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

- **Application DR09-06-T regarding alternative ongoing fees allocation**
- **Applications DR09-07-T regarding application of global 1-month UFG methodology to certain gas gates**
- **Application DR09-08-T regarding negative values for the gas gate residual profile**

1 Introduction

This consultation paper seeks submitters' views on three exemption applications in respect of the Gas (Downstream Reconciliation) Rules 2008 (the 'Rules'), as well as a proposed minor amendment to an existing exemption.

The first application DR09-06-T has been submitted by OnGas Limited (OnGas). The application seeks a transitional exemption from the process for the apportionment of ongoing fees to retailers (based on allocated volumes) under the Rules. OnGas instead proposes an alternative approach whereby 50 percent of costs are apportioned based on ICPs and 50 percent of costs are apportioned based on the volume of gas supplied.

The two other potential exemptions considered in this consultation paper have arisen out of the most recent exemption consultation undertaken and the problems resulting from the generation of negative gas gate residual profile (GGRP) values in the allocation process.

The first of these potential exemptions, DR09-07-T, is particularly significant as it considers whether the 'global 1-month UFG methodology' should be applied to 21 specified additional gas gates rather the modified global methodology that is set out in the Rules. These 21 additional gas gates have, in allocations to date, exhibited a high percentage of time-of-use (TOU) metered consumption. The application of the global 1-month UFG methodology may provide for a more equitable allocation of gas to TOU metered consumers and non-TOU metered consumers at gas gates with certain load characteristics. It may also reduce the occurrence of negative gas gate residual profile (GGRP) values and therefore negative allocations. However, it also raises broader issues, such as the commercial impacts on allocation participants.

The global 1-month UFG methodology is already applied at seven gas gates. However, it is now also apparent that four of these gas gates no longer fit the load characteristics for gas gates where it is considered appropriate to apply the global 1-month UFG methodology (ie where an overwhelming majority of the gas consumption at a gas gate is TOU metered). Accordingly, the discussion also considers whether the application of the global 1-month UFG methodology at these four gas gates should be revoked.

The second potential exemption, DR09-08-T, aims to specifically prevent the occurrence of negative GGRP values being generated by the allocation process, by proposing a zero-floor for such values. The approach was originally proposed in the previous exemption consultation process, but an exemption was not granted as it would likely result in days within a consumption period having allocated quantities that did not balance with the injected quantity at the gas gate. This revised exemption application proportionally scales the allocated quantities to match the injection quantity to address this issue. Another option discussed is the effectiveness of the application of 'global 1-month UFG methodology' (if it were granted as per the above) in preventing negative GGRP values.

These two potential exemptions DR09-07-T and DR09-08-T are closely related (in that they both address problems caused by negative GGRP values). In particular, the decision on application DR09-08-T is to some extent dependant on the decision reached by Gas Industry Co in respect of application DR09-07-T. However, they are dealt with separately in this paper because potential exemption DR09-07-T involves much broader issues regarding the application of the alternative global 1-month UFG methodology than simply the resolution of negative GGRP values.

Finally, this paper also advises some proposed minor technical amendments to a recently granted exemption, which addresses allocation where zero consumption data exists at a gas gate, so as to clarify the extent of the exemption's operation in certain circumstances.

This consultation paper publishes and seeks submissions on these exemption applications. Submissions must be received by Gas Industry Co no later than 5pm on Friday, 23 April 2009.

The recommended format for submissions is attached as Appendix A. Submissions can be made by registering on Gas Industry Co's website www.gasindustry.co.nz and downloading 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.

Gas Industry Co values openness and transparency and, therefore, submissions will generally be made available to the public on Gas Industry Co's website. 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 Description and Analysis of Exemptions Sought

2.1 Application DR09-06-T: alternative ongoing fees allocation

Summary of application

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

GIC Code: DR09-06-T **Applicant:** OnGas

Exemption Type: Transitional under rule 81

Exemption Sought: Exemption from the ongoing fee formula used in rule 16.3 to allocate ongoing costs between retailers (based solely on allocation quantities), and instead apply an alternative formula which allocates 50% on the basis of allocation quantities and 50% on the basis of the number of ICPs.

Summary of Reasons:

- The reasons set out below repeat the reasons that were set out by Vector throughout numerous submissions on the (then) proposed Downstream Reconciliation Rules.
- The Downstream Reconciliation Rules were designed to establish more efficient and accurate means for allocating unaccounted for gas (UFG). Rather than address the root causes of UFG, the Rules instead socialise the allocation of UFG and spread it around amongst retailers at the gas gate.
- The underlying cause of UFG, and hence the need for a complex regime to allocate it, is at sites with an abundance of non-TOU metering (otherwise known as 'mass market'). The accuracy of time of use (TOU) metering accounts for a minimal amount of the UFG that occurs. Because UFG is spread amongst retailers regardless of what type of meters they own, retailers with TOU meters thus have to pay for UFG that would appropriately be attributable to the mass market. The allocation approach is thus fundamentally flawed.
- The formula used for the allocation of fees is similarly flawed. Rather than allocate the ongoing fees on a 'per ICP' basis which would result in the causer (mass market) of UFG paying the majority of fees, the formula allocates costs on a gas volume basis which impacts most on users with large volumes which typically have TOU metering.

Additional information

- It is noted that the exemption application deals with both the recovery of the development cost and the allocation of ongoing costs. The question of how the development costs should be recovered between participants is being dealt with as a part of consultation on the annual levy for 2009/10. In any event, it is only possible to consider ongoing costs as part of an exemption application because the Rules do not include the allocation of development costs, ie there are no development costs rules to be exempt from.

- In the process of developing the Rules, Gas Industry Co actively engaged with industry on the most appropriate basis to apportion the ongoing costs of the Rules – including allocation of quantities on an ICP basis. Following consideration of submissions on the issue, Gas Industry Co recommended and the Minister of Energy approved allocation of ongoing fees on an allocated quantity basis.

- The statement by the applicant that gas is allocated amongst retailers irrespective of what type of meters they own is incorrect. The Rules provide for TOU meters to be treated in a way which has greater certainty by allocating gas preferentially on the basis of an annual UFG factor. Residual quantities are then allocated to non-TOU metered customers based on actual monthly loss factors. Additional constraints are imposed during the transitional period by having a floor of 0.985 and a cap of 1.035 on TOU (ie allocation group 1 and 2) allocations. This arrangement especially benefits TOU customers if there is a high positive UFG at a gas gate.

- Gas Industry Co also disagrees with the statement that, rather than addressing the root causes of UFG, the Rules simply spread it out over all retailers. As indicated below the extensive, consistent and transparent data provided by the allocation process will make it much easier than in the past to identify the causes of UFG. The modified global allocation methodology also provides a greater incentive than has existed previously under any industry arrangements for allocation participants to reduce and resolve any UFG issues. This is supplemented by rules 66 and 80 which provide for event audits to be undertaken with excessive UFG being an explicit cause for triggering such an audit.

- The applicant claims that the non-TOU meters are the principle cause of excessive UFG, and thus should bear most of the cost of running the allocation system. This position has been consistently contested by some participants who, on the contrary, claim that TOU meters are just as much to blame for UFG as non-TOU meters, because UFG is predominantly caused by factors that have nothing to do with the accuracy of the meter (eg missing meters, incorrectly assigned (to gas gates) meters, use of wrong correction factors, mis-read meters and so on). Initial experience in the first few months of allocations under the Rules has provided many examples of allocation group 1 or 2 errors in the consumption information submitted. Moreover, if the TOU meter quantity is incorrect, it will have a much greater impact on UFG than would the corresponding error for a non-TOU meter.

- In the long term, one of the benefits of the allocation system is that it will provide better quality data on which to test claims about the causes of UFG. It is too soon to try draw any firm conclusions but some preliminary indications can be gleaned by looking at positive UFG figures for the first two interim allocations performed. Interim allocations are a more satisfactory basis for analysis than initial allocations, because of the inherent variability in initial allocations.

- A useful comparison can be made between those gas gates that are potential candidates for the global 1-month UFG methodology (where TOU meters represent the overwhelming majority - greater than 80% - of the consumption at those gates and thus are very likely to be the cause of

any UFG) and the other general gas gates. If these figures are examined, and assuming that a positive UFG of about 2% or more is excessive, the following results emerge:

- Two of the 24 potential or actual global 1-month UFG methodology gas gates[1] can be considered to have excessive UFG, which equates to about 8.5% of the sample population;
- In comparison, an average of about 27% of the remaining gas gates might be considered to have excessive UFG, with this figure falling to an average of 20% if gas gates with monthly consumption less than 1,000 GJ are excluded.

