



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

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Submissions close: 17 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

Submissions close: 17 December 2010

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Draft

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Introduction

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.

The matter being considered here is an exemption associated with the sale of the E-Gas 2000 Limited and E-Gas Limited (together E-Gas) ICPs from the liquidator to Nova Gas Limited (Nova).

The sale of the E-Gas customers resulted in an intra-month transfer to Nova on 27 November 2010. This was potentially problematic for the parties for two reasons. First, under the processes stipulated in the Rules, Nova's and E-Gas's consumption submissions in respect of the transferred customers would have been spread across the entire month. This allocation of gas volumes across the month would have put Nova at risk of incurring balancing and/or transmission overrun charges on days prior to the customer transfer (as Nova would not necessarily have nominated gas or secured transmission capacity in anticipation of the transfer). Similarly, E-Gas could have been put in the position of being allocated gas on the last four days of the month—a period when the liquidator had no supply arrangements in place. Such allocation results would not have reflected the physical reality of the situation.

The exemption was granted on an urgent basis on 1 December 2010 and expires on 31 December 2010. The exemption notice can be found on the Gas Industry Co website at this link:

http://www.gasindustry.co.nz/sites/default/files/u254/DR10-11-U_exemption_notice_re_deemed_profiles.pdf.

Because the exemption could not be effective until the gas gate residual profile was available to E-Gas and Nova, it was necessary to direct a special allocation, to replace the initial allocation, once the SADS¹ file for the October 2010 consumption period was published.

¹ SADS¹, or seasonally adjusted daily shape values, is a file that contains the daily magnitudes of non-TOU load to be allocated at each gas gate. For any particular gas gate the values are determined by the gas gate residual profile (GGRP). The GGRP is derived from the difference between the gas gate injection quantity and the sum of the daily allocated quantities for allocation groups 1, 2, 3, and 5.

1.1 Purpose and form of exemption

The purpose of the urgent exemption was to allow Nova and E-Gas to submit daily non-TOU data for the November consumption period, using the gas gate residual profile (published by the allocation agent). This allowed them each to confine their allocations to those days of the month for which they were the responsible retailer for the transferred customers.

The exemption was a means to work around a limitation in the Rules that does not allow for non-TOU consumption in allocation groups 4 and 6 to be isolated to specific days in a month. By submitting consumption for the former group 4 and 6 E-Gas customers in allocation group 5, Nova and E-Gas submitted identical volumes, in aggregate, that were submitted for those customers in the initial allocation. The difference is that the volumes are associated with specific dates in November.

Appendix A contains the applications that were made by Nova Gas Limited, E-Gas 2000 Limited, and E-Gas Limited.

1.2 Requirement for consultation

The exemption was granted under r20.1, which provides for granting urgent exemptions, without first consulting on the matter, in circumstances where the industry body considers it necessary or desirable that the exemption be granted urgently.

In this case, the exemption was related to the initial allocation for the November 2010 consumption month and there was not sufficient time to consult between Nova and the liquidator completing a sale and purchase of the E-Gas customer base and the deadline for processing the initial allocation.

Rule 20.2 requires, *inter alia*, that:

