

Consultation on Exemption Applications under the Gas (Downstream Reconciliation) Rules 2008

- Application DR09-09-S regarding the deadlines for the provision of injection information under rules 41 and 42
- Applications DR09-10-T regarding oversized gas gate meter information under rule 41 and 42
- Application DR09-11-S regarding unmetered gas gate information under rule 41 and 42

1 Introduction

This consultation paper deals with a package of three exemption applications, which all relate to the requirements for transmission system owners to provide gas gate injection information in accordance with rules 41 and 42.

The first application DR09-09-S from Vector effectively seeks to extend existing exemptions in regard to the rule 41 and 42 requirements for the provision of injection information.¹ The application was formulated in response to a report which Gas Industry Co was required to produce (under the terms of the existing exemptions) on the requirements that should apply in regard to rules 41 and 42 beyond 30 April 2009. An urgent exemption was granted on an interim basis on 30 April 2009 and, following the completion of this consultation, Gas Industry Co must determine whether to revoke, replace or amend the exemption.

The second application DR09-10-T from Vector is a transitional application seeking an exemption from rules 41 and 42 for three gas gates which have gas gate meters which are oversized for the amount of gas going through them. Vector considers it is unable to ensure that accurate gas injection quantities are provided to the allocation agent. The form of exemption being sought is very similar to the current unmetered gas gate exemption² in effect, and for which an extension is being sought.

The third application DR09-11-S from Vector seeks to extend the existing exemption for unmetered gas gates, which expires on 30 June 2009. It has been submitted following the provision of a report by Vector, as required under the exemption, on the estimated costs and benefits of the provision of meters at the relevant nine unmetered gas gates. The existing

¹ These existing exemptions are *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18S: Injection Information) Notice 2008* and *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-25-S: Injection information) Notice 2008*.

² *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008*.

exemption provides for the allocation agent to use consumption information provided by the retailers at those gates to estimate the gas injection quantities.

Two weeks are being allowed for consultation. Submissions are sought no later than Thursday 25 June 2009. Submissions can be made by registering on Gas Industry Co's website 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 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 DR09-09-S rule regarding the provision of injection information under rules 41 and 42

Summary of application

The full application is attached as Appendix B. A summary of the application follows:

GIC Code: DR09-09-S

Applicant: Vector Gas Ltd

Exemption Type: Standard under rule 19/20.2.4 (urgent exemption having already been granted)

Exemption Sought:

- In respect of the provision of injection information under rule 41, Vector are seeking an exemption for transmission system owners (TSOs) until 30 September 2010 on the same material conditions as those set out in the existing Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18S: Injection Information) Notice 2008, including those relating to the provision of consumption information under rule 31 and the provision of allocation results under rule 48.
- In respect of the provision of daily injection information under rule 42, Vector are seeking an exemption for TSOs until 30 September 2010 so that gas gates without telemetry are fully exempt, and gas gates with telemetry (except the 21 gas gates with live SCADA data and other gas gates in the future with live SCADA data) are exempt from complying on non-business days.

The term sought for the exemption is until 30 September 2010.

Summary of Reasons:

- The application is in accordance with the conclusions in the GIC report on the rule 41 and 42 exemptions with one exception, and that is that Vector does not accept and has not included the condition that TSOs should make all reasonable endeavours to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010;
- The reasons for excluding this condition are as follows:
 - The estimated cost to provide estimated injection information to shippers on a 365 day per year basis would be considerable, and even then there would be residual uncertainties about the information;
 - There is no evidence that provision of information on every day would improve the ability of Shippers to manage their pipeline balancing
 - The evidence is that the existing exemption without this condition has operated satisfactorily; and
 - It is premature and arguably a predetermination, given that a rule change review is proposed which includes rule 42, for the condition to be imposed.

Additional information

- The exemption sought essentially seeks to extend previously granted exemptions in regard to the rule 41 and 42 requirements for the provision of injection information. These previous exemptions are *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18S: Injection Information) Notice 2008* and *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-25-S: Injection information) Notice 2008*.³
- So as to ensure that Gas Industry Co was able to properly consider the exemption application and to ensure the applicant was not unduly disadvantaged in the interim, on 30 April 2009 Gas Industry Co granted an urgent exemption on an interim basis in respect of this application. The urgent exemption [Gas \(Downstream Reconciliation\) Rules 2008 \(Urgent Exemption DR09-09-S: Injection Information\) Notice 2009](#) (attached as Appendix C) is in force until 30 June 2009 and provides that:
 - the rule 41 deadline for the provision of actual daily energy injection quantities by transmission system owners is 1200 hours on the 4th business day of every month; the rule 31 deadline for the provision of consumption information for the initial allocation by retailers is 1200 hours on the 4th business day of every month; and the rule 46.4.1(a) and 48.2 deadline for the allocation agent to publish the monthly UFG factor, perform initial allocations and provide reports on those allocations to retailers is 1200 hours on the 5th business day of every month.
 - for gas gates without telemetry metering, transmission system owners are exempt from the requirement to comply with rule 42 on all calendar days; for gas gates with telemetry metering but without live SCADA data, transmission system owners are exempt from the requirement to comply with rule 42 on days that are not business days; and, to avoid doubt,

³ Also relevant is the consequential exemption for the allocation agent regarding the deadline for publishing the monthly UFG factor - *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-28-T: Allocation Agent Monthly UFG Factor) Notice 2008*.

for gas gates with telemetry metering and live SCADA data, transmission system owners must comply with rule 42 on all calendar days.

- The application was formulated in response to a report which Gas Industry Co was required to produce, under the terms of the previous exemptions, on the requirements that should apply in regard to rules 41 and 42 beyond 30 April 2009.⁴ The report was consulted on with allocation participants and, in respect of future exemptions, its preliminary conclusions were that:
 - a rule 41 exemption should apply until 30 September 2010, on the same material terms and conditions set out in the existing *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18- S: Injection information) Notice 2008* (including those relating to provision of consumption information under rule 31 and the provision of allocation results under rule 48).
 - a rule 42 exemption should apply until 30 September 2010 with the following modified conditions:
 - TSOs are fully exempt from rule 42 for gas gates without telemetry metering until 30 September 2010; and
 - in respect of gas gates with telemetry, TSOs are exempt from complying with rule 42 on non-business days until 30 September 2010 for all but the 21 gas gates with live SCADA data (and also potentially other gas gates that in future with live SCADA data); and provided TSOs make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010.
- The experience since the Rules went live indicates that the revised timelines for the provision of information under rule 41 have been workable in practice for TSOs. Information is now being provided with high reliability by 1200 hours on the required day. Vector estimates that in the long run they would expect to achieve the 1200 hours deadline 99.99% of the time. However, if the 0800 hours deadline was enforced, anecdotal evidence suggest that two or three gas gates would remain outstanding for each consumption period and therefore breach the requirements of rule 41.

Issues

Rule 41

- A concern at the time of granting the exemption was whether the shift from providing information at 0800 hours to 1200 hours would create consequential problems in terms of the same delay in the timing of initial allocation results from the allocation agent. The associated extension of time for retailers to provide initial consumption information appears to have caused no concern. Also, the equivalent extension of time for the allocation agent to

⁴ See "Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008", dated 23 April 2009, which can be downloaded from Gas Industry Co's website at <http://www.gasindustry.co.nz/work-programme/downstream-reconciliation?tab=340>.

publish the initial allocation results has retained the same full 24 hour period for the allocation agent to process submitted information. The extension does lessen the available time by four hours for the allocation agent to identify and remedy errors in the initial allocation results under rule 43. However, Gas Industry Co understands there have been no difficulties to date for the allocation agent in operating under this restricted timeframe. There has been no indication that the delayed reporting time on initial allocations has or will create any difficulties for retailers. Do participants agree with this assessment?

- The substantial issue is whether the four hour potential delay in providing initial allocation results (it may be only two hours in practice most of the time) is creating difficulties for retailers. Participants have previously indicated that the delay is not causing problems and is in fact beneficial in some cases because it provides more time in which to ensure that the information is accurate. Given the experience to date, Gas Industry Co's preliminary view is that there is sufficient reason for continuing the relaxed initial allocation submission and reporting deadlines currently allowed via exemption. Applying the 0800 hours deadline is likely to impose significant additional costs for TSOs for little (if any) benefit to retailers and the allocation agent. Do participants agree with this view?

