

# Consultation on Proposed Variation to an Exemption under the Gas (Downstream Reconciliation) Rules 2008

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- (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009

## 1 Introduction

This consultation paper addresses a proposed variation to the above exemption. The above exemption excluded Vector as a transmission system owner from its obligation to provide daily injection quantities, in accordance with rules 41 and 42 for nine nominated gas gates. The existing exemption provides for the allocation agent to use consumption information provided by the retailers at those gates to estimate the gas injection quantities. The exemption is due to expire on 30 September 2010 but, in respect of the Papakura No 3 PAP06603 and Waverley WY23601 gas gates will expire on 30 November 2009.

A comprehensive consultation on this and other matters was issued in September 2008 and is located on our website.<sup>1</sup>

A decision was made in June 2009 that the pre existing exemption should be extended until September 2010 for the 9 unmetered gas gates featured in the application, but gas gates at Papakura No 3 PAP06603 and Waverley WY23601 featuring significant gas quantities were treated differently. A shorter exemption was granted for these 2 gas gates and pursuant to condition 3(d) of the Exemption, Vector was obliged to provide a report including certain cost specific and flow information so that Gas Industry Co can assess whether the exemption should flow beyond 30 November 2009.

This report has now been provided and based on this with Vector's agreement Gas Industry Co seeks to vary the existing exemption for the two unmetered gas gates. It is proposed to vary the existing exemption on a short term basis and effectively end the exemption for Waverley WY23601.

Two weeks are being allowed for consultation. Submissions are sought no later than Thursday 26 November 2009. 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 to the consultation document.

All submissions will be published on the website after the closing date. For further information, see *Help for New Users* on the Gas Industry Co homepage. Submitters should discuss any

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<sup>1</sup> [http://www.gasindustry.co.nz/sites/default/files/consultations/21/Consultation\\_Paper\\_on\\_Exemptions\\_Applications\\_DR09-910\\_and\\_11\\_under\\_the\\_Gas\\_Downstream\\_Reconciliation\\_Rules\\_2008.pdf](http://www.gasindustry.co.nz/sites/default/files/consultations/21/Consultation_Paper_on_Exemptions_Applications_DR09-910_and_11_under_the_Gas_Downstream_Reconciliation_Rules_2008.pdf)

intended provision of confidential information with Gas Industry Co prior to submitting the information.

A general information paper on the exemptions process and criteria has been issued by Gas Industry Co and can be viewed by downloading from Gas Industry Co's website at the following link: <http://www.gasindustry.co.nz/work-programme/market-administration/exemptions>

## **2 Application DR09-11-S regarding unmetered gas gates and rules 41 and 42**

### **Summary of application**

This particular application to vary the existing exemption is initiated by the Gas Industry Co in response to submission of the required report and additional enquiries from Vector in this regard. Gas Industry Co may vary an exemption pursuant to rule 21.2 of the Gas (Downstream Reconciliation) Rules 2008.

The variation is only intended to cover two of the nine gas gates included in that exemption. The proposal is to vary the exemption as it applies to gas gates at Papakura No 3 PAP06603 and Waverley WY23601 only. This part of the exemption was due to expire on 30 November 2009.

The remainder of the exemption expires on 30 September 2010 and it is not proposed to make any changes in this regard (this covers the remaining seven gas gates).

### **Proposed amendments**

When considering the matter Gas Industry Co's starting presumption is that all gas gates are appropriately metered to ensure that consumption information is accurate as required by the Rules. Exemptions are only appropriate in certain limited situations and there seems no reason why these gas gates should continue indefinitely to be exempt from their compliance obligations. The reason these two gas gates were singled out last time was because of the higher volumes of gas involved.

- **Waverley**

In this case the costs were not large and the installation of the meter appears straightforward. Gas Industry Co therefore recommends that a meter should be installed as soon as possible. It is proposed to extend the variation by six months until 31 May 2010 which will allow Vector to install a meter.

- **Papakura**

As the costs of installing a gas meter are more significant at this gas gate it is proposed to extend the exemption until 30 September 2010 when the entire exemption will expire. The

question of exemptions and the requirements for meters at all gas gates is part of a broader policy question which Gas Industry Co will address as part of a comprehensive policy review scheduled to commence within the next six months. It is expected that a decision on the issue generally will be made in advance of the exemption expiry date. The decision made will guide Vector going forward and is likely to ensure compliance.