- As indicated above, it is too early to draw firm conclusions from such a small sample of information. The most that can perhaps be said is that while it appears that TOU meters may be less likely to trigger excessive UFG compared to non-TOU meters, there are indications that TOU meters are at fault in some cases.

Issues

- The information provided by the applicant essentially repeats views that were provided in submissions as a part of the process of developing and approving the Rules. Given that no new information is provided, and the existing information was considered during the rule development process, are there any new grounds for now considering an exemption?

- While some allocation participants may disagree with the ongoing fees allocation process set out in the Rules, an exemption is not to be used as a mechanism to try and achieve unauthorised de-facto amendments to the Rules. Granting an exemption of this nature is likely to raise such questions, and also bring into question the suitability of the basis for apportioning ongoing fees set out in the Rules. Gas Industry Co's initial view is that, if an alternative ongoing fee apportionment process is desirable, that approach should be implemented via amendments to the Rules. Whatever the merits of the case put forward, is it appropriate to consider such a change through an exemption rather than wait for it to be considered as a possible rule change at the time of the first major policy review, due to occur in mid-2010? Gas Industry Co is interested in receiving submitters' comments on these preliminary views.

- Vector and OnGas contend that non-TOU meters are the predominant cause of UFG and that it is thus unfair to allocate costs on the basis of volume so that proportionately more of the cost is borne by TOU meters. Does the information provided by OnGas, or otherwise available from allocations to date, support that assertion? Do you have any other information available which would be helpful in forming a view on this matter?

- The application correctly sets out some of the thinking that resulted in the Rules containing a volume-based formula for allocation costs. The arguments were not strongly persuasive in either

[1] This number excludes four gas gates currently being allocated using the global 1-month UFG methodology, which either have no TOU metering or have no non-TOU metering.

direction but on balance Gas Industry Co considered a volume-based approach to be more appropriate than an ICP-based approach. From a policy perspective, it is acknowledged that the idea of a mixed formula might have some merit. However it does make the formula more complicated, which raises the question of how much weight should be placed on keeping the approach simple. A further consideration is whether it would be in the interests of allocation participants to consider a change when the ongoing operations phase has only just started. Would it be better to wait until more extensive and certain information is available from the allocation process?

- The changed formula proposed by the applicant would change the share and amount of allocation of costs for all allocation participants, ie there would be 'winners and losers'. Should this be a consideration in reaching a conclusion?

Q1: Do submitters have any comments on exemption application DR09-06-T proposed by OnGas regarding an alternative apportionment process for ongoing fees, either generally or in the context of the issues set out above?

2.2 Application DR09-07-T: application of global 1-month UFG methodology to certain gas gates

Summary of application

The full application is attached as Appendix C.[2] A summary of the application is set out below:

GIC Code: DR09-07-T **Applicant:** Gas Industry Co

Exemption Type: Transitional under rule 81

Exemption Sought: An exemption from the application of rules 45.2.3, 46.2.1 and 46.3.2 for the 21 gas gates set out below, subject to the following terms and conditions:

1. CAM17201 Cambridge
2. DAN05001 Dannevirke
3. DRU15102 Drury 2
4. ELM12301 Eltham
5. HRU16101 Horotiu
6. HTL16601 Huntly
7. HUN15301 Hunua
8. HWA20801 Hawera
9. KAP12901 Kapuni (Lactose)
10. KIN02601 Kinleith
11. LNB24301 Longburn
12. MNA23402 Manaia
13. MTN23801 Marton
14. PTR32601 Putaruru
15. RAM15201 Ramarama
16. TKS17401 Te Kuiti South
17. TUK06501 Tuakau
18. WHK32101 Whakatane
19 WRK18901 Warkworth
20. WTA16501 Waitoa
21. WVY23601 Waverley

[2] Please note that this potential exemption is set out in the standard 'application' format in this paper for ease of consideration by readers. However, Gas Industry Co notes it is not applying for the application of the global 1-month UFG methodology – but rather consulting on the possibility of granting an exemption of this kind for the overall benefit of allocation participants, so as to elicit stakeholder views on whether such an exemption is desirable or appropriate.

- Retailers at these gas gates shall submit their allocation group 1 and 2 consumption data under rules 31, 32 and 33 as allocation group 3 data and this shall be done by submitting the information in accordance with the GAS050 file format determined by Gas Industry Co except that 'Allocation Group' shall refer to '3' (rather than 1 or 2) and 'Profile code' shall refer to 'STOU' (rather than XTOU).

- The allocation agent shall be exempted from applying the process in rule 55 to these gas gates for the establishment of a STOU static deemed profile and instead the allocation agent shall, upon request from Gas Industry Co, create a STOU profile code to apply to these gas gates. The profile code shall be owned by Gas Industry Co and shall be registered by the allocation agent, under rule 56, against the large time-of-use (TOU) ICPs at the gas gates in question. All retailers trading at these gas gates shall have permission to use the profile code.

- TOU consumer installations at these gas gates will continue to comply with all other allocation group 1 or 2 installation requirements.

- This exemption shall expire on 30 September 2010.

Summary of Reasons:

- The gas gates listed above have, in allocations to date, exhibited a high proportion (ie approximately between 80 and 100%) of TOU-metered consumption (ie allocation groups 1 and 2 consumption) versus total injections. In this way, these gas gates exhibit the same characteristic as the gas gates where exemptions have previously been granted allowing the application of the global 1-month UFG methodology. In these situations, the majority of UFG is almost certainly caused by the TOU installation(s) at the gas gate and therefore it has been considered fairer to allocate gas to all types of meters on the same basis, rather than using the modified global approach set out in the Rules.

- At several of the gas gates in the list above, retailers have received negative allocations for one or more allocation periods since October 2008. Not only is this counter to reality, it can also cause problems for retailers' estimation processes. Applying the global 1-month UFG methodology at these gas gates will remove the occurrence of these negative allocations.

Additional information

- If a transitional exemption allowing the application of global 1-month UFG methodology were granted, the alternative arrangement that would apply is the same as that set out in the two existing global 1-month UFG methodology exemptions, as set out in the application summary above.

Equity of allocations

- All of the 21 gas gates listed above have, in allocations to date, exhibited a high percentage of TOU-metered consumption vis-à-vis non-TOU metered consumption (ie TOU-metered consumption that equates to approximately 80% or more of all consumption information submitted for allocations). These percentages may change over the winter months.

- Throughout the policy process of developing the Rules, Gas Industry Co actively engaged with the industry on whether a global, differencing or 'in between' allocation methodology was appropriate. Different options were considered and the final outcome was that the Rules would strike a compromise position: gas is allocated to TOU-metered consumers (whose meters are technically

more accurate in terms of gas delivered over defined time periods) on the basis of an annual UFG factor, and residual UFG is then allocated to other consumers.

- Gas Industry Co anticipated throughout the policy development process that the standard methodology applied in the Rules may not be the most efficient or fair methodology to apply at gas gates where the load split varied widely from the 'typical' load split.[3] From a policy perspective, it was decided that such atypical gas gates could each be separately considered through the exemption process. Gas Industry Co further considered that the policy decisions behind the allocation methodology in the Rules may need to be revisited in a few years time, ie once more accurate allocation information was available under the new downstream reconciliation regime.

- Since the Rules came into effect, two separate exemptions have been granted that apply the alternative global 1-month UFG methodology to seven specified gas gates, ie allocation groups 1 and 2 are allocated on a monthly UFG factor basis, consistent with what happens for the remaining allocation groups 3 to 6. At these gas gates, TOU consumer installations have historically taken a large proportion of load (ie approximately in the range of 80 to 100%) and the majority of UFG is likely to be caused by the TOU installation(s). Therefore it was considered appropriate to allocate gas to all types of meters on the same basis.

- To consider applying an alternative allocation methodology than that set out in the Rules to these further 21 gas gates, Gas Industry Co considers that it must be satisfied that the status quo allocation methodology is frequently or consistently resulting in allocations that are materially unfair to the allocation participants concerned, and/or there are other extraordinary reasons for applying an alternative allocation methodology. Moreover, the potential extension of the global 1-month UFG methodology to these further 21 gas gates would need to be on the basis that those gas gates fit within the atypical TOU/non-TOU load split used as the basis for the existing global 1-month UFG methodology gas gates.