Rule 42

- A key element of the rule 42 requirement to provide daily injection information is that it is not required for the allocation process set out in the Rules. Gas Industry Co understands that the information is primarily used by retailers to assess their upstream balancing positions on a daily basis (ie not just business days). This unvalidated daily injection information is already required to be provided, in accordance with the Vector Transmission Code (VTC), albeit to a lesser degree, ie only on business days for gas gates with telemetry and the month end for gas gates without telemetry.
- Gas Industry Co has previously stated that one of the aims of the Rules was to 'establish more transparency of the full costs of balancing and reconciling gas' and that the 'publication of daily gas gate information would be a first step towards achieving greater transparency.'⁵ However, given the practical problems identified by Vector for TSOs in doing so, the issue is whether there is value for retailers in having the stricter requirements of rule 42 applied over and above those provided for in the VTC.
- Most participants have generally expressed the view in the past that the VTC is the most appropriate arrangement to primarily deal with the provision of this information. This situation notwithstanding, retailers have previously indicated they wish to see the quality of this information improve and Vector has stated it is taking steps to do this. Gas Industry Co is aware that Vector now provides daily unvalidated daily injection data for telemetry gas gates on SCADA (21) on non-business days when previously it was only provided on business days. More daily injection data is now made available than has previously been the case and over

⁵ Gas Industry Co's Discussion Paper - Reconciliation of Downstream Gas Quantities, dated 11 January 2007.

and above what the previous exemptions required in respect of telemetry gas gates on non-business days.

- While full compliance with rule 42 is considered desirable in the long-term, given the practical inability for Vector to comply with rule 42 in the short-term, Gas Industry Co's preliminary view is that the continuation of the urgent exemption is appropriate. The exemption would:
 - provide for TSOs (and Vector especially) to be exempted from supplying daily information for gas gates without telemetry, because there currently is no practicable means for providing the information; and
 - in the case of gas gates with telemetry, generally exempt TSOs from providing daily injection information on non business days, on the grounds that it would require additional resourcing to do so and that this additional cost is not warranted by the benefits. However, gas gates with live SCADA data are not included because the establishment of SCADA overcomes the problem.
- The one key area in which the application departs from the Gas Industry Co rule 41/42 report is the absence of a condition that encourages TSOs to progressively move toward providing injection data on every day (not just business days) for gates with telemetry. One additional condition Gas Industry Co proposed to apply to any continuing exemption is a requirement for TSOs to make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010. Vector opposed this condition on the basis that it could place Vector "in a position of legally waiving its right to argue the terms of compliance at a later date". In addition Vector considers there is no evidence to support the view that the provision of such information on a daily basis will substantially improve the ability of shippers/retailers to manage their pipeline balancing. Do participants agree or disagree that such a condition should be included?
- Do participants consider continuing the existing urgent 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 exemption DR09-09-S proposed by Vector regarding the requirements of rule 41 and 42 (and as a consequence rules 31 and 48)?

3 Application DR09-10-T regarding oversized gas gate meters and rule 41 and 42

Summary of application

The full application is attached as Appendix D. A summary of the application follows:

GIC Code: DR09-10-T

Applicant: Vector Gas Ltd

Exemption Type: Transitional under rule 81

Exemption Sought: From the provision of injection information under rules 41 and 42 , for the following gas gates with oversized (and thus inaccurate) gas gate meters: Flockhouse FLH21901, Te Teko TTK3060, and Rainbow Mountain RBM03101.

The same condition should apply as is already applied in the existing exemption for unmetered gas gates, i.e. the requirements of rules 41 and 42 are met by the allocation agent making estimates based on the consumption information submitted by retailers.

The term sought for the exemption is until 30 September 2010.

Summary of Reasons:

- The meters at the nominated gas gates have, since their installation, become oversized for the amount of gas currently passing through these points. The meter range is normally able to accommodate a substantial variation in gas flow, but in the case of these 3 gas gates the reduction in flow is so substantial that the flow is no longer within the accurate (global) measureable range.
- Vector is thus unable to ensure accurate measurement of daily gas injection quantities and is thus at risk of being in breach of rules 41 and 42.
- Potential non-compliance with the Rules is not necessarily temporary. Gas injection flow at Rainbow Mountain has currently ceased.
- All but one shipper has agreed to provide Vector with consumption information so estimates can be made for the other 2 gates.
- No disadvantage or inconvenience is anticipated to the affected shippers or the allocation agent if the 3 gas gates are treated in the same manner as for the exemption for the 9 unmetered gas gates.

Additional information

Gas Industry Co notes that the Rainbow Mountain RBM03101 gas gate is a direct connect consumer gas gate and is not currently allocated under the Rules. Therefore the proposed alternate arrangements for establishing injection quantities at this gas gate cannot operate, but given gas flow has ceased at Rainbow Mountain RBM03101 this is not expected to cause any concerns.

Since the Rules went live, no special provision has been made regarding the allocation process at these gas gates. Currently, zero quantities are frequently allocated at the Flockhouse FLH21901 and Te Teko TTK3060 gas gates, as the submitted injection quantities have been zero. However, consumption quantities of between 40-600 GJ have been often been submitted at Te Teko TTK3060 and up to 30 GJ at Flockhouse FLH21901 on those occasions.

Issues

- The issues set out below should be considered separately for the three gas gates concerned.
- The rule compliant response to the situations described for the three gas gates is to replace the current meter with a meter for which the current flows are within the range for accurate measurement (or, where appropriate, recalibrate the current meter). However, this may not be a technically sound solution if the flows are subject to very wide inherent variability, or there

are good reasons for suggesting that flows are likely to change by very large increments in the future (eg large customers either joining or leaving the gate). Do participants have views on the extent to which inherent or anticipated variation is a factor supporting the application (please provide supporting information)?

- If variability per se is not a factor (ie the flows have simply changed to a new lower level) then the question of whether or not to install a different meter or recalibrate the meter is a conventional investment decision in which the investment cost must be weighed up against the benefits, principally to retailers/shippers – and in light of the requirements and policy intentions of the Rules. Do participants consider that the benefits justify the cost of replacing the meter (specific costs are not available so the question needs to be answered qualitatively rather than quantitatively)? If so, please identify the benefits and explain why they are sufficiently large to justify action?
- Gas Industry Co generally has an expectation that gas gates are to be accurately metered. This is important for the accurate allocation of gas at each gas gate under the Rules, and the identification of any UFG occurring at the gas gate. By comparison, each consumer installation is required to have a meter which accords with the accuracy and interrogation requirements of NZ5259:2004. A question therefore arises whether a dispensation is appropriate in respect of the nominated oversized metered gas gates, when no such dispensation is provided to retailers. Do participants have a view on this issue?
- Do participants consider the applicant has shown:
 - a demonstrated inability to comply with a rules 41 and 42 for these 3 gas gate for reasons which are temporary (for example, any causes of non-compliance will be corrected or overcome by a defined time, which exist despite genuine and reasonable efforts to comply);
 - alternative arrangements are set out for meeting the intended objective of rules 41 and 42 for these 3 gas gate, which are practicable (ie fit for purpose), and consistent with effectively achieving the purpose of the Rules as a whole, and which are considered to be fair to other allocation participants;
 - granting the transitional exemption would not be materially inconsistent with the purpose of the Rules.

Q2: Do submitters have any comments on the exemption application DR09-10-T from Vector regarding the oversized meters at the following gas gates: Flockhouse FLH21901, Te Teko TTK30601 and Rainbow Mountain RBM03101?

4 Application DR09-11-S regarding unmetered gas gates and rule 41 and 42

Summary of application

The full application is attached as Appendix E. A summary of the application follows:

GIC Code: DR09-11-S

Applicant: Vector Gas Ltd

Exemption Type: Standard under rule 19

Exemption Sought: In respect of the gas gates listed below, that do not have a gas gate meter as at the date of the decision notice, from the provision of injection information under rules 41 and 42, on the following conditions:

- The exemption shall apply to the following gas gates:

Kuku – KUK22401	Pungarehu 1 – PGU13101
Matapu - MTP20601	Te Horo – THO22701
Okoroire Springs – OKS32801	Waverley – WVY23601
Papakura No 3 – PAP06603	Wellsford – WEL18301
Oakleigh – OAK18601	

- The exemption shall expire on 30 September 2010.
- The requirements of rules 41 and 42 will be met during the period of the exemption by the allocation agent using the consumption information provided by retailers under rules 31, 32 and 33 to estimate the injection quantities for those gas gates.

Summary of Reasons:

- The application is effectively for an extension of an existing exemption which is due to expire on 30 June 2009. As required by the exemption Vector submitted a report to Gas Industry Co on the situation at the gas gates concerned, which concluded that it would be appropriate to continue the exception. Gas Industry Co's initial response was that there looked to be a good case for extending the exemption and on that basis this application was lodged.
- Historically Vector has not installed meters at all gas gates on its transmission system and each site is assessed from an engineering and cost perspective according to its own circumstances. The total cost of installing meters at the 9 gas gates would be in the range of \$150,000 to \$300,000 excluding operating costs and any additional telemetry. Moreover the installation process could be technically challenging as the number of customers is generally small, customers are often of the same type, and at the smaller gates gas flow is often zero for long periods of time, punctuated by short bursts of high flow. This makes meter selection inherently difficult. The conclusion is that at these 9 gas gates the balance between short and long term benefit does not outweigh cost sufficiently to meet Vector's investment requirements.
- Continuing the exemption will not undermine the principles of access to the process and fair outcomes, or produce more reliable allocations for each Shipper. Vector is also not aware of any operational problems for the allocation agent or financial detriment to any Shipper, during the term of the existing exemption.
- Extension of the exemption would enable GIC to consider the prospect of rule changes (to rules 41 and 42) consistent with the proposed exemption.