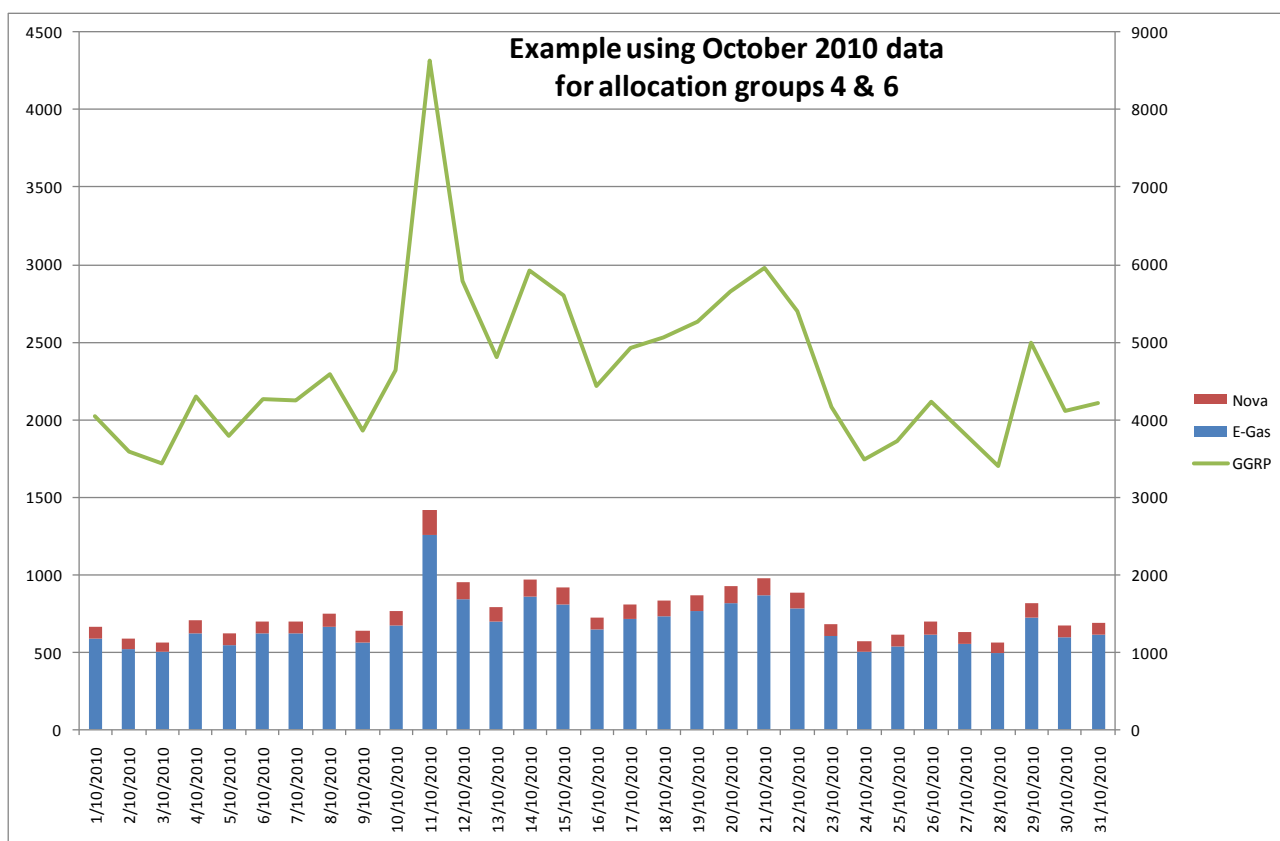
- 20.2.3 The industry body must publish the exemption and consult with persons it considers are representative of those classes of persons likely to be substantially affected by the exemption; and
- 20.2.4 As soon as practicable after consulting in accordance with rule 20.2.3, the industry body must:
 - (a) determine whether or not to revoke, replace, or amend the exemption; and
 - (b) publish its determination and the reasons for the determination.

The purpose of this document is to help fulfil these requirements.

2 The problem and work-around

The allocation process mandated by the Rules requires that consumption for allocation groups 4 and 6 be submitted as one number per allocation group per gas gate per month. The job of the allocation agent is to apportion that consumption across days of the month in proportion with the gas gate's residual profile.

