010/2011 gas year, commencing 1 October 2010.

### 1.1 Purpose and form of exemption

The purpose of the exemption is to remedy the annual UFG factor for the Greater Hamilton (GTH11301) gas gate for the 2010/2011 gas year that has been adversely affected by the substantial under submission of consumption information by OnGas. The magnitude of the error is 46.8TJ over a 22-month period or, more specifically, 17.1TJ in the 12-month period used to calculate annual UFG factors.

Rule 46 specifies how, and when, the allocation agent calculate and publish the annual UFG factor applicable to each gas gate. An exemption to this rule would enable the allocation agent to recalculate and republish the annual UFG factor for Greater Hamilton using revised consumption information supplied by OnGas.

The exemption would be a one-off to allow the Greater Hamilton gas gate annual UFG factor to be recalculated so that allocations can proceed using the corrected factor. No other gas gates would have their annual UFG factors recalculated. The exemption will be redundant once the new AUFG factor has been published.

Appendix A contains the application that was made by the allocation agent.

## **1.2 Requirement for consultation**

Under rule 19.3, prior to granting an exemption, the industry body must:

- Publish the application for the exemption, excluding any information it considers to be confidential or commercially sensitive (see Appendix A); and
- Consult with those persons it considers are representative of those classes of persons likely to be substantially affected by the granting of the exemption.

The purpose of this document is to help fulfil these requirements. Submissions can be made by registering on Gas Industry Co's website [www.gasindustry.co.nz](http://www.gasindustry.co.nz) and uploading your submission, preferably in the form of the submissions template attached as Appendix B to the consultation document.

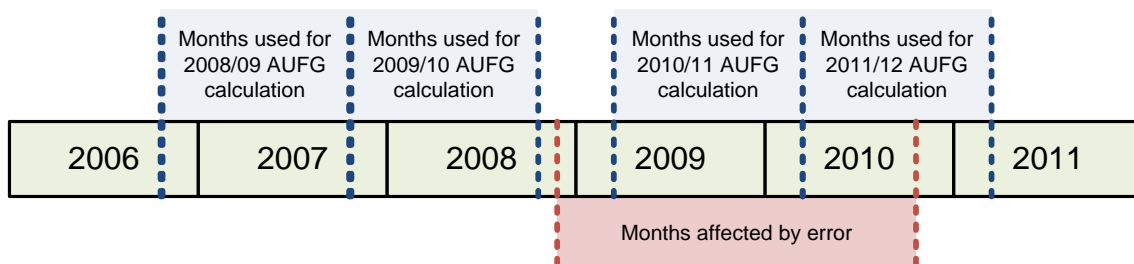
# 2

## Analysis of exemption

### 2.1 Impact of error

OnGas has advised Gas Industry Co and the allocation agent that it has under-submitted TOU volume at the Greater Hamilton gas gate for all consumption periods between December 2008 and September 2010 inclusive due to a metering error at a TOU site. The magnitude of the error is 46.8TJ over the 22 month period.

The period in which consumption has been under submitted spans the 12-month period used to calculate the 2010/11 annual UFG factors, so the factor for Greater Hamilton is unlikely to be representative of the true level of UFG over the gas year. This in turn means that the TOU allocation groups will be over-allocated, and the non-TOU allocation groups will be under-allocated, UFG.



The diagram above illustrates the scale of the problem. The 2010/11 annual UFG factors have been used in two allocations so far (the October 2010 and November 2010 initial allocations) but annual UFG factors in previous gas years have not been affected by the under-submission. The under-submissions also affect seven months of the calculation for the 2011/12 annual UFG factors but there is ample opportunity for the correct data to be submitted to the allocation agent before 1 July 2011 so it is not expected that this will cause an impact.

### 2.2 Recalculation of annual UFG factor

Using the corrected consumption information supplied by OnGas the annual UFG factor can be recalculated and applied in the 10 remaining initial allocations for the 2010/11 gas year, as well as the 12 interim and final allocations which are yet to be performed for 2010/11 consumption periods.

The allocation agent has manually estimated the change in the annual UFG factor that will result from the extra OnGas volume being included in the calculation. This should be considered as a guide only,



since any formal recalculation would be performed using the allocation system. The estimate is given in the table below along with Greater Hamilton annual UFG factors from previous years to serve as a comparison.

Gas year	Annual UFG factor	Notes
2008/09	1.0350	Cap applied; actual value: 1.0420
2009/10	1.0249	Published 1 July 2009
2010/11	1.0465	Published 1 July 2010
2010/11	1.0339	Estimate provided by allocation agent

The estimate of the recalculated value, 1.0339, is a decrease in the annual UFG factor of around 1.3 percentage points. The estimated annual UFG factor seems to be more consistent with previous years than the currently published figure. Given the significant throughput at Greater Hamilton, analysis indicates that, if the annual UFG factor were not corrected, this could result in 400-500GJ of UFG being misallocated each month to TOU load instead of non-TOU load.

As articulated by the allocation agent in its exemption application, an alternative approach to granting an exemption would be to direct the allocation agent to perform special allocations for all allocations of consumption periods in the gas year<sup>1</sup>. However, this would duplicate the workload of the allocation agent for no additional gain, given that each set of new allocation results would be immediately replaced by a special allocation. As well as being inefficient, this approach would introduce uncertainty in the reliability of allocation results which is counterproductive to the goal of the Rules.

## 2.3 Other related issues

The purpose of the exemption is to provide a fix for allocations of future consumption periods (and the two initial allocations most recently performed) to remove any ongoing impact of the OnGas error. Aside from the impact on annual UFG factors, the error has also affected allocated volumes in all consumption periods from December 2008 to September 2010 but this will be considered under the Gas Governance (Compliance) Regulations 2008 in the normal manner.