Additional information

- The existing exemption notice in respect of the exemption of unmetered gas gates from rules 41 and 42 is [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption DR08-14-T: Unmetered Gas Gates\) Notice 2008](#). The exemption notice is set out in Appendix F and is summarised as follows.
 - Transmission system owners are exempted from their obligations to provide daily injection quantities, under rule 41 and 42, for 9 nominated gas gates all of which do not have gas gate meters;
 - In the absence of injection information the allocation agent will use consumption information provided by retailers under rules 31, 32 and 33 to estimate the injection quantities;
 - No later than 31 March 2009 Vector is to provide a report on the costs and benefits and other relevant information on providing meters at those gas gates;
 - The exemption expires on 30 June 2009.
- The report received from Vector as required by the above exemption is summarised as follows:
 - Vector has not carried out any additional work on the costs and benefits of providing gas gate meters at the 9 gas gates but confirms that the existing costs and benefits provided at the time of consulting on the existing exemption are still appropriate;
 - Historically Vector has not installed meters at all gas gates. Each site is assessed from an engineering and cost perspective according to its own circumstances;
 - The capital costs of installing gas gate meters at each of the gates would be in the range \$150,000 to \$300,000, with the higher end of the range more likely. There would be ongoing operational and maintenance costs of \$10,000 pa across all of these gates, and additional costs if additional telemetry was required.
 - The installation process at these gates would be technically challenging because the customers are generally of the same types and gas flows will often be zero for long periods punctuated by periods of high flow. A meter which was sized for the maximum flow would spend most of its time operating below the minimum turndown for accurate metering. While this could be resolved by having dual meters, this would further increase the cost;
 - The consumption quantities at the 8 gates at which gas is taken is small, and the benefits do not justify the costs set out above for installing and operating a gas gate meter. The situation at the 9 gas gates does not meet Vector's internal requirements for approving capital investments;

- Vector is not aware that the existing exemption has caused any operational difficulties for the allocation agent or financial detriment to shippers at the gates concerned;
- The information set out above supports the existing exemption, and justifies its extension on a permanent basis.
- The total allocated quantities of gas at these gas gates in allocations to date are set out below in GJ:

Gas Gate	Oct-08 (M)	Nov-08 (M)	Dec-08 (M)	Jan-09 (M)	Feb-09 (I)	Mar-09 (I)	Apr-09 (I)	May-09 (I)
KUK22401	64.046	41.19	32.364	31.837	27.272	39.122	50.79	85.064
MTP20601	24.924	17.28	15.19	11.408	9.156	16.058	19.05	50.158
OAK18601	1.953	0	2.852	1.054	3.08	1.953	1.05	0.155
OKS32801	68.696	61.56	57.846	54.25	48.076	56.947	58.11	87.544
PAP06603	1014.816	832.32	717.247	582.831	702.268	850.95	841.08	1070.058
PGU13101	32.829	21.6	13.578	10.199	4.9	17.98	26.13	30.969
THO22701	41.292	40.11	22.599	28.861	38.248	54.436	31.38	47.585
WEL18301	448.849	214.95	177.692	121.613	112.924	221.154	120.42	234.98
WVY23601	1763.683	1451.76	1063.083	932.077	1485.96	2480.682	1875.15	2790.155

- A further breakdown of the load characteristics at these unmetered gas gates is also outlined below. Gas Industry Co also notes that approximately 29 and 37 other metered gas gates, respectively, have smaller average injection quantities than the Papakura No 3 PAP06603 and Waverley WVY23601 gas gates.

Gas Gate	No. of retailers	Retailers	Approx non-TOU/ TOU split	Average monthly injection (Oct08 – May09)
KUK22401	3	CTCT, EGLT, GENG	100% / 0 %	46.46
MTP20601	1	GENG	100% / 0 %	20.40
OAK18601	1	GENG	100% / 0 %	1.51
OKS32801	2	EGLT, MEEN	100% / 0 %	61.63
PAP06603	5	AGCL, CTCT, GEND, GENG, MEEN	23% / 77%	826.45
PGU13101	1	GENG	100% / 0 %	19.77
THO22701	3	CTCT, EGLT, GENG	100% / 0 %	38.06
WEL18301	4	CTCT, EDNZ, GENG, MEEN	100% / 0 %	206.57
WVY23601	4	CTCT, GEND, GENG, MEEN	1% / 99%	1730.32

Issues

- Possible adverse effects from continuing the exemption 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?

Q3: Do submitters have any comments on the exemption application DR09-11-S from Vector regarding the 9 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)

Question	Comment
<i>Q1: Do submitters have any comments on the exemption DR09-09-S proposed by Vector regarding the requirements of rule 41 and 42 (and as a consequence rules 31 and 48)?</i>	
<i>Q2: Do submitters have any comments on the exemption application DR09-10-T from Vector regarding the oversized meters at the following gas gates: Flockhouse FLH21901, Te Teko TTK30601 and Rainbow Mountain RBM03101?</i>	
<i>Q3: Do submitters have any comments on the exemption application DR09-11-S from Vector regarding the 9 nominated unmetered gas gates?</i>	

Appendix B Copy of application DR09-09-S

<p>Gas Industry Company Limited</p> <p>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</p>							
<ol style="list-style-type: none"> 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 							
<p>1. Name and contact details for the participant(s) seeking exemption:</p> <table> <tr> <td>Company name: Vector Gas Limited (Vector)</td> <td>Phone: (04) 803 9018</td> </tr> <tr> <td>Contact Name: Jo Murray, Commercial Manager – Gas Transportation</td> <td>Fax: (04) 803 9065</td> </tr> <tr> <td>Email: jo.murray@vector.co.nz</td> <td>Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington</td> </tr> </table>		Company name: Vector Gas Limited (Vector)	Phone: (04) 803 9018	Contact Name: Jo Murray, Commercial Manager – Gas Transportation	Fax: (04) 803 9065	Email: jo.murray@vector.co.nz	Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington
Company name: Vector Gas Limited (Vector)	Phone: (04) 803 9018						
Contact Name: Jo Murray, Commercial Manager – Gas Transportation	Fax: (04) 803 9065						
Email: jo.murray@vector.co.nz	Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington						
<p>2. Type of exemption sought (delete all but one):</p> <p>Standard (under rule 19)</p>							
<p>3. Provisions of the Rules from which the exemption is sought:</p> <p>Vector applies for exemption from compliance with rules 41 and 42 on the following conditions:</p> <p>Rule 41 – Provision of daily injection information, subject to the following conditions:</p> <ul style="list-style-type: none"> • The exemption should apply until 30 September 2010 on the same material terms and conditions set out in the existing <i>Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) Notice 2008</i> (including those relating to the provision of consumption information under rule 31 and the provision of allocation results under rule 48); and 							

Rule 42 – Publication of estimated day-end volume injection quantities each day, subject to the following conditions:

- The exemption should apply until 30 September 2010;
- For gas gates without telemetry metering, TSOs are fully exempt; and
- For gas gates with telemetry (except the 21 gas gates with live SCADA data and other gas gates in the future with live SCADA data), TSOs are exempt from complying on non-business days.

Important note: The conditions for rule 42 proposed in this application differ from those recommended by the GIC in its Report by the deletion of the proposed condition requiring TSOs to “make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010.” Vector is comfortable continuing to discuss the terms of compliance post expiry of the exemption, but cannot place itself in a position, via this exemption, of legally waiving its right to argue the terms of compliance at a later date.

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):

BACKGROUND

Chronology of Procedural Milestones

There is an extensive background to the current exemptions to rules 41 and 42. In summary, the milestones in that background (for Vector) are:

- (a) **21 August 2008** - GIC Publication: *Initial exemptions under Gas (Downstream Reconciliation) Rules 2008*;
- (b) **5 September 2008** - Vector Submission;
- (c) **17 September 2008** - GIC Publication: *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008*;
- (d) **17 September 2008** - GIC Publication: *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) Notice 2008*;
- (e) **6 November 2008** - GIC Publication: *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-25-S: Injection information) Notice 2008*;
- (f) **4 March 2009** - GIC request for submission from Vector for the purpose of a report to be prepared in accordance with condition 3(c) of the DR08-25-S Notice;
- (g) **16 March 2009** - Vector Submission;

- (h) **23 March 2009** - GIC request for submission from Vector for the purpose of a report to be prepared in accordance with condition 3(d) of the DR08-14-T Notice;
- (i) **31 March 2009** - Vector Submission;
- (j) **March 2009** - GIC Publication: *Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008 - Consultation Paper*;
- (k) **15 April 2009** - Vector Submission; and
- (l) **23 April 2009** - GIC Publication: *Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008 (Report)*.