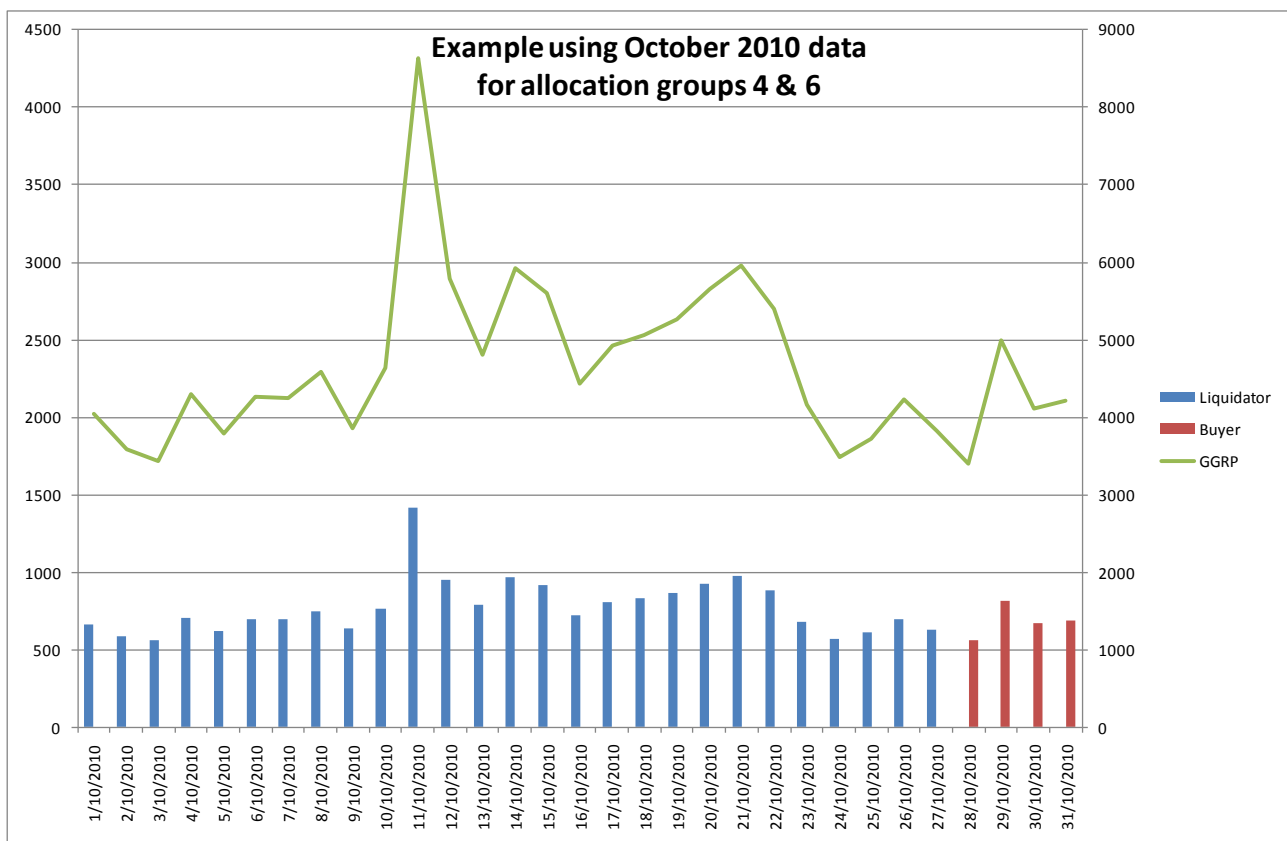
The chart below shows what the allocation system would have done with the E-Gas data at one gas gate had the customers transferred to Nova on the fourth-to-last day of October 2010. Despite Nova being the responsible retailer for only four days of that month, it would have been allocated volume at the gas gate concerned on each day of that month. Similarly, E-Gas would have continued to be allocated load for the remaining days of the month, despite no longer being the responsible retailer for any of the customers at the gas gate.



Of course, this outcome happens each and every month for all retailers involved in customer switching. Although each is responsible for reconciling only half of a customer’s consumption for a mid-month switch, both retailers involved in that switch will have the volume spread across the entire month. For the most part this is not a problem. Switching activity indicates that customer churn rates are less than 1.5% per month, so only a small proportion of load is affected each month. In addition, given that TOU loads typically switch on a month boundary, the average switch volume may be even lower than the churn rate might suggest. However, in the case of the wholesale transfer of customers from E-Gas to Nova, the volume involved represents a significant proportion of Nova’s load.

2.1 Addressing the volume apportionment issue

One way of isolating the E-Gas and Nova shares of the consumption volumes is to submit daily non-TOU data using a profile to apportion the monthly volume to days within the month. One option is to use the SADS file, a collection of gas gate residual profiles for the various gas gates, as a profile. The chart below shows the split that would have occurred at the Tawa A gas gate had such a process been applied with a transfer taking place at midnight on 23 October.



Use of the SADS/GGRP has the advantage that it sculpts the consumption of the former E-Gas customers in the same manner that the allocation agent uses to determine allocations for non-TOU (allocation groups 4 and 6) customers in the normal course of the allocation process.