To this end, OnGas has self-reported a breach of the Rules relating to failure to provide actual daily energy quantities for one ICP at the Greater Hamilton gas gate for the period of the under submission of consumption information. Industry participants have already received a copy of this breach notice from the market administrator and have five business days from receipt of that breach notice to join as a party to the breach. It is through this compliance process that industry participants should seek to recover any costs incurred or rectify any harm caused as a result of the OnGas under-submission.

<sup>1</sup> Gas Industry Co has the authority to determine specific procedures to apply to special allocations, such as using an alternative annual UFG factor.

# 3

## Assessment of application

An initial assessment of the application against the criteria set out in the Rules is provided in the table below. Submissions on the consultation will be taken into account in the final assessment of the application.

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 OnGas submitted the correct quantities initially. Otherwise TOU groups would be over-allocated UFG, which is contrary to the 'causer-pays' ideology. Therefore allocations at Greater Hamilton would be fairer if the exemption were granted.
2. Allocations are more efficient (rule 2 and s43ZN(a) of the Gas Act)	Granting the exemption allows the correction to occur as soon as possible so that the impact of the incorrect annual UFG factor is minimised. All future allocations can be corrected with one action. The alternative approach would be for the allocation agent to perform special allocations for each affected allocation (36 allocations in all for the 2010/11 gas year) which would take considerably more resources.
3. Reliability of allocation and supply is enhanced (s43ZN(a) of the Gas Act)	Gas Industry Co considers it of the utmost importance 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.
4. Other s43ZN 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. Retailers need to factor such issues into their pricing at a gas gate were they face such uncertainty in the cost of doing business. This, in turn, reduces efficiency. Granting the exemption effectively reduces the annual UFG factor at Greater Hamilton which, assuming the fall in cost of UFG is passed on to the consumer, will place downward pressure on delivered gas prices. This is congruent with several of the s43ZN objectives.

Criterion	Assessment
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 than set out in the Rules to reflect that a significant error in consumption quantities has come to light.

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 republished. Further, Gas Industry Co considers that the timeliness of the decision is important given that the December 2010 initial allocation is fast approaching and producing the correct figures at the initial stage—rather than allowing the corrected figures to flow through at the interim and/or final—has the added benefit of eliminating any impact on BPP charges which are not revisited in subsequent allocations.

*Q1: Do submitters have any comments on, and/or concerns about, the recalculation of the annual AUFG factor at Greater Hamilton to apply from the December 2010 initial allocation onwards?*

*Q2: Do submitters have any other comments on the exemption application or its implications?*

# Appendix A Exemption application

<b>Gas Industry Company Limited</b>	<b>DR10-12-S</b>
<b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>	
<b>1. Name and contact details for the participant(s) seeking exemption:</b>	
Company name: NZX Limited	Phone: 04 498 0056
Contact Name: Tessa Nguyen	Mailing Address: NZX Energy, Level 2, NZX Centre, 11 Cable Street, PO Box 2959, Wellington
Email: alla@nzx.com	
<b>2. Type of exemption sought (delete all but one):</b> Standard (under rule 19)	
<b>3. Provisions of the Rules from which the exemption is sought:</b>	
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 Greater Hamilton (GTH11301) gas gate for the 2010/2011 gas year (commencing 1 October 2010).	
<b>4. State the reasons why you are seeking the exemption and why the exemption sought should be granted</b>	
OnGas has advised that it has under-submitted TOU volume at the Greater Hamilton gas gate for every consumption period between December 2008 and September 2010 inclusive due to a metering error at a TOU site. The magnitude of the error is 46.8TJ over the 22-month period.	
Since the period in which consumption has been under submitted spans the 12-month period used to calculate annual UFG factors for the 2010/2011 gas year, the AUFU factor for Greater Hamilton has been adversely effected, that is, the AUFU factor is higher than it should be and allocation groups 1 and 2 are therefore being over-allocated UFG.	
Using the corrected consumption information supplied by OnGas the AUFU factor can be recalculated and can be used in the 10 remaining initial allocations for the 2010/11 gas year, as well as 12 interims and 12 finals. This will allow future allocation results to be more fair, efficient and reliable than leaving the AUFU as it is. This is consistent with the purpose of the Rules.	
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. It is proposed that Gas Industry Co exempt the allocation agent from rule 46.1 for the Greater Hamilton gas gate annual UFG factor for the 2010/11 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 OnGas consumption information for the OnGas data previously used in that calculation.

Gas Industry Co should also require the allocation agent to replace the previous annual UFG factor determined for the 2010/11 gas year at the Greater Hamilton gas gate with the newly calculated annual UFG factor (except in respect of the first two initial allocations for the 2010/11 gas year. This new annual UFG factor should be published on 7 January 2011.

The alternative to correcting the AUFG factor would be to direct the allocation agent to perform special allocations for all allocations of consumption periods in the gas year which would be extremely time- and resource-consuming for the allocation agent and would create an unnecessary burden for the industry body and allocation participants.

*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 Greater Hamilton gas gate by using a more accurate figure for allocating UFG to TOU consumption. All participants at that gas gate will be affected by the change in annual UFG factor.

*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 Greater Hamilton 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 this 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 Greater Hamilton (and only for the current gas year).

# Appendix B Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders’ responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Consultation Paper. Submitters are also free to include other material on the exemption application in their responses.

Submission from:..... (company name and contact)

Question	Comment
Q1: Do submitters have any comments on, and/or concerns about, the recalculation of the annual AUFG factor at Greater Hamilton to apply from the December 2010 initial allocation onwards?	
Q2: Do submitters have any other comments on the exemption application or its implications?	