GIC's Report

Following the analysis of 6 submissions, on 23 April 2009 the GIC issued its Report. The GIC's recommended course of action is that exemptions should continue until 30 September 2010. For rule 41, the exemption will continue on similar conditions that currently apply. For rule 42, the conditions are modified from the current conditions. The conclusion of the GIC, in its Report, is as follows:

"In summary, Gas Industry Co's recommended course of action is as follows:

- A rule 41 exemption should apply until 30 September 2010, on the same material terms and conditions set out in the existing Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) Notice 2008 (including those relating to provision of consumption information under rule 31 and the provision of allocation results under rule 48).
- A rule 42 exemption should apply until 30 September 2010 with the following modified conditions:
 - TSOs are fully exempt from rule 42 for gas gates without telemetry metering until 30 September 2010; and
 - In respect of gas gates with telemetry, TSOs are exempt from complying with rule 42 on non-business days until 30 September 2010 for all but the 21 gas gates with live SCADA data (and also potentially other gas gates that in future with live SCADA data); and provided TSOs make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010.
- Applications for exemptions relating to the above can be applied for Vector or MDL through the standard rule 19 exemption process.
- Action should be taken, either by determining any exemption applications submitted by Vector or MDL after consultation, or by considering an urgent exemption (followed by consultation if granted), to ensure that decisions on any exemptions are made no later than 30 April 2009 when the existing exemptions expire." (*Report, Part 7, page 12*)

Vector's Application

Given the GIC's recommendation, Vector now makes this application for a standard exemption under rule 19 of the Gas (Downstream Reconciliation) Rules 2008 (**Rules**).

This application is in accordance with the GIC's recommendations for both rules 41 and 42, **except** to the extent that Vector does not accept the following recommended condition:

"make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010."

Vector does not accept that proposed condition, and has made this application without that condition for the following reasons:

- (a) As previously submitted on several occasions, the cost to provide estimated injection information to Shippers on a 365-day basis would be considerable. Extra metering and measurement staff (including field staff) would be required. National coverage would be necessary to ensure that incorrect meter information was corrected promptly irrespective of where it occurred, and even that coverage could not guarantee completely accurate unvalidated information;
- (b) There is no evidence to support the view that the provision of such information on a 365-day basis will substantially improve the ability of Shippers to manage their pipeline balancing;
- (c) Evidence so far from the operation of the current exemption supports the view that it has operated effectively as no problems have been reported, and that the current exemption should continue;
- (d) Further evidence from operating the exemption for another 12 months will place all industry participants in a better position than currently to assess the whether it would be appropriate to make a rule change to reflect the current exemption; and
- (e) Accordingly, Vector believes that it is premature, and is arguably a predetermination given that a Rule change review is proposed which includes rule 42, to require it to use all reasonable endeavours to be in a position to comply with rule 42, on 1 October 2010, on a 365-day basis.

Vector further notes that if it accepted the condition it may be held to have legally waived its right to argue this point at a later stage, and this would be an unacceptable outcome for Vector.

CRITERIA FOR STANDARD EXEMPTIONS

The Information Paper, published by the GIC in March 2009 dealing with exemptions, specifies criteria against which applications for exemption will be considered. For standard exemptions the criteria are specified in rule 19.2 of the Rules ie that the GIC is satisfied that the exemption is desirable to better achieve the objectives set out in section 43ZN of the Gas Act 1992, and the purpose of the Rules (rule 2).

While the history around the granting and reporting on the exemptions for rules 41 and 42 has been adequately dealt with in the documents comprising the

procedural milestones noted above, for completeness the following are Vector's brief response to each criterion for standard exemptions.

Purpose of the Rules (Rule 2)

Allocations are fairer, more efficient and more reliable -

- Rule 41 - Injection information provided at 1200 hours will in most circumstances be more reliable than providing the same information at 0800 hours. Due to the need for a manual check and correction of some files on the 4th business day following the consumption month this reliability could not be maintained if the 0800 hour deadline was imposed. It would result in the use of incorrect injection information for some files and could consequentially be unfair on affected Shippers. Reliability of the process would be compromised if the prescribed earlier deadline was required to be adhered to. This would consequentially affect efficiency.
- Rule 42 - It would be very costly for Vector to provide injection information on weekends and on statutory holidays. National coverage by field staff would be required to manually check information in the case of faulty meters as well as the possibility of having to employ more metering and measurement staff at Vector's Bell Block premises. That considerable cost would be unfair on Vector especially when it would require Vector to exceed its obligations to Shippers under section 3.3 (and Schedules 4 and 5) of the VTC in providing consumption information on OATIS. There is no evidence to support that fact that that provision of consumption information additional to that which Vector is already obliged to provide would make allocations more efficient or enhance reliability in this regard. Vector has nevertheless taken voluntary action to provide live (but unchecked) SCADA data at 21 gas gates and in addition now publishes on OATIS (for all Shippers to see) Energy Quantity information for all receipt and delivery points. With that extra information now being provided, and no disadvantage having been experienced by the Allocation Agent or Shippers since the exemption was granted, Vector considers that it is fully supporting the purpose of the Rules.

Departure from uniform processes

- Rule 41 - The provision of injection information to the Allocation Agent 4 hours later than currently prescribed in the Rules is a minimal departure and has not caused any identifiable 'knock-on' effects to the Allocation Agent or Shippers.
- Rule 42 - While the departure (through the exemption) from providing Shippers with injection information every 'day' as opposed to 'business day' appears to be a major departure from the prescribed obligation, it has not shown in practice to have a major impact on Shippers. Vector's voluntary action in providing live (but unchecked) SCADA data at 21 gas gates, and Energy Quantity information to all Shippers for all receipt and delivery points (through a change to the VTC) is also a practical step to minimise departure from the requirements of this rule.

Objectives set out in section 43ZN of the Gas Act

Allocations are fairer, more efficient and more reliable (paragraph (a)):

- Rule 41 - As above; and
- Rule 42 - As above.

Incentives for investment in gas processing facilities, transmission, and

distribution are maintained or enhanced (paragraph (b)(iii)):

- Rule 41 – The incentive for investment would be undermined if Vector was required to incur considerable additional costs in order to attempt to comply with the 0800 hours deadline prescribed in the Rules. Experience has shown, since the exemption has been in place, that incurring such cost is not necessary to ensure optimum compliance with this rule.
- Rule 42 – The incentive for investment would be undermined if Vector was required to incur considerable additional costs in order to attempt to provide Shippers with consumption information on all days rather than just on business days. While Vector has voluntarily incurred extra cost to supply live SCADA data at 21 gas gates, and has also agreed to publish on OATIS (for all Shippers to see) Energy Quantity information for all receipt and delivery points, that action cannot be taken as a precursor to full compliance with the rule as prescribed. Vector has not been presented with any evidence from Shippers that supplying injection information over weekends and statutory holidays would produce demonstrable benefits (over and above the current provision) that would outweigh the considerable cost that would be directly incurred by Vector. Accordingly there is no incentive for investment in this regard.

Other relevant considerations

- Compliance with exemptions – Vector has complied with exemptions DR08-14-T; DR08-15 and 16-S; and DR08-25-S since they were granted;
- There is unanimous agreement (for rule 41) and positive support (for rule 42), that the exemptions have not caused any industry problems and should continue to 30 September 2010;
- There have been no reported breaches of the rules (as exempt), and no recorded disadvantage to Shippers as a direct consequence of the exemptions;
- Vector considers that in view of the information submitted from Shippers for its Report, there is no reason for the GIC to act other than consistently with the status quo and continue the exemptions; and
- Finally, Vector considers that the continuation of the exemptions is both fair and reasonable in view of the prospect of further evidence being gained over the next year to see if the 2 rules should be amended. The Rules Register and the more detailed consideration of the requirements of these 2 rules through longer experience of applying the exemptions is vital to ensuring that the purpose of the Rules is achieved for all participants.

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

The GIC's Report records the comments of 6 submitters and generally concludes that there were no reported problems with the exemptions, and there is agreement that the exemptions should continue (Part 3).

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

that you specify:

Vector generally agrees with the preliminary view held by the GIC in its Consultation Paper (March 2009) and the recommendations in its Report that the exemptions should be continued to 30 September 2010. This period is appropriate given the proposed Rules review (including rule 42).

However, as noted for rule 42, Vector does not agree that during the period between the granting of this application (should that occur) and its expiry on 30 September 2010, Vector should be required to use all reasonable endeavours to be in a position to comply with rule 42 at that time. Vector considers that that condition should not apply during this period. The length of time during which the exemption will continue will give industry participants more sustainable evidence upon which to determine how rule 42 should read following a Rules review.