2.2 How did this work in practice?

The gas gate residual profile was not available prior to the data being submitted for the initial allocation. That being the case, use of this work-around required a staged approach to the November 2010 initial allocation. The steps were as follows:

1. The initial allocation was run as normal, i.e. all retailers submitted their consumption estimates and the allocation agent published the results.
2. Nova and E-Gas downloaded the SADSV file from the allocation agent system and used the values for each gas gate at which E-Gas trades to derive their respective submissions.
3. In parallel with this, Gas Industry Co ordered a special allocation.
4. For the special allocation, Nova and E-Gas submitted all E-Gas customer consumption volumes in allocation group 5 and zeroed out any allocation group 4 and 6 data that was submitted for the earlier initial allocation (to ensure the E-Gas customer volumes were not double-counted).
5. The allocation agent ran the special allocation and the results from that special allocation were used by Vector for the balancing calculations and other transmission-billing purposes.

In this way, the special allocation results better reflected the physical situation for E-Gas and Nova, by allocating E-Gas consumption only to the days when each was the responsible retailer. The following table shows the net differences between the allocated quantities for each retailer code (across all gas gates) and the magnitude of the largest change for each retailer at any one gas gate.

	Maximum change at a single gas gate (in GJ)²	Net change across all gas gates (in GJ)
AGCL	0.004	-0.008
BOPE	0.008	0.008
CTCT	0.042	0.048
EDNZ	0.029	0.034
EGAS	680.532	-882.108
EGLT	7,201.415	-18,875.640
GEND	0.000	0.000
GENG	1.525	3.128
GEOL	0.001	-0.001
GMTH	0.000	0.000
GNGC	0.008	0.012
GNVG	7,881.951	19,754.440
MEEN	0.046	0.057

² Note these are absolute values, i.e. the change may be an increase or decrease in the retailer's allocation.

2.3 Need for exemption

Although the above processes are straightforward, at least conceptually, they do not align with the Reconciliation Rules. Static or dynamic deemed profiles must be approved by, and registered with, the allocation agent and there is a process set out in the Rules governing deemed profiles (see rules 54-64).

There is a practical problem insofar as it was not possible to provide the allocation agent with the profile that it was intended be used (i.e., the GGRP) ahead of the initial allocation so that it could be approved and registered.

That being the case, it was necessary for Nova and E-Gas to seek an urgent exemption from the relevant parts of the Rules.

Gas Industry Co considered that granting the urgent exemption was appropriate as it would produce virtually identical results for all other retailers (other than insignificant differences due to rounding) and would produce allocations for the liquidator and Nova that were fairer.

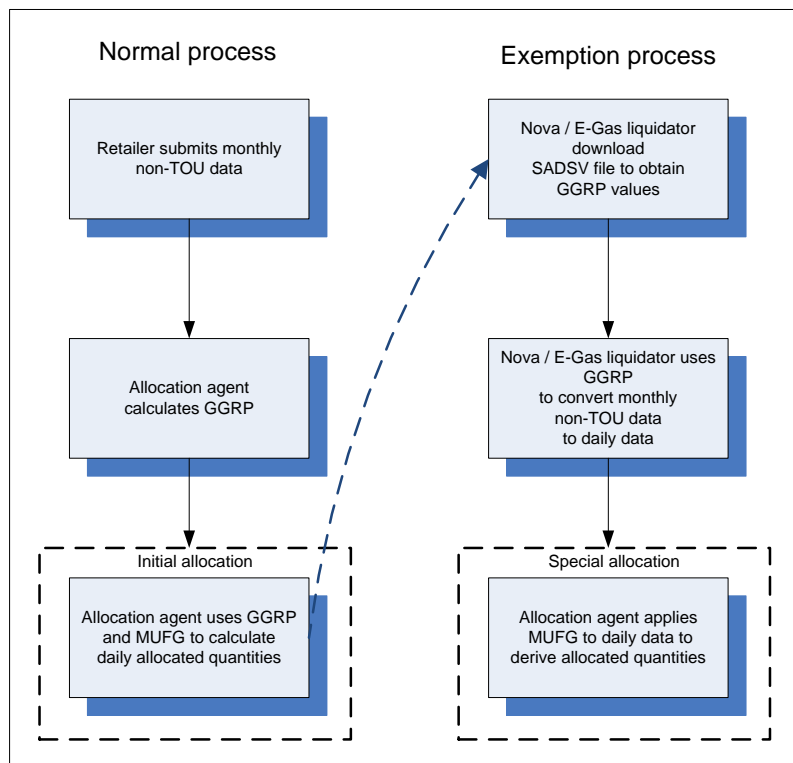
3

Assessment of exemption application

Static or dynamic deemed profiles must be approved by, and registered with, the allocation agent and there is a process set out in the Rules governing deemed profiles (see rules 54-64).