- One reason for varying the allocation methodology at some of these gas gates could be the occurrence of negative allocations. Over the period October 2008 – February 2009, six of the 21 gas gates in the list above have had instances of negative allocations. Thus far, the negative allocations have been consistent across the initial and interim allocations (ie the same gas gates and retailers). The gas gates at which these negative allocations have occurred are DAN05001 Dannevirke, HUN15301 Hunua, KIN02601 Kinleith, RAM15201 Ramarama, TKS17401 Te Kuiti South, and TUK06501 Tuakau. The existence of negative allocations is not only at odds with reality, it can also cause problems for retailers' estimation processes. While the causes of such negative allocations is most likely due to metering or estimation inaccuracies, the application of the global 1-month UFG methodology at these gas gates would remove the incidence of negative allocations and provide for an allocation of gas across retailers which is equitable.

[3] Based on the information available, the load split at a typical gas gate was assumed to be approximately 50% TOU (allocation groups 1 and 2) consumers, 25% small business (allocation group 3 or 4) consumers, and 25% mass market (allocation group 5 or 6) consumers.

Negative GGRP value issues

- Some allocation participants have indicated that extending the adoption of the global 1-month UFG methodology to the 21 gas gates listed in this exemption application will remove, or at least reduce, the number of negative GGRP values generated in the allocation process. This is because one of the reasons for the occurrence of negative GGRP values has been the use of an annual UFG factor to allocate group 1 and 2 consumption.[4] By instead applying the global 1-month UFG methodology (which applies the monthly UFG factor based on the current consumption period's losses), the potential for grossing up allocation group 1 and 2 consumption to the point whereby negative GGRP values are generated, is removed. If negative GGRP values were still generated at a gas gate which applied the global 1-month UFG methodology, then they will most likely be due to metering or estimation inaccuracies in the consumption data, or potentially, inaccuracies in the gas gate injection quantities.

- However, on the basis of the allocations undertaken to date under the Rules, it is clear that the application of the global 1-month UFG methodology to gas gates does not remove the possibility of negative GGRP values. All of the current global 1-month UFG methodology gas gates with TOU metering (ie EGC30701 Edgecumbe DF, KIW34202 Kiwitahi 2, PHT04901 Pahiatua, and RPR30801 Reporoa) have had negative GGRP values over the period October 2008 – February 2009.[5] The remaining three existing global 1-month UFG methodology gas gates do not supply any allocation group 1, 2, 3 or 5 consumer installations, and therefore negative GGRP values are not able to be generated. Given the occurrence of negative GGRP values at these four gas gates, it is clear that the application of the annual UFG factor to allocation group 1 and 2 consumption information is not the sole cause of negative GGRP values at these gas gates.[6] Therefore, the use of the global 1-month UFG methodology will not resolve this issue.

- The application of the global 1-month UFG methodology is an ex-post rather than ex-ante approach. There are two ways to address this issue: either specify the gas gates now where the global 1-month UFG methodology can be applied (ie gates that have to date shown negative GGRP values) or only apply the methodology once it has been identified in an allocation that a gas gate has negative GGRP values.[7] However, both are problematic in that the former approach would

[4] Applying the annual UFG factor (which is based on historical losses at the gas gate and which may be significantly different from the current losses) to TOU-metered consumers can potentially gross up those TOU-metered consumers' consumption to a level which is greater than the gas gate injection quantity. Under the GGRP formula in rule 45.2.5, this in turn can result in negative GGRP values.

[5] The frequency of these negative GGRP values has varied quite markedly. EGC30701 has had 10-18 instances every month, RPR30801 has had 3-7 instances in all but one month, PHT04901 had 1-2 instances in two months, while KIW34202 had 8 instances in one month only. Also see table 2 on page 16.

[6] It should also be noted that the annual UFG factor does not always gross up allocation group 1 and 2 consumption information. Of the 92 gas gates that are allocated under the Rules, 29 of them have an annual UFG factor which is less than 1.000 (54 have an AUFG factor greater than 1.000). Hence, moving a gas gate to the global 1-month UFG methodology could increase the number of instances of negative GGRP values, rather than reducing them.

[7] Ie under this latter approach, the allocation agent would need to:

- Run the allocation;
- Identify that one or more additional gas gates have negative GGRP values;
- Ask the retailer(s) supplying allocation group 1 and 2 consumers at the gas gate(s) to resubmit their allocation group 1 and 2 consumption information as allocation group 3 data; and
- Re-run the allocation.

mean that negative GGRP values could still arise at other gas gates and the latter approach is time intensive and inefficient.

- Combining the global 1-month UFG methodology with a zero-floor approach to GGRP values is also not a solution to negative GGRP values. There is still the likelihood of a mismatch between daily allocated quantities and daily injection quantities at those gas gates where this process is applied. Although the allocation group 1 and 2 consumption data will be scaled under this approach, it will be scaled by the monthly UFG factor, which is designed to ensure that allocated quantities match the total injection quantity for an entire consumption period. The monthly UFG factor does not ensure that daily allocated quantities match daily injection quantities (this point is discussed further in relation to exemption application DR09-08-T in section 2.3 below). To ensure the daily injection quantities match the daily allocated quantities, scaling of the allocated data would be required.

- Lastly, while the majority of gas gates which have had negative GGRP values fit within the classification of a global 1-month UFG methodology gas gate, there are several additional gas gates with negative GGRP values that do not fit the classification. These nine additional gas gates are EGC30701 Edgecumbe DF, FOX22101 Foxton[8], GTW33901 Greater Waitoki, HAR11801 Harrisville, LAB20201 Lake Alice, PAP06603 Papakura 3, TKN17001 Te Kuiti North, TKP05101 Takapau, and WTT20301 Waitotara. Therefore, the question arises whether Gas Industry Co should consider granting a global 1-month UFG methodology exemption solely for the reason that it may reduce the number of occurrences of negative GGRP values, rather than for the overarching reason of equity discussed earlier in this exemption?

Issues with existing 1-month global gas gates

- It has also become clear in the allocations to date that four of the seven gas gates where the global 1-month UFG methodology is applied currently do not fit the characteristics of the expected load split (ie approximately 80% or more TOU / approximately 20% or less non-TOU). At the ORD24701 Oroua Downs, KRG24101 Kairanga, and NGW14501 Ngaruawahia gas gates, the consumption information submitted to date indicates that there are no allocation group 1 or 2 consumer installations being supplied (or group 3 and 5 for that matter). At the EGC30701 Edgecumbe DF gas gate, the consumption information submitted indicates that there are only allocation group 1 or 2 consumer installations being supplied. Accordingly, the question arises as to whether the application of the global 1-month UFG methodology at these gas gates should be continued?

Issues

- While two exemptions have previously been granted providing for the alternative global 1-month UFG methodology to be applied at seven gas gates, the extension of that methodology to a further 21 gas gates represents a significant departure from the policy and allocation framework set out in

[8] The negative GGRP values that occurred at FOX22101 Foxton were the result of erroneous consumption information, which was corrected for the interim allocation.

the Rules. For such an exemption to be granted, the Rules require that the exemption be transitional in nature, provide alternative arrangements and be for a specified period. If exemptions were granted for what amounts to approximately 20-25% of all gas gates, questions would arise around the appropriateness of this, and/or around the intended use of the exemption powers in the Rules. It must be noted that while some allocation participants may disagree with the modified global allocation methodology set out in the Rules, an exemption is not to be used as a mechanism to try and achieve unauthorised de-facto amendments to the Rules. Granting an exemption of this nature is likely to raise such questions, and also bring into question the suitability of the allocation methodology set out in the Rules. Gas Industry Co's initial view is that, if the application of the global 1-month UFG methodology is considered desirable, that approach should be implemented via amendments to the Rules. However, if there are negative impacts arising at these 21 gas gates that are so material and significant that interim remedial action is considered necessary, then Gas Industry Co is prepared to consider granting a transitional exemption providing for the application of the global 1-month UFG methodology to address those impacts. Gas Industry Co is interested in receiving submitters' comments on these preliminary views.

- Do submitters consider that the application of the status quo global methodology in the Rules is resulting in materially unfair allocations at the 21 gas gates listed above? Are there any other negative impacts on allocation participants arising from the application of the status quo global methodology in the Rules at the 21 gas gates listed above and, if so, how material are these impacts? Do submitters consider that application of the global 1-month UFG methodology at the 21 gas gates concerned will provide fairer allocation and reconciliation of downstream gas and remedy any other negative impacts? Will there be any adverse impacts on other retailers at the 21 gas gates in question or other allocation participants in general if the global 1-month UFG methodology is adopted? For all responses please provide reasons and supporting data/analysis where appropriate.

- Do submitters have any practical concerns regarding the alternative approach (involving the submission of allocation group 1 or 2 data as allocation group 3 data) that would be applied to give effect to global 1-month UFG methodology at these gates? Would it require an increase in allocation participant time and cost and, given the number of gas gates involved, would it be likely to cause confusion or create additional compliance concerns?