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

Rule 41 - Vector agrees with the conclusions of the GIC in its Report that the exemption should continue on the same material terms and conditions as the current exemption (Part 7).

Rule 42 - Vector agrees with the conditions of the GIC in its Report **except** to the extent that:

"TSOs make all reasonable endeavours to be in a position to comply with rule 42 in respect of all gas gates with telemetry on non-business days by 30 September 2010." (Part 7)

In its submissions on 5 September 2008, 16 March 2009, 31 March 2009, and 15 April 2009, Vector submitted that it was unable to comply with rule 42 in providing unvalidated (estimated) injection information on weekends and statutory holidays. Vector remains of that view, but more importantly considers that given the exemption has been in place for over 6 months and there is broad agreement that "no specific problems have been reported as a result of the rule 42 exemptions" it is premature, and is arguably a predetermination given that a Rule change review is proposed which includes rule 42, to require it to use all reasonable endeavours to be in a position to fully comply with rule 42 by 30 September 2010.

As indicated above, since the exemption was granted, Vector, at its cost, has volunteered to supply live (unchecked) SCADA data at 21 gas gates. This decision did not result in an industry agreed change to the VTC. Vector did however agree with Shippers to a change to the VTC to publish on OATIS (for all Shippers to see) Energy Quantity information for all receipt and delivery points. This extra injection information is intended to assist Shippers with their obligations under the Rules and under the VTC. However, Vector confirms that it has no evidence from Shippers that supplying injection information over weekends and statutory holidays would produce demonstrable benefits (over and above the current provision) that would outweigh the considerable cost that

<p>would be directly incurred by Vector.</p> <p>Vector will continue to provide that extra information, but cannot agree to any condition which requires it to make all reasonable endeavours to be in a position to comply with rule 42 by 30 September 2010. Vector anticipates still being unable to fully comply with that rule at that time. Vector believes that it would raise a false expectation that it would comply with the rule if it agreed to that part of the condition, and believes that the correct approach is to assess the operation of the rule in the interim through the continued exemption and make a more reasoned decision whether a rule change is appropriate as part of the Rules review.</p> <p>Accordingly, Vector considers that the conditions proposed in Part 3 of this application are appropriate for the exemption (should it be granted).</p>
<p>5. Additional information for an urgent exemption:</p> <p>If your application is urgent, specify the date(s) by when a decision is needed:</p> <p>State the reasons for seeking an urgent exemption rather than a standard exemption:</p>
<p>6. Additional information for a transitional exemption</p> <p>State the reasons for seeking a transitional exemption rather than a standard exemption:</p>
<p>Please email this form to exemptions@gasindustry.co.nz</p>

Appendix C Existing urgent exemption notice

Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-09-S: Injection Information) Notice 2009

Pursuant to rule 20 of the Gas (Downstream Reconciliation) Rules 2008, Gas Industry Company Limited (“Gas Industry Co”), as the industry body appointed pursuant to s43ZL of the Gas Act 1992, gives the following notice.

Notice

1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-09-S: Injection Information) Notice 2009.
- (b) This notice comes into force on the date of this notice.

2. Interpretation

- (a) In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under sections 43F, 43Q and 43S of the Gas Act 1992 by notice published in the New Zealand Gazette, as may be amended from time to time.
- (b) Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.
- (c) SCADA means the “System Control and Data Acquisition” system used by Vector Gas Limited to monitor gas gate metering and other equipment, retrieve data and control equipment such as compressors.

3. Urgent Exemption

An urgent exemption is granted in respect of rules 41 and 42 subject to the following terms and conditions:

- (a) *Rule 41 - Provision of Daily Injection Information*
 - (i) The rule 41 deadline for the provision of actual daily energy injection quantities by transmission system owners is 1200 hours on the 4th business day of every month.
 - (ii) The rule 31 deadline for the provision of consumption information for the initial allocation by retailers is 1200 hours on the 4th business day of every month.

- (iii) The rule 46.4.1(a) and 48.2 deadline for the allocation agent to publish the monthly UFG factor, perform initial allocations and provide reports on those allocations to retailers is 1200 hours on the 5th business day of every month.
- (b) *Rule 42 - Publication of estimated day-end volume injection quantities each day*
 - (i) For gas gates without telemetry metering, transmission system owners are exempt from the requirement to comply with rule 42 on all calendar days.
 - (ii) For gas gates with telemetry metering but without live SCADA data, transmission system owners are exempt from the requirement to comply with rule 42 on days that are not business days.
 - (iii) To avoid doubt, for gas gates with telemetry metering and live SCADA data, transmission system owners must comply with rule 42 on all calendar days.
- (c) The exemption will expire on 30 June 2009.

4. Reasons for granting the urgent exemption

The reasons for granting the urgent exemption are:

- (a) Vector Gas Limited has applied to Gas Industry Co for an exemption in respect of certain aspects of the obligations to provide injection quantities as set out in rules 41 and 42. The exemption sought essentially seeks to continue the existing exemptions in effect in respect of rule 41 and 42 but that expire on 30 April 2009.
- (b) An urgent exemption is desirable to ensure that Gas Industry Co is able to properly consult on and consider Vector Gas Limited's exemption application and to ensure the applicant is not unduly disadvantaged in the interim.
- (c) The urgent exemption is limited to the end of June 2009 to allow consultation to occur and to enable Gas Industry Co to properly consider Vector Gas Limited's exemption application.

DATED at Wellington this 30th day of April 2009.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.

Appendix D Copy of application DR09-10-T

<p>Gas Industry Company Limited</p> <p>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</p>
<ol style="list-style-type: none"> 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
<p>1. Name and contact details for the participant(s) seeking exemption</p> <p>Company name: Vector Gas Limited (Vector) Phone: (04) 803 9018</p> <p>Contact Name: Jo Murray, Commercial Manager – Fax: (04) 803 9065 Gas Transpiration</p> <p>Email: jo.murray@vector.co.nz Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington</p>
<p>2. Type of exemption sought (delete all but one)</p> <p>Transitional (under rule 81)</p>
<p>3. Provisions of the Rules from which the exemption is sought</p> <p>Rule 41 - Provision of daily injection information; and Rule 42 - Publication of estimated day-end volume injection quantities each day: for 3 gas gates with oversized meters</p>
<p>4. State the reasons on why you are seeking the exemption and why the exemption sought should be granted</p> <p>(see notes attached which set out the requirements for different types of exemptions):</p> <p>Background</p> <p>The gas gate meters at Flockhouse (FLH 21901), Te Teko (TTK30601) and Rainbow Mountain (RBMO3101) have, since their installation, become oversized for the amount of gas that currently passes through those points. As a direct consequence of this, Vector's gas metering and measurement team at New Plymouth are unable to ensure accurate daily gas injection quantities supplied to the Allocation Agent and Shippers at those</p>

points.

Due to not being able to ensure accuracy, Vector as a meter owner and allocation participant (transmission system owner), is at risk of not being able to comply with its obligations under the following Rules:

- providing the Allocation Agent with actual daily energy quantities injected at each gas gate (rule 41); and
- providing retailers with estimated injected daily energy quantities at each gas gate (rule 42).

These 3 gas gates are indicative of situations where the telemetry was installed at a site based on the actual or projected gas quantities at the time of installation, but do not reflect the current situation where quantities have declined for various reasons. For instance, when installed, the gas gate meter at Flockhouse was required to be of sufficient size to cater for a thriving agriculture training and research institute. The institute opened in 1924 and closed in 1988. During its heyday in the 1960-80's it catered for student boarders over a complex that incorporated 300 individual rooms, various facilities and service buildings including a bar and restaurant, a heated swimming pool, squash courts, and a double-gymnasium. Consequently, gas consumption for both commercial and domestic use was relatively high. Since its closure, the establishment has been privately owned several times and is now owned by the Flockhouse Trust. Currently gas consumption is very low by comparison to when the institute was fully operational as a training and research centre. The meter is nevertheless the same.

In most cases where the gas consumption has substantially changed at a gas gate the meter range is normally able to accommodate the variation, however in these 3 instances the reduction in flow is substantial to the extent that the flow is no longer within the accurate (global) measurable range.

Criteria for transitional exemptions

The Information Paper dealing with exemptions specifies criteria against which applications for exemption will be considered. The following are those criteria and Vector's response to each.

A demonstrated inability to comply with a rule for reasons which are temporary, ie will be corrected or overcome by a defined time, and which will exist despite genuine attempts to comply, ie are not the result of a wilful intent to avoid compliance or inadequate attempts to achieve compliance

Vector currently complies with rules 41 and 42 (as exempted – see below) in respect of all gas gates. However, for oversized meters at these 3 gas gates, Vector is unable to ensure accurate daily injection gas quantities because current consumption appears to have dropped substantially so as to fall outside the accurate (global) measurable range of each meter at those gas gates.