However, in this instance it was not a retailer-generated profile that was to be used. Rather, it was proposed to use the gas gate residual profile that is published following the initial allocation. The fact that the profile would not have been available until after the allocation results were published made it impossible to follow the approval and registration processes set out in the Rules.

The diagram below compares the process under the urgent exemption with the normal process under the Rules.



Assessment

Assessment against the criteria set out in the Rules is provided in the table below:

Criterion	Assessment
1. Allocations are fairer (rule 2)	The distribution of the daily volumes allocated to E-Gas and Nova eliminated unfairness as between those two retailers. Allocations for other retailers were virtually identical.
2. Allocations are more efficient (rule 2 and s43ZN(a) of the Gas Act)	Neutral as the results are, effectively, unchanged.
3. Reliability of allocation and supply is enhanced (s43ZN(a) of the Gas Act)	Neutral.
4. Other s43ZN objectives	Marginal improvement in reducing barriers to competition in the gas industry (s43ZN(b)(ii)), as, without the exemption, Nova may not have felt able to buy E-Gas's customers part-way through a consumption month due to the unknown amounts (and therefore transmission charges) that they may have incurred if the usual allocation process for that month had been used. Granting the exemption may also make it more likely that a future buyer of bulk customers will not need to price in the risk that Nova was endeavouring to avoid by utilising this approach.
5. Departure from uniform processes	Although this approach did not use the usual approval and registration processes for deemed profiles, everything else in the approach was standard. As noted above, it was not possible to obtain approval and registration in advance as the GGRP is not calculated until after the initial allocation.

Overall, Gas Industry Co considered the assessment to be positive and that it was appropriate to grant an urgent exemption to Nova and E-Gas for the November 2010 initial allocation.

Rule 20.2.4 requires that Gas Industry Co determine whether or not to revoke, replace, or amend the exemption. There were three key reasons for granting the urgent exemption:

- without the exemption the allocation results may have produced unfair outcomes for Nova and E-Gas;
- the profile that would have been neutral for all allocation participants, the GGRP, was not available ahead of the initial allocation being published; and
- there would have been insufficient time, following publication of the initial allocation, for the allocation agent to approve and register the GGRP as well as run a special allocation and for Vector to have prepared and issued transmission invoices by the 10th of December 2010.

However, now that the GGRP for the November 2010 consumption period has been published, it is available to be used for the November 2010 interim allocation (to be calculated in March 2011). Similarly, if the GGRP changes as a result of the interim allocation, the revised GGRP will be available for the final allocation for the November 2010 consumption period (to be calculated in December 2011).

As a result, Gas Industry Co considers there is ample time before the interim allocation for Nova and E-Gas to request that the allocation agent approve deemed profiles in respect of each of the relevant gas gates. Similarly, if the gas gate residual profile for any of those gas gates changes as a result of data submitted for the interim allocation, there is ample time between the publication of the interim allocation and the deadline for submitting data for the final allocation that new profiles can be requested, approved and registered. Given that the profiles Nova/E-Gas will wish to register are the gas gate residual profiles, it is not expected that this would be a difficult process for either the allocation agent or the retailers concerned.

It should be noted that Gas Industry Co intends to direct special allocations for the interim and final stages in respect of the November 2010 consumption period. This is necessary so that the SADSV published by the allocation agent are not distorted by the allocation group 5 submissions for a single consumption month.

Gas Industry Co concludes that it is not necessary to amend or extend the existing exemption and it should be allowed to expire on 31 December 2010.

Q1: Do submitters have any comments on, and/or concerns about, the use of the GGRP as a means of isolating the Nova and E-Gas allocations to those parts of the consumption month for which each of them is the responsible retailer for the E-Gas customer base?