- If a transitional exemption were granted, should it only apply to the 21 gas gates which fit the load split characteristics of global 1-month UFG methodology gas gates ie approximately 80% or more TOU and approximately 20% or less non-TOU consumption? Or are there sufficiently good other reasons for applying the global 1-month UFG methodology to the nine other gas gates where negative GGRP values have arisen since the commencement of allocations under the Rules? This could give a total of 33 gas gates with the global 1-month UFG methodology applied.[10]

[10] This number assumes that four of the existing global 1-month UFG methodology gas gates would no longer allocated in this manner.

- For the four existing global 1-month UFG methodology gas gates which no longer have the expected load split ie approximately 80% or more TOU and approximately 20% or less non-TOU, should the exemption providing for the global 1-month UFG methodology be revoked? At the ORD24701 Oroua Downs, KRG24101 Kairanga, and NGW14501 Ngaruawahia gas gates, the consumption information submitted to date indicates that there are no allocation group 1 or 2 consumer installations being supplied. At the EGC30701 Edgecumbe DF gas gate, the consumption information submitted indicates that there are only allocation group 1 or 2 consumer installations being supplied. Gas Industry Co notes that allocation participants have an obligation under rule 20 of the Rules to notify it of any change in circumstances material to the granting or continuing operation of an exemption. This does not appear to have occurred in respect of these gas gates, despite the situation described above existing since at least 1 October 2008. While these gas gates were subject to the global 1-month UFG methodology under the previous industry arrangements in the Reconciliation Code (and generally supported by submitters at the time), that in itself is not sufficient reason for the continuation of that approach under the Rules. Accordingly, Gas Industry Co seeks submitters' views on whether the application of the global 1-month UFG methodology pursuant to the associated exemptions at these four gas gates should be discontinued.

- Though allocation participants indicated an initial preference at the GRREC meeting of 12 February 2009 for the application of the global 1-month UFG methodology to prevent the occurrence of negative GGRP values, questions must be raised as to how effective this approach will be. All of the existing global 1-month UFG methodology gas gates with TOU consumers have generated negative GGRP values at some stage in allocations to date. This indicates that, at these existing global 1-month UFG methodology gas gates at least, negative GGRP profile values may be due to metering or estimation data inaccuracies rather than, or in addition to, annual UFG factor inaccuracies. Though applying the global 1-month UFG methodology at gas gates could reduce the occurrence of negative GGRP values, it could also increase their occurrence at gas gates with an annual UFG factor of less than 1.000. In any event, it is clear that applying the global 1-month UFG methodology will not prevent negative GGRP values occurring. Accordingly, Gas Industry Co would like to receive submitters' views on the perceived benefits of applying the global 1-month methodology in these circumstances.

- Finally, Gas Industry Co also seeks submitters' thoughts on the matters to be considered in granting a transitional exemption as set out below:

    - Whether the Rules currently adequately provide for accurate allocation and reconciliation in respect of gas gates with this large TOU/small non-TOU load split, and whether application of the global 1-month UFG methodology is an appropriate transitional arrangement for a short-term period;

    - Whether the alternative global 1-month UFG methodology arrangement set out above would be a fit for purpose arrangement and would meet the intended objective of rule 45; and

- Whether granting the exemption is not inconsistent with the purpose of the Rules and should assist the fair, efficient and reliable allocation of downstream gas quantities.

Q2: In light of the issues raised in section 2.2 above, do submitters have any comments on exemption application DR09-07-T regarding the potential application of the global 1-month UFG methodology at the additional 21 gas gates identified?

Q3: Do submitters have any comments on the potential revocation of the global 1-month UFG methodology at the following gas gates: EGC30701 Edgecumbe DF, ORD24701 Oroua Downs, KRG24101 Kairanga, and NGW14501 Ngaruawahia?

2.3 Application DR09-08-T: negative values for the gas gate residual profile

Summary of application

The full application is attached as Appendix E. A summary of the application is set out below:

GIC Code: DR09-08-T **Applicant:** Gas Industry Co

Exemption Type: Transitional under rule 81

Exemption Sought: An exemption is sought from the application of rule 45.2.5 in respect of any gas gates where negative vales are generated for the gas gate residual profile (GGRP) during any given consumption period. In such situations, it is proposed that zero be the floor for GGRP values so that negative values cannot occur and the exemption be subject to the following terms and conditions:

- In respect of any gas gates where a GGRP quantity for a day in the consumption period, as calculated in accordance with rule 45.2.5, is less than zero (ie a negative quantity):

  - the allocation agent is exempt from the requirement to apply the formula $EI_d - AQ_{1, 2, 3 \& 5}$ in rule 45.2.5 to determine the gas gate residual profile quantity for that day; and

  - the GGRP quantity for that day to be applied for the purposes of the Gas (Downstream Reconciliation) Rules 2008 is zero; and

  - where, after applying the zero-floor GGRP quantity under 45.2.5, the total gas gate allocated quantities for a day do not equal the actual daily injection quantity, then the allocated quantities for allocation groups 1, 2, 3 and 5 are to be scaled proportionally for each retailer so that the total gas gate allocated quantities for a day equal the actual daily injection quantity.

Summary of Reasons:

- The application of the allocation processes set out in rules 45 and 46 can result in a negative residual quantity of gas to be allocated to allocation groups 4 and 6 for a day, as a result of the sum of the gas allocated to allocation groups 1, 2, 3 and 5 being greater than the gas gate injection quantity for the day. In such instances the allocation agent effectively 'credits' or subtracts gas consumption quantities from allocation

groups 4 and 6, even though in reality consumers in these allocation groups may have consumed gas during the day(s) in question.

- In allocations to date, the calculation of the daily GGRP has resulted in negative values at some gas gates. While the calculation and publication of negative GGRP values pose no issues for the allocation system, they do however pose a problem for retailers, which are required to use GGRP values (in the form of seasonal adjustment daily shape values (SADSVs)) in the calculation of historic estimates. In order to normalise GGRP values over a month while retaining the un-normalised residual profile for the month, GGRP values calculated by the allocation system are significantly inflated by the existence of negative GGRP values. This leads to daily non-TOU consumption being overestimated and can give material errors, which in turn not only affect retailers' historic estimate calculations but can adversely impact retailers' upstream arrangements (eg cause transmission capacity overrun charges to be incurred).

- In a previous exemption application, DR09-02-T, Gas Industry Co proposed to address this issue by removing the calculation of negative GGRP values by the allocation system, with zero becoming the floor value. However, in consultation, it became clear that such an approach would be likely to result in daily allocations which exceed the injection metered quantity for that day. At the GRREC meeting of 12 February 2009, two potential options were outlined to address this issue – the scaling of allocated quantities in such situations or the application of the global 1-month UFG methodology to gas gates that exhibit negative GGRP values.

- This exemption application proposes a zero-floor approach to GGRP values, combined with the scaling of allocated quantities for each day in a consumption period where a zero-floor approach would otherwise result in the total allocated quantities at a gas gate for a day not equalling the actual daily injection quantity.

- The application of the global 1-month UFG methodology to gas gates which exhibit negative GGRP values, for the purpose of reducing the number of instances of negative GGRP values is not proposed under this exemption. This is because application of the global 1-month UFG methodology does not guarantee the removal of negative GGRP values from the allocation process, and also because using the global 1-month UFG methodology for this purpose would see it applied to gas gates that do not fit the atypical TOU/non-TOU load split used as the basis for the existing global 1-month UFG methodology gas gates.