Non compliance with these rules is not necessarily temporary. Gas injection at Rainbow Mountain has currently ceased; Te Teko has reduced and in the case of Flockhouse, the injection quantity is low but may increase to an accurate (global) measurable range in the foreseeable future. The Flockhouse Trust purchased the premises in 2006 and intends to again fully utilise the complex as an Applied Training, Experiential Learning and Business, Research and Product Development Centre. Gas consumption will inevitably increase if that development occurs as follows:

“The 17 – hectares of Flock House land, accommodation (over 300 rooms) and service buildings

are being re-instated fit-for-purpose. Plans to implement training, business, research and development programs in 2009 are progressing. Training and experiential learning will be offered publicly as will the accommodations, services and facilities such as the indoor heated swimming pool, double gymnasium, squash and tennis courts and the rugby field, where many of the great touring All Blacks teams trained."

http://www.flockhouse.org.nz/index.php?option=com_content&view=article&id=53&Itemid=66

Despite Vector not being able to ensure the accuracy of the injection quantity at the 3 gas gates, Vector does not consider that it is breaching rule 27 (which requires meters to be verified as accurate and have a margin of error within the prescribed New Zealand Standard). Vector has no reason to believe that the meters at the gas gates are faulty. The inability to ensure accuracy is due to the fact that the flow rate is outside the accurate (global) measurable range due to the size of the meter.

As with unmetered gas gates, Vector does not intend to avoid compliance with its obligations under rules 41 and 42 for the 3 gas gates. It does however wish to ensure greater accuracy of quantities than currently is the case. Vector believes that it can achieve that through the use of consumption information and recognition of that information for the purpose of those Rules by way of exemption.

An alternative arrangement is defined for meeting the intended objective of the rule from which the exemption is sought, which is practicable (ie, fit for purpose), and consistent with effectively achieving the purpose of the relevant rules as a whole, and which is considered to be fair to other participants

To ensure that the injection information is as accurate as possible, Vector must be able to estimate the quantities based on consumption information provided by Shippers. All but 1 Shipper at Flockhouse and Te Teko have agreed to provide Vector with consumption information to estimate injection quantities and satisfy rules 41 and 42. As indicated, no gas is currently flowing through Rainbow Mountain.

Shipper consumption information has been approved for the 9 exempt unmetered gas gates (see below). In Vector's experience to date, the use of Shipper consumption information at those gates has been effective and fair. Further, we understand that the Allocation Agent would have no objection to providing Shipper consumption information for these 3 gas gates with oversized meters.

Granting the transitional exemption would not be materially inconsistent with the purpose of the particular rules

As with the exemption for unmetered gas gates, an exemption for gas gates with oversized meters would be consistent with the purpose of the Rules (rule 2). It would, in the circumstances, provide an appropriate solution to enable the fair, efficient and reliable allocation and reconciliation of downstream gas quantities. Currently, the accuracy of the injection information cannot be assured therefore, as a consequence, reliance on the injection information is a 'second best option' to Shipper consumption information for gas gates with oversized meters. The efficiency of using Shipper consumption information has been proven in respect of unmetered gas gates and the same process would be appropriate for gas gates with oversized meters. Vector believes that it would be unfair and contrary to rule 2 if it was required to carry the substantial capital cost of removing and installing new meters of the correct size in these 3 situations (especially in the case of Flockhouse when there are recent indications that gas consumption could soon increase; the increase could again bring consumption to an accurate (global) measurable quantity through the same meter if proposed property development plans occur). Shipper consumption information is more reliable in the case

of these 3 gas gates and therefore aligns more closely with the purpose of the Rules.

Any other considerations that may be relevant to a decision on an exemption, subject to the requirements of rules 81 under the Reconciliation Rules and rule 90 under the Switching Rules.

Consistency, and new information are important considerations for the GIC.

The GIC should treat similar situations in like manner provided there are no sustainable reasons for treating them differently. As indicated, Vector considers that the situation with oversized meters at the 3 gas gates is similar to unmetered gas gates. The GIC adequately dealt with unmetered gas gates as part of the initial exemptions in September 2008 (see below). The issue with oversized meters was not raised by any industry participant at that time. Had the issue been raised, Vector believes that, more likely than not, the GIC would have acted consistently and treated them in the same way as unmetered gates by granting a transitional exemption (possibly on the same conditions).

New information is now available to the GIC which is relevant to the consideration of transitional exemptions. The GIC has recently commenced a Register of Rule changes, called for submissions from industry participants and intends to carry-out a major review of the Rules with the intention that rules requiring significant changes will be amended to take effect from 1 October 2010. The GIC has signalled that exemptions granted to date (including rules 41 and 42) will form part of that review. Oversized meters at gas gates should also be included in the review of rules 41 and 42. The inability to ensure the accuracy of injection quantities for the 3 sites needs to be addressed permanently. While a transitional exemption would be an appropriate solution in the interim, a permanent solution for all matters associated with rules 41 and 42 is vital for compliance with the Rules and for promoting their purpose. The initial tranche of exemptions (including that for unmetered gas gates) were granted in some cases because after commencement, but before the go-live date, the:

"...Gas Industry Co has become aware of some unforeseen issues in the arrangements set out for downstream allocation and reconciliation." (*Initial exemptions under the Gas (Downstream Reconciliation) Rules 2008*; 21 August 2008; para 3.1)

The oversized meters at gas gates is also an unforeseen issue that needs resolution both on an interim and permanent basis.

These 2 matters of consistency and new information (since the initial exemptions were granted) are relevant considerations when considering if an exemption should be granted for oversized meters at the 3 gas gates.

Other Information

Information other than that set out above for specific criteria may contribute to a decision, although should not over-ride the application of the criteria set out above. Other information of this type may include:

See comments under 6 'Additional Information' below.

The extent to which there are relevant precedents from prior decisions

The situation of oversized meters at gas gates has not previously been specifically considered by the GIC. However, the situation in respect of unmetered gas gates is a precedent under the Rules that is relevant to the situation of oversized meters. In September 2008, as part of the initial tranche of exemptions, the GIC exempted

compliance with rules 41 and 42 for 9 gas gates (*Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008*). The period of the exemption is to 30 June 2009 and is additional to other exemptions DR08-15-S and DR08-16-S granted in respect of rules 41 and 42 also granted as part of the initial exemptions (and extended to 30 June by Urgent Exemption DR09-09-S: Injection Information Notice 2009). The exemption is transitional and was made subject to 3 conditions. Of relevance to the issue with oversized meters are conditions (a) that gas quantities are unable to be measured, and (c) that an alternative arrangement has been provided for ie for the Allocation Agent to use consumption information provided by Shippers to estimate injection quantities. Continuation of the exemption is conditional on a report being prepared by the GIC which is currently underway. Vector made a submission for the purpose of the report on 31 March 2009. In summary, Vector recommended that the exemption should continue as a 'permanent exemption' or be extended beyond 30 June 2009 so that consideration could be given to a rule change to provide a permanent and fair solution for these gas gates. In support of that recommendation, Vector (in summary) submitted:

- There would be no substantive benefit to Shippers or the Allocation Agent resulting from the installation of meters;
- The cost of installation would be uneconomic and would not outweigh any resulting benefit;
- Installation would not be technically feasible at some of the sites;
- Shippers were not unanimously opposed to the exemption;
- Shipper consumption information has historically been used at the sites and has not caused any problem for Shippers;
- There have been no breaches of the exemption; and
- The 2 relevant reasons for the granting of the exemption are still being satisfied, especially that: "(a) Gas quantities at unmetered gas gates are unable to be measured, and (c) An Alternative arrangement has been provided for the allocation agent to use consumption information provided by retailers under the Rules to estimate the injection quantities at the affected gas gates."

Some of these reasons would equally apply to oversized meters at gas gates. While there may be others, Vector is able to identify only 3 gas gates with oversized meters. Therefore, like the 9 unmetered gas gates, the issue is not a significant one in terms of number of sites affected. Shipper consumption information could readily be made available and relied upon without any inconvenience to the Allocation Agent. Removal of the current meters and replacement with new meters would be uneconomic and would not outweigh any resulting benefit. Further, in the case of at least 1 gas gate (Flockhouse) gas consumption may increase to within the accurate (global) measurable range of the meter if consumption increases as a result of the intended development plans for the site. In summary, a transitional exemption would align with that for the 9 unmetered gates and enable the GIC to deal with these like issues in a similar manner, and also to consider a permanent solution through the Rules Review process.