Q2: Do submitters agree that there is no reason to extend the expiry date for the existing exemption until 31 December 2011 so as to include the interim and final allocations for the November 2010 consumption period? If not, please provide reasons and an alternative proposal.

Q3: Do submitters agree that, in order to avoid distortions in the relative values of the SADSV between November 2010 and adjacent months it will be necessary for the allocation group 5 data to be submitted for a special allocation following the interim and final allocation stages? The same consumption volumes will need to be submitted by Nova/E-Gas in allocation groups 4 and 6 for the normally-scheduled interim and final allocations.

Appendix A: Exemption applications from Nova, E-Gas and E-Gas 2000

Gas Industry Company Limited

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: E-Gas Limited

Phone: 04 471 4458

Contact Name: Jeff Hart

Fax: 04 473 3582

Email: jeff.hart@bdo.co.nz

Mailing Address: PO Box 10 340

Wellington 6143

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

~~Standard (under rule 19)~~

Urgent (under rule 20)

~~Transitional (under rule 81)~~

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

Rules 54 - 64

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

(see notes attached which set out the requirements for different types of exemptions):

The Reconciliation Rules and the allocation agent system do not provide for the situation where a bulk transfer of customers takes place between retailers part-way through a month. The consumption information of both the buyer and seller will be spread across the entire month. This is particularly problematic for the buyer who may as a result of consumption information submitted by the buyer incur balancing charges (as the buyer will not have nominated gas in expectation of that outcome).

The second potential issue is determining how to distinguish the gas that E-Gas's customers used before the transfer – and therefore the costs associated with the provision of that gas – from the gas used by those customers after the transfer. One potential method, averaging gas consumption across the month, would disadvantage either the buyer or the seller if the actual consumption is either falling or rising through the month.

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

The proposed approach will entail additional work for the allocation agent and the two retailers involved. The allocation agent will need to run a special allocation following the November initial allocation. However, the proposal makes use of existing functionality in the allocation agent system that allows for submission of daily data for non-TOU loads.

Allocation results for all other participants will not change and those other participants are unaffected by the alternative approach being proposed

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

The exemption will only apply for one consumption period (November 2010) and only for the initial allocation.

It is proposed that the exemption expire on 31 December 2010/

Specify what conditions and/or alternative arrangements relating to the exemption sought are appropriate:

The applicant seeks to be able to use the gas gate residual profile to create daily estimates for the non-TOU consumption by E-Gas customers that are being transferred E-Gas Limited to Nova Gas Limited (the applicant).

This will provide the ability for the seller and buyer to isolate their respective data submissions to the days for which each of them is the responsible retailer. All E-Gas customer consumption will be submitted and, in aggregate, the allocation results will be the same.

5. Additional information for an urgent exemption:

If your application is urgent, specify the date(s) by when a decision is needed:

As soon as possible and prior to close of business 6 December 2010

State the reasons for seeking an urgent exemption rather than a standard exemption:

The special allocation needs to be completed sufficiently early so that the results can be used by Vector for its invoicing to be sent out on 10 December.

6. Additional information for a transitional exemption

State the reasons for seeking a transitional exemption rather than a standard exemption:

N/A

Please email this form to exemptions@gasindustry.co.nz

Gas Industry Company Limited

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: E-Gas 2000 Limited

Phone: 04 471 4458

Contact Name: Jeff Hart

Fax: 04 473 3582

Email: jeff.hart@bdo.co.nz

Mailing Address: PO Box 10 340

Wellington 6143

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

~~Standard (under rule 19)~~

Urgent (under rule 20)

~~Transitional (under rule 81)~~

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

Rules 54 - 64

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

(see notes attached which set out the requirements for different types of exemptions):

The Reconciliation Rules and the allocation agent system do not provide for the situation where a bulk transfer of customers takes place between retailers part-way through a month. The consumption information of both the buyer and seller will be spread across the entire month. This is particularly problematic for the buyer who may as a result of consumption information submitted by the buyer incur balancing charges (as the buyer will not have nominated gas in expectation of that outcome).