Additional information

- Since October 2008, negative GGRP values have arisen in the allocation process at 27 gas gates. At one of these gas gates, FOX22101 Foxton, all of the negative GGRP values were removed once corrected consumption information submission data was provided for the interim allocation. At 23 of these gas gates, the allocation methodology prescribed in the Rules is being used, while the remaining four of these gas gates – EGC30701 Edgecumbe DF, KIW34202 Kiwitahi 2, PHT04901 Pahiatua and RPR30801 Reporoa – are being allocated based on the global 1-month UFG methodology applied in accordance with two existing exemptions – *see Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-02-S/DR08-04-S: Global 1-Month UFG Methodology) Notice 2008* and *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-24-U: Global 1-Month UFG Methodology) Notice 2008*. A table setting out the relevant information in respect of the gas gates that have exhibited negative GGRP values is set out below:

Table 1

Gas gate	Negative GGRP freq/days[11]	Approx TOU/Non-TOU[12]	Other info
1. DAN05001 Dannevirke	Dec, Jan and Feb (4-15)	82-88% / 13-18%	
2. DRU15102 Drury 2	Nov, Dec, Jan and Feb (5-11)	90-99% / 1-10%	
3. EGC30701 Edgecumbe DF	Every allocation (10-18)	100% / 0%	Global 1-month UFG methodology applied
4. FOX22101 Foxton	Oct (10)	58-74% / 26-42%	Erroneous consumption data corrected for interim allocation, removing negative GGRP values
5. GTW33901 Greater Waitoki	Dec (8)	20-59% / 42-80%	Notional Delivery Point: NGCD for Waitoki and UNLG for Waitoki B Not within expected load split
6. HAR11801 Harrisville	Oct (5)	100% / 0%	Single retailer gas gate Not within expected load split
7. HRU16101 Horotiu	Every allocation (2-7)	97-99% / 1-3%	
8. HTL16601 Huntly	Nov (1)	89-95% / 5-11%	
9. HUN15301 Hunua	Every allocation (11-30)	96-100% / 0-4%	
10. HWA20801 Hawera	Feb (1)	80-89% / 11-19%	
11. KAP12901 Kapuni (Lactose)	Every allocation (2-12)	85-99% / 1-15%	
12. KIN02601 Kinleith	Every allocation (16-20)	87-100% / 0-13%	
13. KIW34202 Kiwitahi 2	Nov (8)	62-93% / 7-38%	Global 1-month UFG methodology applied
14. LAB20201 Lake Alice	Jan and Feb (5-8)	(16)-72% / 27-116%	
15. LNB24301 Longburn	Oct, Nov and Dec (2-8)	92-97% / 3-8%	
16. PAP06603 Papakura 3	Every allocation (1-19)	64-97% / 3-36%	Unmetered gas gate
17. PHT04901 Pahiatua	Oct and Feb (1-2)	99% / 1%	Global 1-month UFG methodology applied
18. PTR32601 Putaruru	Feb (1)	75-93% / 7-25%	
19. RAM15201 Ramarama	Every allocation (22-29)	97-100% / 0-3%	
20. RPR30801 Reporoa	Oct, Nov, Jan and Feb (3-7)	99-100% / 0-1%	Global 1-month UFG methodology applied
21. TKN17001 Te Kuiti North	Dec (1)	(41)-75% / 25-141%	
22. TKP05101 Takapau	Every allocation (7-25)	100% / 0%	Single retailer gas gate Not within expected load split
23. TKS17401 Te Kuiti South	Every allocation (5-31)	97-100% / 0-3%	
24. TUK06501 Tuakau	Every allocation (3-18)	100% / 0%	
25. WTA16501 Waitoa	Every allocation (2-8)	97-99% / 1-3%	
26. WTT20301 Waitotara	Every allocation (5-9)	100% / 0%	Single retailer gas gate Not within expected load split
27. WVY23601 Waverley	Every allocation (14-19)	98-100% / 0-2%	Unmetered gas gate

- Given that the issues surrounding the causes and effects of negative GGRP values were outlined in detail in respect of application DR09-02-T in the previous exemptions consultation paper (issued 22 January 2009 – see pages 4-9 of that paper), it is not proposed to restate that information here.

[11] 'Negative GGRP freq/day' refers to:
- the frequency in which negative GGRP values have occurred at the relevant gas gate in allocations to date; and
- the range of the occurrences in a consumption period (ie days) that negative GGRP values have occurred at the relevant gas gate in allocations to date ie 19-25 means that the least number of days in a consumption period with negative GGRPs in allocations to date is 19 and the most is 25.

As at the date this paper was written, initial allocations have occurred for October 2008, November 2008, December 2008, January 2009 and February 2009, and interim allocations for October 2008 and November 2008.

[12] 'Approx TOU/Non-TOU' refers to the approximated load split percentage range between TOU (allocation groups 1 and 2) and non-TOU (allocation groups 3, 4, 5 and 6) consumption information submissions at the relevant gas gate for allocations to date.

- Following consideration of submissions on application DR09-02-T, Gas Industry Co is of the view that the appropriate approach to address the effects caused by negative GGRP values is by applying a zero floor for GGRP values (ie zero GGRP values will be generated where negative GGRP values would have otherwise arisen). This approach is considered the most pragmatic and least distortionary solution and was supported by all but one submitter in the previous exemptions consultation.

- However, submissions also identified that this approach will result in occasions when the daily total allocation at a gas gate will exceed the injection quantity for that day. This is because the GGRP values with a zero-floor are likely to result in allocated quantities for groups 4 and 6 (following GGRP scaling) that, when combined with the actual group 1 and 2 allocated quantities, will exceed the injection quantity at a gas gate for a day. This is a fundamental issue in the design of any exemption, given a key policy tenet in the Rules is that allocated quantities and injected quantities are to balance – additional arrangements would be required in any exemption to ensure this occurs.

- At the GRREC meeting of 12 February 2009, two potential options were discussed to address this issue – the scaling of allocated quantities in such situations, or the application of the global 1-month UFG methodology to gas gates that exhibit negative GGRP values. Industry participants at the meeting expressed an initial preference for the latter option. Gas Industry Co advised that since that approach involved a potential exemption of significant consequence, further consideration by Gas Industry Co and further consultation with allocation participants would be required. This feedback is needed to formally ascertain participants' views and to provide for the potential impacts of either option on allocation participants to be fully understood.

- The approaches (and their pros and cons) considered by Gas Industry Co with respect to negative GGRP values can be summarised as follows:

Table 2

Options	Pros	Cons	Preliminary Gas Industry Co's view
Option 1a: • Status quo allocation methodology	• No allocation system cost implications • Preserves incentive on participants to ensure consumption data is correct, although the strength of this incentive on retailers supplying only TOU consumers is questionable	• Negative GGRP values have material upstream consequences for retailers and they will continue to bear any financial impacts as a result	• Not recommended due to negative impacts on allocation participants

Options	Pros	Cons	Preliminary Gas Industry Co's view
Option 1b: • Status quo allocation methodology • Plus zero-floor GGRP values (no scaling)	• Prevents occurrence of negative GGRP values and therefore removes resulting upstream consequences for retailers • Least distortionary option for GGRP/SADSV shape • Approach can be implemented through a relatively technical exemption • Small cost to amend allocation system	• Will result in days during a consumption period where total allocated quantities will exceed the injection quantity ie not balance, which is contrary to the intention of the Rules • Failure to balance is likely to prevent upload of results into OATIS and have upstream consequences for participants	• Not recommended as will result in daily allocations not balancing with injection quantities
Option 1c: • Status quo allocation methodology • Plus zero-floor GGRP values • Plus scaling of allocated quantities	• Prevents occurrence of negative GGRP values and therefore removes resulting upstream consequences for retailers • Least distortionary option for GGRP/SADSV shape • Approach can be implemented through a relatively technical exemption • Will not require additional work / changes in practice on the part of allocation participants	• Significant cost to amend allocation system • Could reduce incentive on allocation participants to minimise metering or estimation inaccuracies	• Preferred option as will prevent negative GGRP values/allocations and ensure daily allocations balance with injection quantities
Option 2a: • Global 1-month UFG methodology[13]	• May or may not reduce occurrence of negative GGRP values depending on the AUFG factor at a gas gate • No need to amend allocation system and therefore no cost to do so	• Negative GGRP values will not be prevented and are still likely to occur, and have upstream consequence for retailers • Very significant departure from allocation policy set out in the Rules and questions arise whether such a departure is possible or appropriate in an exemption under the Rules • Change of practice, and likely additional work, required by participants to submit allocation group 1 and 2 consumption as group 3 consumption at 1/4 of all gas gates. Increased potential for confusion/errors/compliance concerns • Ex-post approach requiring the allocation agent to rerun allocation if a new gas gate has negative GGRP values	• Not recommended as will not prevent negative GGRP values

[13] Note that for options 2a, 2b and 2c, the application of the global 1-month UFG allocation methodology would only occur at the 27 gas gates identified in this exemption application (ie at the four existing global 1-month UFG allocation gas gates plus an additional 23 gas gates).