- Summary of Report submitted as a condition of the exemption (full report at Appendix C)

An abridged version of the report is attached. Vector asked Gas Industry Co to remove the breakdown of its costing which has been done. The report had to include

*a breakdown of the costs of installing a meter, an associated cost benefit analysis, the time and other arrangements needed to install a meter, all available current and historical information on gas quantities at the gas gate, and any other additional information reasonably requested by Gas Industry Co for the purpose of assessing the operation of this exemption to those gas gates.*

The amount quantified for Waverley is further qualified by the following comments from Vector:

*Vector advises that this estimate of costs for installing a meter has a high probability of being accurate, though the actual costs will not be known until the meter has been installed. Vector also advises that the reason why the cost, when compared to the cost of installing a meter at the Papakura no 3 gas gate, is low is due to the fact that the Waverley Delivery Point does not require alteration, and a corrector and telemetry are already in place.*

### **Issues relating to continuing the exemption**

The list is the same as in the earlier consultation document but in this case it is considered that the level of risk is some what lower because, if the exemption is varied in the manner suggested by Gas Industry Co, Waverley will be metered by 31 May 2010.

- Possible adverse effects from continuing the exemption in particular for Papakura include the inability to determine the magnitude of any UFG at the gates concerned, and there may be other adverse effects to consider. The existence of unmetered gas gates means that UFG at those gas gates will likely be treated as transmission system UFG. Do you have any concerns or will you suffer adverse effects of this or any other type if the existing exemption is continued?
- Vector has put forward both cost-benefit and operational reasons for deciding that it is inappropriate to install a gas gate meter at these gas gates. Do you agree or disagree with Vector's analysis? If you disagree please give reasons.
- As indicated above, Vector (and Gas Industry Co) is not aware of any reports of concern or of problems encountered, resulting from the operation of the existing exemption. Are there problems that you wish to identify that have not been notified yet, and if so what are they and how significant are they?

- Vector states it does not currently have an ability to provide injection information at these unmetered gas gates and that an alternative process needs to be determined in order that allocation processes can occur. Is it appropriate to continue the existing process at these unmetered gas gates, that is for retailers to provide the allocation agent with their consumption information so that this can then be aggregated and used to estimate the injection quantities?
- Gas Industry Co would usually expect gas gates to be metered unless installation of meters is manifestly commercially inefficient. Vector considers that it would be commercially inefficient to install meters at the gas gates in question due to the small volumes at those gas gates. However, the volumes at the Papakura No 3 PAP06603 and Waverley WVY23601 gas gates on average exceed 800 GJ and 1700GJ per month respectively. Should these gas gates be subject to an exemption or be treated differently in any exemption granted?
- Under the Rules, each consumer installation is required to have a meter (and which accords with the accuracy and interrogation requirements of NZ5259:2004). A question arises whether a continuing dispensation should be given in respect of the nominated unmetered gas gates, when no such dispensation is provided to retailers in respect of their more numerous consumer installations. Do participants have a view on this issue?
- Gas Industry Co would be very concerned if a potential outcome of exempting unmetered gas gates was that meters were removed from any other gas gates. For this reason it is recommended that any exemption (if granted) be limited to the 9 (or potentially 7) identified gas gates. Do participants agree?
- The unmetered gas gates Papakura 3 PAP06603 and Waverley WVY23601 also exhibit negative gas gate residual profile values. The issue appears to arise because of the manner in which the allocation system calculates the daily injection quantities at unmetered gas gates. The current methodology used by the allocation system for estimating injection quantities at unmetered gas gates is to take the total consumption quantities submitted by retailers and to allocate this evenly across all of the days in the consumption period. This approach was developed on the basis that unmetered gas gates did not have TOU-metered gas consumers. As a consequence of this approach, at unmetered gas gates with large TOU-metered consumers, it is possible that negative GGRP values will be calculated due to the TOU quantity on a given day being greater than the (flat-line profiled) daily average injection quantity estimated by the allocation system. The risk of negative GGRP values arising in this manner at these gas gates could be eliminated by having the allocation system take a flat-line profile average of non-TOU metered consumption at an unmetered gas gate before then adding the TOU metered consumption so as to estimate the daily injection quantities. One participant has previously expressed a view that the algorithm for calculation of injection quantities at unmetered gas gates should be changed to prevent negative GGRP values due to TOU quantities exceeding injection quantities. Do other participants have a view on whether the algorithm used by the allocation system in these situations should be altered?

- Do participants consider continuing the existing exemption is desirable to better achieve the objectives set out in section 43ZN of the Act and the purpose of the Rules?

*Q1: Do submitters have any comments on the proposed variation to Exemption DR09-11-S regarding the two nominated unmetered gas gates?*

# Appendix A 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 applications in their responses.

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

*Q1: Do submitters have any comments on the variation to exemption DR09-11-S regarding the two nominated unmetered gas gates?*

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