The second potential issue is determining how to distinguish the gas that E-Gas's customers used before the transfer – and therefore the costs associated with the provision of that gas – from the gas used by those customers after the transfer. One potential method, averaging gas consumption across the month, would disadvantage either the buyer or the seller if the actual consumption is either falling or rising through the month.

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

The proposed approach will entail additional work for the allocation agent and the two retailers involved. The allocation agent will need to run a special allocation following the November initial allocation. However, the proposal makes use of existing functionality in the allocation agent system that allows for submission of daily data for non-TOU loads.

Allocation results for all other participants will not change and those other participants are unaffected by the alternative approach being proposed

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

The exemption will only apply for one consumption period (November 2010) and only for the initial allocation.

It is proposed that the exemption expire on 31 December 2010/

Specify what conditions and/or alternative arrangements relating to the exemption sought are

appropriate:

The applicant seeks to be able to use the gas gate residual profile to create daily estimates for the non-TOU consumption by E-Gas customers that are being transferred E-Gas 2000 Limited to Nova Gas Limited (the applicant).

This will provide the ability for the seller and buyer to isolate their respective data submissions to the days for which each of them is the responsible retailer. All E-Gas customer consumption will be submitted and, in aggregate, the allocation results will be the same.

5. Additional information for an urgent exemption:

If your application is urgent, specify the date(s) by when a decision is needed:

As soon as possible and prior to close of business 6 December 2010

State the reasons for seeking an urgent exemption rather than a standard exemption:

The special allocation needs to be completed sufficiently early so that the results can be used by Vector for its invoicing to be sent out on 10 December.

6. Additional information for a transitional exemption

State the reasons for seeking a transitional exemption rather than a standard exemption:

N/A

Please email this form to exemptions@gasindustry.co.nz

Gas Industry Company Limited

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

5. Please complete a separate form for each type of exemption sought.
6. 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.
7. 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.
8. 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: Nova Gas Limited

Phone: 04 917 8851

Contact Name: Charles Teichert

Fax:

Email: cteichert@tpm.co.nz

Mailing Address: PO Box 3141 Wellington

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

~~Standard (under rule 19)~~

Urgent (under rule 20)

~~Transitional (under rule 81)~~

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

Rules 54 - 64

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

(see notes attached which set out the requirements for different types of exemptions):

The Reconciliation Rules and the allocation agent system do not provide for the situation where a bulk transfer of customers takes place between retailers part-way through a month. The consumption information of both the buyer and seller will be spread across the entire month. This is particularly problematic for the buyer who may as a result of consumption information submitted by the buyer incur balancing charges (as the buyer will not have nominated gas in expectation of that outcome).

The second potential issue is determining how to distinguish the gas that E-Gas's customers used before the transfer – and therefore the costs associated with the provision of that gas – from the gas used by those customers after the transfer. One potential method, averaging gas consumption across the month, would disadvantage either the buyer or the seller if the actual consumption is either falling or rising through the month.

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

The proposed approach will entail additional work for the allocation agent and the two retailers involved. The allocation agent will need to run a special allocation following the November initial allocation. However, the proposal makes use of existing functionality in the allocation agent system that allows for submission of daily data for non-TOU loads.

Allocation results for all other participants will not change and those other participants are unaffected by the alternative approach being proposed

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

The exemption will only apply for one consumption period (November 2010) and only for the initial allocation.

It is proposed that the exemption expire on 31 December 2010/

Specify what conditions and/or alternative arrangements relating to the exemption sought are appropriate:

The applicant seeks to be able to use the gas gate residual profile to create daily estimates for the non-TOU consumption by E-Gas customers that are being transferred to the applicant.

This will provide the ability for the seller and buyer to isolate their respective data submissions to the days for which each of them is the responsible retailer. All E-Gas customer consumption will be submitted and, in aggregate, the allocation results will be the same.

5. Additional information for an urgent exemption:

If your application is urgent, specify the date(s) by when a decision is needed:

As soon as possible and prior to close of business 6 December 2010

State the reasons for seeking an urgent exemption rather than a standard exemption:

The special allocation needs to be completed sufficiently early so that the results can be used by Vector for its invoicing to be sent out on 10 December.

6. Additional information for a transitional exemption

State the reasons for seeking a transitional exemption rather than a standard exemption:

N/A

Please email this form to exemptions@gasindustry.co.nz