Options	Pros	Cons	Preliminary Gas Industry Co's view
Option 2b: • Global 1-month UFG methodology • Plus zero-floor GGRP values (no scaling)	• Prevents occurrence of negative GGRP values, and therefore removes resulting upstream consequences for retailers • Small cost to amend allocation system	• Will result in some days during a consumption period where total allocated quantities will exceed injection quantity ie not balance, which is contrary to intention of Rules • Failure to balance is likely to prevent upload of results into OATIS and have upstream consequences for participants • Very significant departure from allocation policy set out in the Rules and questions arise whether such a departure is possible or appropriate in an exemption under the Rules. • Change of practice, and potential additional work, required by participants to submit allocation group 1 and 2 consumption as group 3 consumption at 1/4 of all gas gates. Increased potential for confusion/errors/compliance concerns • Ex-post approach requiring the allocation agent to rerun allocation if a new gas gate has negative GGRP values	• Not recommended as will result in daily allocations not balancing with injection quantities
Option 2c: • Global 1-month UFG methodology • Plus zero-floor GGRP values • Plus scaling of allocated quantities	• Prevents occurrence of negative GGRP values, and therefore removes resulting upstream consequences for retailers	• Significant cost to amend allocation system • Very significant departure from allocation policy set out in the Rules and questions arise whether such a departure is possible or appropriate in an exemption under the Rules. • Change of practice, and potential additional work, required by participants to submit allocation group 1 and 2 consumption as group 3 consumption at 1/4 of all gas gates. Increased potential for confusion/errors/compliance concerns • Ex-post approach requiring the allocation agent to rerun allocation if a new gas gate has negative GGRP values	• Potential option, but likely to be most complex and cost intensive option.

- Applying the global 1-month UFG methodology at gas gates where negative GGRP values arise has been proposed as one means of removing the possibility of negative GGRP values (as it would remove any negative GGRP values caused by a difference between the annual UFG factor being applied and the consumption period's actual loss factor ie monthly UFG factor). This option does not have a cost associated with amending the allocation system, as a workaround is used whereby

retailers submit allocation group 1 and 2 consumption information as allocation group 3 data. However, retailers may face some cost associated with changing their systems and/or processes to do this.

- As discussed in section 2.2 above, the use of the global 1-month UFG methodology will not prevent negative GGRP values occurring, because of metering or estimation data inaccuracies. Therefore, a zero-floor approach will still be required to remove the possibility of negative GGRP values at gas gates allocated using the global 1-month UFG methodology. As noted above, simply applying a zero floor to negative GGRP values, thereby making the allocated quantities for allocation groups 4 and 6 equal to zero, will result in the total allocated quantities for allocation groups 1, 2, 3 or 5 not matching the injection quantity on a daily basis. This would be likely to prevent those results from being unloaded into OATIS and could have adverse upstream impacts, as well as being in breach of a basic tenet of the Rules.

- Accordingly, from Gas Industry Co's initial analysis, to ensure daily allocated quantities match the injection quantity at a gate, applying the global 1-month UFG methodology will still require the use of a zero floor for GGRP values and the scaling of allocated quantities proportionally so as to match the injection quantity for any day on which a negative GGRP value would otherwise have occurred.

- With respect to the cost of changing the allocation system to accommodate a floor of zero on GGRP values and the scaling of allocated quantities proportionally to match daily injection quantities, the allocation agent M-co, has provided Gas Industry Co with the following indicative costs:

  - Applying a zero value to negative GGRP values – cost approximately $2,300 - $3,000.

  - Scaling the daily allocated quantities proportionally to match the daily injection quantity at each gas gate that, by virtue of a zero floor for gas gate residual profile values, has daily allocated quantities which exceed the daily injection quantity for the gas gate – cost approximately $9,800.

- Instead of using the global 1-month UFG methodology in an attempt to remove the possibility of negative GGRP values, the alternative is to simply adopt a zero floor for GGRP values and then scale allocated quantities proportionally to match the injection quantity for any day on which a negative GGRP value would otherwise have occurred. This option entails the same cost for amending the allocation system as the global 1-month UFG methodology approach, but there does not appear to be a cost on allocation participants.

- For two of the unmetered gas gates that exhibit negative GGRP values (PAP06603 Papakura 3 and WVY23601 Waverley), 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. However, the outcome from making this change may not be materially different to adopting a zero floor for GGRP values and scaling allocated quantities on the affected days proportionally to match the injection quantity.

- In the medium term, Gas Industry Co proposes to address the issue of negative GGRP values via consideration of amendments to the Rules. However, in the immediate term, Gas Industry Co is proposing that an exemption be granted to address this problem so that the arrangements for downstream allocation and reconciliation can operate effectively.

Issues

- Do submitters agree that the proposed approach of placing a floor of zero on GGRP values is still the best approach to address the occurrence of negative GGRP values?

- Do submitters agree with Gas Industry Co's preliminary analysis that applying the global 1-month UFG methodology will not prevent the occurrence of negative GGRP values? If this analysis is correct, then is it still justifiable to be considering applying the global 1-month UFG methodology as a mechanism to address the impacts of negative GGRP values?; or

- In light of the analysis in respect of the available options outlined above, Gas Industry Co's preliminary view is that, if a transitional exemption is to be granted, the preferred approach set out in table 2 above is '*Option 1c*: status quo allocation methodology, plus zero-floor GGRP values and the scaling of allocated quantities'. At this stage, that approach is viewed as being the most pragmatic solution to the issue of negative GGRP values. It has several benefits including:

    - Requiring the least departure from the policy set out in the Rules, including ensuring that daily allocated quantities match daily injection quantities and eliminating the possibility of gas gates that do not exhibit the atypical TOU/non-TOU load split used as the basis for the existing global 1-month UFG methodology gas gates being allocated in this manner;

    - Being an ex-ante approach, whereby the allocation system automatically removes negative GGRP values at gas gates which have not exhibited any such values in the past (ie not reliant on the pre-identification of gas gates that produce negative GGRP values);

    - Requiring the least change to allocation participants' current submission practices; and

- Having the lowest overall cost to allocation participants, the allocation agent and Gas Industry Co.

Do submitters agree with Gas Industry Co's preliminary view?

- If submitters prefer a different approach (ie one of the different options set out in table 2 above), please indicate which approach and provide reasons.
- Do submitters believe that the algorithm for calculating injection quantities at unmetered gas gates should be changed so that negative GGRP values will no longer 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?
- Gas Industry Co also seeks submitters' thoughts on the matters to be considered in granting a transitional exemption as set out below:
  - Whether the Rules currently adequately provide for accurate allocation and reconciliation in respect of gas gates with negative GGRP values;
  - Whether any of the alternative arrangements set out in table 2 above would be a fit for purpose arrangement and would meet the intended objective of rule 45; and
  - Whether granting an exemption utilising one of the alternative arrangements set out in table 2 above is not inconsistent with the purpose of the Rules and should assist the fair, efficient and reliable allocation of downstream gas quantities.

Q4: Do submitters have any comments on the potential exemption approaches outlined in respect of application DR09-08-T proposed by Gas Industry Co regarding potential arrangements to address negative GGRP values?

3 Minor proposed amendments to exemption DR09-03-T

This papers considers one additional matter in relation to a recently granted exemption - *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009*. In the implementation of the alternative arrangements set out in the exemption, the allocation agent queried whether the exemption was intended to override the requirement in rule 43 for the allocation agent to estimate consumption information where a retailer has failed to submit consumption information. The exemption was not intended to override this obligation of the allocation agent (even in situations where no retailer at a gas gate has submitted

consumption information despite having a current rule 39/GAS020 trading notification at that gas gate).

The exemption itself does not explicitly override the requirement to estimate in rule 43 – however, some confusion is possible as it does refer to applying the additional allocation methodology set out in the exemption in situations where no consumption information is provided by all retailers at a gas gate. In these circumstances, the allocation agent's current practice is to estimate all of the retailer's consumption quantities in accordance with rule 43 and the processes set out in GAU020 of the Allocation Agent Functional Specification.

To clarify this situation, it is proposed that a minor amendment to the terms of the exemption be made by Gas Industry Co to make it clear the exemption does not override the requirement to estimate in rule 43.

Q5: Do submitters have objection to the minor amendment proposed to the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009 to clarify that it does not override the requirements of rule 43?

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
Q1: Do submitters have any comments on the exemption DR09-06-T proposed by OnGas regarding an alternative apportionment process for ongoing fees?	
Q2: In light of the issues raised in section 2.2 above, do submitters have any comments on exemption application DR09-07-T regarding the application of the global 1-month UFG methodology at the additional 21 gas gates identified?	
Q3: Do submitters have any comments on the potential revocation of the global 1-month UFG methodology at the following gas gates: EGC30701 Edgecumbe DF, ORD24701 Oroua Downs, KRG24101 Kairanga, and HGW14501 Ngaruawahia?	
Q4: Do submitters have any comments on the potential exemption approaches outlined in respect of application DR09-08-T proposed by Gas Industry Co regarding potential arrangements to address negative GGRP values?	

Question	Comment
Q5: Do submitters have objection to the minor amendment proposed to the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-03-T: Residual Injection Quantity Allocation) Notice 2009 to clarify that it does not override the requirements of rule 43?	