The extent to which the issue underlying the exemption is generic, ie affects a number of participants, rather than just the applicant

The underlying issue is specific to the identified 3 gas gates with oversized meters. Only the following Shippers, at the respective gates, are affected:

Genesis Energy
Wanganui Gas
Bay of Plenty Energy
OnGas

Any relevant legal, policy or cost implications

In its submission to the GIC on the *Report for the Expiry of Exemption DR08-14-T: Unmetered Gas Gates*, Vector advised that the best estimate cost to install meters at the 9 exempt gas gates was \$20,000 for each gate. Ongoing costs for maintenance, other telemetry and monitoring were additional. This cost would likely be similar if Vector had to remove the current oversized meters and install new ones of the correct size to ensure that the meter range could more reliably measure gas injections at current flow levels. As indicated, for Flockhouse, that action could also be counterproductive.

In addition to the purpose provision of the Rules, the GIC is required to follow the objectives in s 43ZN of the Gas Act 1992 and the Government's April 2008 Policy Statement. Vector submitted on 31 March 2009, in respect of the GICs proposed report on unmetered gas gates, that the granting of a permanent exemption to use consumption information for the 9 unmetered gas gates would not undermine the statutory objectives of 'efficiency' and 'reliability'. Further, requiring Vector to incur a considerable capital cost to install meters at the 9 unmetered gas gates sites would be contrary to s 43ZN(b)(iii) of the Gas Act ie "incentives for investment in gas processing, transmission, and distribution are maintained or enhanced." (paragraph 16). Vector considers that the same reasoning applies to the 3 gas gates with oversized meters.

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

Vector does not anticipate any disadvantage or inconvenience to the affected Shippers or the Allocation Agent if the 3 gas gates are treated in the same manner as for the 9 unmetered gas gates that are currently exempt from rules 41 and 42, and with a similar condition that consumption information may be used to satisfy the requirements of those rules.

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

The exemption sought is transitional to 30 September 2010. Vector considers that it would be appropriate to include the issue of oversized meters as part of the several issues concerning rules 41 and 42 that are currently the subject of exemptions and are to be addressed in the Rules Review.

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

Vector considers that if the GIC granted the exemption for oversized meters, the same condition as it applied for unmetered gas gates would be appropriate:

"The requirements of rules 41 and 42 will be met during the period of the exemption by the allocation agent using the consumption information provided by retailers under rules 31, 32, and 33 to estimate the injection quantities for those gas gates." (condition 3(c) of Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008).

Appendix E Copy of application DR09-11-S

<p>Gas Industry Company Limited</p> <p>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</p>						
<p>1. Please complete a separate form for each type of exemption sought.</p> <p>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.</p> <p>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.</p> <p>4. Gas Industry Co may request additional information after receiving and reviewing the application</p>						
<p>1. Name and contact details for the participant(s) seeking exemption:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Company name: Vector Gas Limited (Vector)</td> <td style="width: 50%;">Phone: (04) 803 9018</td> </tr> <tr> <td>Contact Name: Jo Murray, Commercial Manager – Networks</td> <td>Fax: (04) 803 9065</td> </tr> <tr> <td>Email: jo.murray@vector.co.nz</td> <td>Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington</td> </tr> </table>	Company name: Vector Gas Limited (Vector)	Phone: (04) 803 9018	Contact Name: Jo Murray, Commercial Manager – Networks	Fax: (04) 803 9065	Email: jo.murray@vector.co.nz	Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington
Company name: Vector Gas Limited (Vector)	Phone: (04) 803 9018					
Contact Name: Jo Murray, Commercial Manager – Networks	Fax: (04) 803 9065					
Email: jo.murray@vector.co.nz	Mailing Address: 142 Wakefield Street, Private Bag 39980, Wellington					
<p>2. Type of exemption sought (delete all but one):</p> <p>Standard (under rule 19)</p>						
<p>3. Provisions of the Rules from which the exemption is sought:</p> <p>Vector applies for an exemption, for unmetered gas gates, from compliance with rules 41 (Provision of daily injection information), and 42 (Publication of day-end volume injection quantities each day), on the following conditions:</p> <p>“(a) The exemption shall only apply to the following gas gates on the transmission system that do not have a meter as at the date of this notice:</p> <ul style="list-style-type: none"> (i) Papakura No.3 PAP06603 (ii) Kuku KUK22401 (iii) Wellsford WEL18301 (iv) Te Horo THO22701 (v) Oakleigh OAK18601 (vi) Waverley WVY23601 (vii) Matapu MTP20601 (viii) Okoroire Springs OKS32801 (ix) Pungarehu 1 PGU13101; 						

(b) The exemption shall expire on 30 September 2010; and

(c) The requirements of rules 41 and 42 will be met during the period of the exemption by the allocation agent using the consumption information provided by retailers under rules 31, 32, and 33 to estimate the injection quantities for those gas gates.”

Important Note: These conditions differ from those in the *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008* by excluding clause 3(d) which relates to a report being provided by Vector to the GIC 3 months prior to the expiry of that transitional exemption. That condition was specific to that Notice and is no longer appropriate for an extension of the current exemption.

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):

BACKGROUND

This application cannot be considered in isolation. It is part of a wider community of exemption notices that have been issued by the GIC since September 2008 that relate to compliance with the requirements of rules 41 and 42 of the *Gas (Downstream Reconciliation) Rules 2008 (Rules)*. Accordingly, any decision on this application must be consistent with the GIC’s decision on the proposal for exemptions for rules 41 and 42.

Relevant Notices

This application is:

- (a) effectively an extension of the *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008* published by the GIC on 17 September 2009 (**Notice**) (on similar conditions excluding condition (d) which expires on 30 June 2009); and
- (b) associated with exemptions granted by the GIC, in respect of rules 41 and 42, under the:
 - *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) Notice 2008* on 17 September 2008 (now expired and replaced);
 - *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-25-S: Injection information) Notice 2008* (now expired and replaced); and
 - *Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-09-S: Injection Information) Notice 2009* (which replaces the former notices and expires on 30 June 2009 pending consideration of Vector’s application for a Standard Exemption until 30 September 2010).

Other Relevant Documents

Also relevant, for consideration in association with this application, are:

- (a) Vector's Report to the GIC, as required by condition 3(d) of the Notice, on 31 March 2009 (which recommended that the GIC issue permanent exemptions or extend the current exemptions to rules 41 and 42 for unmetered gas gates);
- (b) the GIC's *Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008*, on 23 April 2009 (which concluded that the GIC's recommended course of action is that exemptions should continue until 30 September 2010 (Part 7, page 12));
- (c) the initial view of the GIC, following consideration of Vector's Report on unmetered gas gates, on 28 May 2009, that: "there looks to be a good case for extending the existing exemption, probably to 30 September 2010 to line up with other exemptions. That view is without prejudice to whatever might come out of the consultation process."; and
- (d) Vector's application for exemption from rules 41 and 42 for 3 Oversized meters at gas gates, on 22 May 2009.

Vector's Application

Given the GIC's initial view, Vector now makes this application for a standard exemption under rule 19 of the Rules.

This application is in accordance with the GIC's recommendation to extend the existing exemption but excludes the condition that:

"No later than 3 months prior to the expiry of this exemption, transmission system operators with unmetered gas gates will provide a report to Gas Industry Co setting out the estimated costs and benefits of, and any other relevant information on, the provision of meters at those gas gates." (Notice; clause 3(d))

That condition was specific to the Notice and the Transitional nature of the exemption and is no longer appropriate for extension of the current exemption.

CRITERIA FOR STANDARD EXEMPTIONS

The Information Paper, published by the GIC in March 2009 dealing with exemptions, specifies criteria against which applications for exemption will be considered. For standard exemptions the criteria are specified in rule 19.2 of the Rules i.e. that the GIC is satisfied that the exemption is desirable to better achieve the objectives set out in section 43ZN of the Gas Act 1992, and the purpose of the Rules (rule 2).

While:

- the Report by Vector to the GIC on 31 March 2009 covered the reasons for continued exemption for unmetered gas gates from compliance with rules 41 and 42; and
- the related history around the granting and reporting on the exemptions for rules 41 and 42 was extensively dealt with in Vector's application of 29 April 2009:

for completeness the following are Vector's brief responses to each criterion for

standard exemptions:

Purpose of the Rules (Rule 2)

Allocations are fairer, more efficient and more reliable

Efficiency

Historically, Vector has not installed meters at all gas gates on its Transmission system. Each site is assessed from an engineering and cost perspective according to its own particular circumstances. Even where gas gates have meters, decisions have also been made that no other telemetry such as correctors should be installed, or that meters should be removed where they have originally been installed (for instance where rogue data has been supplied due to low flow/pressure rates, wide flow range, or detected inaccuracies).

The total cost of installing meters at all 9 gas gates identified in clause 3(a) of the Notice is estimated to be between the range of \$150,000 to \$300,000 (with the higher end of the range being the more likely). That capital cost excludes any cost of additional telemetry that may be required at each gate and ongoing operational/maintenance costs of approximately \$10,000 pa across all those gates. In addition, the position with Oakleigh remains the same as in Vector's submission dated 5 September 2008, i.e. no gas is being taken at that gate.