Appendix B DR09-06-U OnGas

Gas Industry Company Limited **DR09-06-T**

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

1. Please complete a separate form for each type of exemption sought.
2. Complete sections 1 to 4 of the form for all exemption types. Complete section 5 only in addition for urgent exemptions, and section 6 only in addition for transitional exemptions.
3. Please provide all relevant information. Expand the sections of the form as necessary to provide reasonably full information, but detailed supporting information should be set out in attachments to the form.
4. Gas Industry Co may request additional information after receiving and reviewing the application.

1. Name and contact details for the participant(s) seeking exemption:

Company name: On Gas Limited

Phone: 04 803 9044

Contact Name: Anna Carrick

Fax:

Email: a.carrick@vector.co.nz

Mailing Address: 142 Wakefield Street, Wellington

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

Transitional (under rule 81)

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

On Gas seeks an exemption from the formula used in rule 16.3 to allocate ongoing allocation costs. This change will need to extend to all industry participants as it is effectively changing the amount each participant will be allocated.

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):

On Gas disagrees with the cost allocation methodology used for on-going fees and therefore recommends that an alternative formula based on 50/50 cost allocation between ICP and Volume basis is used as a compromise until the GIC undertake comprehensive analysis to determine the most equitable allocation methodology.

To support its reasoning for the exemption, On Gas Limited (and Vector Gas Contracts Limited) has provided a section from its submission on the GIC FY2010 levy. On Gas's views on the one-off levy extend to the ongoing reconciliation cost allocation methodology under rule 16.3 as both were determined using the same rationale.

From, On Gas Limited and Vector Gas Contracts Limited ('Vector') submission on the FY2010 Levy for Gas Industry Co, 5 February 2009, paragraphs, 25-56.

Vector's Views on the One-Off Levy

The remainder of this cover letter addresses the GIC's proposal to impose the unbudgeted development cost of $1,052,500 attributable to the implementation of the Gas (Downstream Reconciliation) Rules 2008.

Given that the entire cost is to be levied in a single year, which is inequitable from the point of view that future generations of consumers will also benefit from the reconciliation arrangements, it is critical that an equitable cost allocation approach is determined.

Vector does not support the methodology behind the cost allocation of the GIC's proposed one-off levy for the 2010 financial year. While Vector acknowledges that the one-off development cost of the Gas (Downstream Reconciliation) Rules 2008 will need to be recovered, it does not believe the forces driving the fee reflect true causer pays principles, more specifically, the cost does not fall on the mass market or, non-time of use ('non-TOU') ICPs, which drive the work-load of the reconciliation agent and are principally responsible for UFG due to the relatively imprecise data from such users.

Fee Setting Principles

Vector agrees that the GIC's six principles are appropriate to use when the company is designing the industry levy. However, Vector considers that the allocation of the one-off fee does not comply with several of these principles.

Namely, the allocation of the one-off fee based on gas volume does not address principles 2, 3, and 5. Each principle is discussed in turn below.

Principle 2: Beneficiary/ Causer pays

Vector notes that the Gas (Downstream Reconciliation) Rules 2008 ('the Rules') were designed to establish more efficient and accurate means of allocating unaccounted for gas ('UFG') among retailers. Rather than address the root cause of large amounts of UFG, the Rules instead socialise the allocation of UFG and

spread it around amongst retailers at the gas gate. There is little incentive on parties to improve the accuracy of their systems or make trade-offs between improved accuracy versus the costs of higher allocations of UFG.

Vector expressed its opposition to a volume-based allocation approach throughout numerous submissions. The underlying cause of UFG, and hence the need for a complex regime to allocate it, is at sites with an abundance of non-TOU metering (otherwise known as, 'mass market'). The accuracy of time of use ('TOU') metering accounts for a minimal amount of the UFG that occurs. If UFG is discovered at a TOU site, the amount is easily detected and quantifiable. Under the new downstream allocation regime, UFG is spread amongst retailers at gas gates regardless of what type of meters they own. In effect, retailers with TOU metering are having to pay for UFG that would appropriately be attributable to the mass market.

Vector believes that the above approach is fundamentally flawed as the regime places no incentive on mass market retailers, the main causers of the problem, to investigate and minimise large cases of UFG or to invest in TOU metering, which would have significant improvements on UFG levels.

The formula used for the ongoing fees, in respect of the Rules, is in Vector's view, also flawed. Rather than allocate the ongoing fees on a 'per ICP' basis, which, would reflect that the causer (mass-market) of UFG would be paying the majority of the ongoing fees, the formula allocates the costs on a gas volume basis. Thus, users with larger volume, which are typically commercial consumers with TOU metering, are required to pay whilst receiving no benefit from the regime.

The cost allocation methodology of the special one-off development fee for the Downstream Reconciliation project in the FY2010 levy is based on the same incorrect interpretation of principles used for the ongoing fee structure.

Principle 3: Rationality

As outlined above, Vector does not believe there is a 'strong and logical link between the participants on whom the levy is imposed and the costs being recovered through that (one-off) levy[14].'

Vector again notes that the GIC's rationale for allocating the fee on a gas volume basis was due to the same formula being used to determine ongoing fees under the Rules. However, weak analysis was demonstrated by the GIC to support its decision to allocate ongoing fees by volume. This analysis is discussed below.

In its' first discussion paper on downstream reconciliation, the GIC identified its preferred approach to funding arrangements as being:

> 'tailor-made, so that the industry participants that obtain the most benefit from the accurate and efficient downstream reconciliation bear the cost of the arrangements[15].'

Later in the same discussion paper, the GIC goes on to note that:

> 'Retailers will obtain the most benefit from the proposed improvements to reconciliation and, accordingly, should fund the cost. Allocating costs between retailers should be on the basis of the number of ICPs rather than by gas load. This is because the main benefits (e.g. improving information quality) are proportional to the number of customers rather than gas volumes[16].'

[14] FY2010 Levy for Gas Industry Co, pg. 9.
[15] Gas Industry Company, *Discussion Paper: Reconciliation of Downstream Gas Quantities*, 11 January 2007, pg 71.
[16] Gas Industry Company, *Discussion Paper: Reconciliation of Downstream Gas Quantities*, 11 January 2007, pg 71.

The GIC went on to note that the company would undertake a cost/ benefit analysis of the above preference to ensure the correct beneficiary is identified.

The first Statement of Proposal shows a radically different view taken by the GIC on appropriateness of allocating fees. To support the GIC's new favoured approach the statement contained an 'Appendix on Cost Allocation.'

The appendix outlined that submissions received were largely in favour of cost recovery on a per ICP basis, the only submitters to say otherwise were the two principle mass market retailers, Contact Energy Limited and Genesis Energy Limited, who argued in favour of gas volume. The then current allocation agent, Tom Tetenburg and Associates expressed support for funding based on an ICP basis[17].

The appendix on cost allocation also attempts to determine which arrangement would gain the most benefit when assessed against the GIC's core principles for cost recovery. The GIC identified that it is hard to decipher which cost recovery option would result in the most benefit for five out of the six principles. However, the principle, 'User/Causer Beneficiary Pays' is identified as best aligning with a volume based approach.

The paragraph below illustrates this assumption:

> 'Gas retailers will seek a margin to compensate them for the costs and risks associated with gas supply. Typically these margins will be based on a percentage of the total cost of supply, with the actual percentage varying according to the level of competitive pressure. As a result, customers which spend a large amount on gas will benefit more from competition than smaller users.'

Thus, the above justification allowed for the GIC to allocate ongoing fees and consequently, the one-off levy fee on a volume based approach given, 'the competition benefits are *expected* to be strongly correlated to volumes' and far outweighing the benefits attributable to a more accurate allocation of UFG- a key purpose of the Rules.

Vector finds this rationale difficult to comprehend. The relationship between reconciliation and competition is difficult to draw. Indeed a retailer that invests in improving accuracy of metering information will not receive full recognition of the benefits of this action, because the allocation of fees is dependent on volume and not the contribution to the UFG problem.

Thus, Vector does not agree with the analysis and conclusion reached by the GIC, which has no substantive evidence to support the claims.

Vector notes here that a better rationale to use would be based on where the allocation agent dedicates the most amount of time when determining allocations. Working through a though experiment is useful. If the number of ICPs at a gas gate were to double, the work involved in reconciliation would increase in some proportion, whereas if the volume were to double, for the same number of ICPs the work would stay the same.

Principle 5: Equity

Apart from the ongoing market fee for the Rules (and as a consequence, the one-off levy) all other retail levies are charged on a per ICP basis (i.e. Retail Levy, Switching establishment and ongoing market fees) not on volume.

[17] The GIC note in the First Recommendation to the Minister, that Tom Tetenburg later changed his view on this through, 'information discussions'.