Further, the installation process at these 9 gates would be technically challenging, and this could increase the cost. Due to the very small number of customers downstream, and the fact that such customers are often of the same type (e.g. all residential) the gas flow at smaller gates is often zero for long periods of time, punctuated by short bursts of high flow. This makes meter selection inherently difficult. A meter sized for the maximum flow rate may spend most of its time operating below its minimum turn-down for accurate metering. In theory, that problem can be addressed by installing separate low-flow and high-flow meter runs. However that would make the cost of metering even more excessive. Moreover, to ensure continuity of supply to the network, automatic stream switching between such meter streams would be required. Such switching systems always present complex technical challenges for small installations. In the one or two instances where Vector has used them they have proven unreliable and have ultimately been abandoned.

Finally, Vector like many businesses takes a 'hard look' at all capital investment proposals in the current difficult economic climate. Short and long-term benefit would need to considerably outweigh the cost for investment to occur. The situation with respect to these 9 gas gates falls short of Vector's requirements.

Fair Outcomes for Participants and Reliable Allocations

Continuing the exemption will not undermine the principles of access to the process and fair outcomes or produce more reliable allocations for each Shipper. Two of the reasons relied on by the GIC, when granting the transitional exemption and issuing the Notice, were that:

" (a) Gas quantities at unmetered gas gates are unable to be measured; and

(c) An alternative arrangement has been provided for the allocation agent to use consumption information provided by retailers under the Rules to estimate the injection quantities at the affected gas gates." (Notice; clause 4)

Installing meters at these 9 gas gates, at considerable capital and ongoing cost, will not necessarily produce fairer outcomes for Shippers. In fact the opposite may occur given the technical complexity of the meters that would be required to be installed and which may produce unreliable injection information.

Further, Vector is not aware of any operational difficulties for the allocation agent, or financial detriment to any Shipper at the 9 gas gates that has occurred in using consumption quantities, in terms of the exemption, to satisfy the requirements of rules 41 and 42. Also, Vector has traditionally used consumption information at these 9 gas gates to comply with its invoicing rights and balancing obligations under section 3.3 (and Schedules 4 and 5) of the Vector Transmission Code.

Objectives set out in section 43ZN of the Gas Act

Allocations are fairer, more efficient and more reliable

As above.

Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced (paragraph (b)(iii))

The incentive for investment would be undermined if Vector was required to incur considerable additional costs to install meters at these 9 gas gates. As indicated, metered gas quantities at these sites has proven not to be crucial to the allocations of each affected Shipper.

Substantial compliance with rules 41 and 42 currently occurs (in accordance with the Notice) at these sites in that allocations based on Shippers' consumption information satisfy the requirements for reliable allocations. The considerable cost of investment of installing meters at these sites could not be justified to simply achieve 'full' compliance with those rules. This is especially so as the reasons advanced by the GIC to grant the current exemption still prevail.

Departure from uniform processes

There is minimal departure from the usual process of providing actual daily gas quantities at gas gates where:

- reliance can be made on Shippers' consumption information;
- that information has proven to be a reliable substitute for injection information; and
- there are only 9 sites where this occurs.

Other relevant considerations

Other relevant considerations that must be taken into account by the GIC in assessing this application are:

- Vector has complied with the Notice since the exemption was granted in September 2008;
- Vector has complied with related exemptions DR08-15 and 16-S; and DR08-25-S for rules 41 and 42 since they were granted in September and November 2008; and continues to comply with the requirements of urgent exemption DR09-09-S granted on 30 April 2009;
- There was lack of opposition to the GIC granting the exemption for unmetered gas gates in the first place. The 5 Shippers' that made submissions on the proposal for an exemption for unmetered gas gates, as part of the tranche of initial exemptions under the Rules, were divided on the proposal;
- There is unanimous agreement (for rule 41) and positive support (for rule 42), that these exemptions have not caused any industry problems and should continue to 30 September 2010 (*GIC Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008*; 23 April 2009; Part 3), accordingly it would be consistent for all related exemptions, including that for unmetered gas gates, to be extended to that date;
- Evidence from operating the exemption for another 12 months will place all industry participants in a better position than currently to assess the whether it would be appropriate to make a rule change to reflect the current exemption. Further time for this assessment will also align with one of the reasons upon which the GIC granted the exemption, namely:

"The exemption is being granted on a temporary basis to allow Gas Industry Co time to determine, and report on, whether it is reasonable that these [9 unmetered] gas gates remain without meters." (Notice; clause 4(b));

- Extension of the exemption to 30 September 2010 would be consistent with the prospect of extension to the exemptions to rules 41 and 42. The GIC has recommended a course of action which 'extends' the exemptions for those rules to that date (*Report on exemptions granted in respect of rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008*, on 23 April 2009 (which concluded that the GIC's recommended course of action is that exemptions should continue until 30 September 2010 (Part 7, page 12)); and
- Finally, extension of the exemption will give the GIC the opportunity to consider "the prospect of rule changes [to rules 41 and 42] consistent with the proposed exemptions" (Above GIC Report; page 12). Changes are being considered to these rules as part of both the 'minor and technical' and major policy review exercises underway through the Rules Register.

Describe how the exemption sought may affect other participants (including service

providers) and any costs and benefits to them:

The exemption would apply to the same 9 gas gates and effectively extend the Notice on the same conditions as to the use of consumption information from Shippers. There have been no recorded difficulties by Shippers or the allocation agent with compliance with rules 41 and 42 on that basis. Accordingly it is not anticipated that difficulties will arise if the exemption is extended on the same conditions (except in respect of clause 3(d) which was particular to the transitional exemption and has been satisfied).

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

Vector generally agrees with the initial view held by the GIC that:

"there looks to be a good case for extending the existing exemption, probably to 30 September 2010 to line up with other exemptions. That view is without prejudice to whatever might come out of the consultation process."

As indicated, this period is appropriate for the reasons of fairness, reasonableness and consistency given the GIC's recommended course of action to extend the exemptions for rules 41 and 42, and in view of the Rules review currently underway.

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

The conditions (a) (which specifies the 9 gas gates), and (c) (which provides for the use of Shipper consumption information for compliance with rules 41 and 42) in the Notice are appropriate conditions for an extended exemption.

As indicated, clause 3(d) of the Notice (which relates to a report being provided by Vector to the GIC 3 months prior to the expiry of the transitional exemption) was specific to that Notice and is no longer appropriate for extension of the current exemption.

5. Additional information for an urgent exemption:

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

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

6. Additional information for a transitional exemption

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

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

Appendix F Existing unmetered gas gate decision notice

Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008

Pursuant to rule 81 of the Gas (Downstream Reconciliation) Rules 2008, Gas Industry Company Limited (“Gas Industry Co”), as the industry body appointed pursuant to s43ZL of the Gas Act 1992, gives the following notice.

Notice

1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008.
- (b) This notice comes into force on the day after the date of this notice.

2. Interpretation

- (a) In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under sections 43F, 43Q and 43S of the Gas Act 1992 by notice published in the New Zealand Gazette, as may be amended from time to time.
- (b) Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.

3. Transitional Exemption

Transmission system owners are granted a class exemption under rule 81 from their obligations under rules 41 and 42 to provide daily injection quantities, subject to the following terms and conditions:

- (a) The exemption shall only apply to the following gas gates on the transmission system that do not have a meter as at the date of this notice:
 - (i) Papakura No.3 PAP06603
 - (ii) Kuku KUK22401
 - (iii) Wellsford WEL18301
 - (iv) Te Horo THO22701
 - (v) Oakleigh OAK18601
 - (vi) Waverley WAVY23601
 - (vii) Matapu MTP20601
 - (viii) Okoroire Springs OKS32801

(ix) Pungarehu 1 PGU13101

- (b) The exemption shall expire on 30 June 2009.
- (c) The requirements of rules 41 and 42 will be met during the period of the exemption by the allocation agent using the consumption information provided by retailers under rules 31, 32, and 33 to estimate the injection quantities for those gas gates.
- (d) No later than 3 months prior to the expiry of this exemption, transmission system operators with unmetered gas gates will provide a report to Gas Industry Co setting out the estimated costs and benefits of, and any other relevant information on, the provision of meters at those gas gates.

4. Reasons for granting the transitional exemption

The reasons for granting the transitional exemption are:

- (a) Gas quantities at unmetered gas gates are unable to be measured.
- (b) The exemption is being granted on a temporary basis to allow Gas Industry Co time to determine, and report on, whether it is reasonable that these gas gates remain without meters.
- (c) An alternative arrangement has been provided for the allocation agent to use consumption information provided by retailers under the Rules to estimate the injection quantities at the affected gas gates.

DATED at Wellington this 17th day of September 2008.

For and on behalf of Gas Industry Company Limited:

RT HON JAMES BOLGER, O.N.Z, Chair.