Therefore, the GIC, in order to align with its' 5th cost setting principle, equity, should consistently allocate costs associated with retail work streams on a per ICP basis.

Vector's view is that unless the GIC can quantify which methodology provides the greatest net benefits with associated users of the regime, then based on equity, the GIC should consistently apply a per ICP basis to fund retailer regulations.

Vector's Recommendation

Vector considers that an ideal solution to improve upon the method used for allocating costs, would be that the one-off development cost incurred from the Downstream Reconciliation system still be recovered through the FY2010 Levy but that it is allocated amongst participants on a per ICP basis.

However, Vector realizes that justifying the dramatic formula change would be difficult given the timeframe the GIC is under to have the levy approved and the time involved in submitting a rule change for the on going funding of the Downstream Rules.

Therefore, Vector recommends a compromise of a 50/50 split of the one-off levy, between a volume and ICP basis.

To supplement our recommendation, Vector has attached an exemption application to this submission requesting that the formula in rule 16.3 for on-going fees is also changed to a 50/50 split between volume and ICPs.

Vector requests that this exemption is temporary or transitional that will be in place until the GIC can decide upon a fair and equitable allocation through sound economic analysis.

Vector believes that our recommendation to compromise should be adopted as it more accurately meets the objectives against which various options for a funding mechanism could be considered, in this case, the GIC's Fee Setting Principles.

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

This exemption will affect <u>all</u> participants as it changes the ongoing fee structure under rule 16.3.

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

On Gas requests that the exemption is transitional and that it remains in place until the GIC can determine the most equitable allocation methodology.

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

On Gas proposes the following changes be made to rule 16:

16. How and when estimated ongoing fees payable

16.1 The estimated ongoing fees are payable to the **industry body**.

16.2 As soon as practicable after this rule comes into force and no later than 10 **business days** before the **go live date**, the **industry body** must divide the total in two equal parts. One half of the total estimated ongoing allocation costs will be attributable to ICPs and the other to gas volume. The industry body must then determine and **publish** on its website a breakdown of the estimated **ongoing allocation costs** for the **gas year** commencing on 1 October 2008.

16.3 As soon as practicable after publication of the estimated **ongoing allocation costs** for the **gas year** commencing on 1 October 2008, the **industry body** must notify every person to whom rule 15.4 applies of the estimated **ongoing allocation costs** and that ongoing fees will be payable by that person in that **gas year** in accordance with the following formula:

ICP Basis

One half of the ongoing allocation costs estimated in accordance with rule 25.3 of the Gas Switching Rules 2008.

Gas Volume Basis

A x (B/C)

Where:

A = One half of the **ongoing allocation costs** estimated in accordance with rule 16.2 and divided by 12; and

B = the total quantity of gas allocated to **retailer** A by the **allocation agent** in the **initial allocation** under rule 48 across all **gas gates** in respect of the **consumption period**
that is 2 months before the current month; and

C = the total quantity of gas allocated to all **retailers** by the **allocation agent** in the **initial allocation** under rule 48 across all **gas gates** in respect of the **consumption period**
that is 2 months before the current month.

16.4 In respect of the ongoing fees payable by a person during the 2 months immediately after the **go live date**, for the purposes of rule 16.3, the total quantities of gas referred to in that rule shall be:

16.4.1 Those quantities derived from the information referred to in rules 78.1.1 and 78.1.2; and

16.4.2 That would have been allocated if those quantities had been allocated under these **rules**.

16.5 For each **gas year** following the **gas year** commencing on 1 October
2008, the **industry body** must –

16.5.1 Estimate and **publish** on its website at least 2 months prior to the beginning of the **gas year** a breakdown of the estimated **ongoing allocation costs** for that **gas year**; and

16.5.2 As soon as practicable after publication of the estimated **ongoing allocation costs**, notify each

person to whom rule 15.4 applies of the estimated **ongoing allocation costs** and that ongoing fees will be payable by that person in that **gas year** in accordance with the formula in rule 16.3.

16.6 On the 1st **business day** of each month, the **industry body**, or the **allocation agent** if required to do so by the **industry body**, must invoice every person to whom rule 15.4 applies with that person's share of the estimated **ongoing allocation costs**, calculated in accordance with the formula in rule 16.3.

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:

On Gas requests that the exemption is transitional and that it remains in place until the GIC can determine the most equitable allocation methodology. On Gas considers that once the methodology is determined, it would then be appropriate for the GIC to submit a rule change, if necessary.

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

Appendix C DR09-07-T Gas Industry Co

Gas Industry Company Limited **DR09-07-T**

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

1. Please complete a separate form for each type of exemption sought.
2. Complete sections 1 to 4 of the form for all exemption types. Complete section 5 only in addition for urgent exemptions, and section 6 only in addition for transitional exemptions.
3. Please provide all relevant information. Expand the sections of the form as necessary to provide reasonably full information, but detailed supporting information should be set out in attachments to the form.
4. Gas Industry Co may request additional information after receiving and reviewing the application.

1. Name and contact details for the participant(s) seeking exemption:

Company name: Gas Industry Co

Phone: 04 494 6582

Contact Name: Ian Dempster

Fax: NA

Email: ian.dempster@gasindustry.co.nz

Mailing Address: NA

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

Transitional (under rule 81)

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

An exemption is sought from the application of rules 45.2.3, 46.2.1 and 46.3.2 for the 21 gas gates set out below, subject to the following terms and conditions:

1. CAM17201 Cambridge
2. DAN05001 Dannevirke
3. DRU15102 Drury 2
4. ELM12301 Eltham
5. HRU16101 Horotiu
6. HTL16601 Huntly
12. MNA23402 Manaia
13. MTN23801 Marton
14. PTR32601 Putaruru
15. RAM15201 Ramarama
16. TKS17401 Te Kuiti South
17. TUK06501 Tuakau

7.	HUN15301 Hunua	18.	WHK32101 Whakatane
8.	HWA20801 Hawera	19	WRK18901 Warkworth
9.	KAP12901 Kapuni (Lactose)	20.	WTA16501 Waitoa
10.	KIN02601 Kinleith	21.	WVY23601 Waverley
11.	LNB24301 Longburn		

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

The gas gates listed above have, in allocations to date, exhibited a high proportion (ie approximately between 80 and 100%) of TOU-metered consumption (ie allocation groups 1 and/or 2 consumption) versus total injections. In this way, these gas gates exhibit the same characteristic as the gas gates where exemptions have previously been granted allowing the application of the global 1-month UFG methodology. In these situations, the majority of UFG is almost certainly caused by the TOU installation(s) at the gas gate and therefore it has been considered fairer to allocate gas to all types of meters on the same basis, rather than using the modified global approach set out in the Rules.

At several of the gas gates in the list above retailers have received negative allocations for one or more allocation periods since October 2008. Not only is this counter to reality, it can also cause problems for retailers' estimation processes. Applying the global 1-month UFG methodology at these gas gates will remove the occurrence of these negative allocations.One reason for varying the allocation methodology at some of these gas gates is the occurrence of negative allocations. Over the period October 2008 – February 2009, six of the 21 gas gates in the list above have had instances of negative allocations. Thus far, the negative allocations have been consistent across the initial and interim allocations (ie the same gas gates and retailers). The gas gates at which these negative allocations have occurred are DAN05001 Dannevirke, HUN15301 Hunua, KIN02601 Kinleith, RAM15201 Ramarama, TKS17401 Te Kuiti South, and TUK06501 Tuakau. The existence of negative allocations is not only at odds with reality, it can also cause problems for retailers' estimation processes. While the causes of such negative allocations is most likely due to metering or estimation inaccuracies, the application of the global 1-month UFG methodology at these gas gates would remove the instance of negative allocations and provide for an allocation of gas across retailers which is equitable

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

The approach may provide a fairer allocation of downstream gas quantities at gas gate where the TOU/non-TOU load split is heavily in favour of TOU consumption.

Because retailers would simply be submitting allocation group 1 or 2 data as allocation group 3 data, no system changes would be required by the allocation agent.

However, this alternative approach could create additional costs for allocation participants and, , given the number of gas gates involved, may cause confusion or create additional compliance concerns,

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

If an exemption were granted, it should expire on 30 September 2010, being the end of the transitional period under the Rules. That period would also enable Gas Industry Co to consider potential rule changes to address the circumstances that gave rise to an exemption.

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

Retailers at these gas gates shall submit their allocation group 1 and 2 consumption data under rules 31, 32 and 33 as allocation group 3 data and this shall be done by submitting the information in accordance with the GAS050 file format determined by Gas Industry Co except that 'Allocation Group' shall refer to '3' (rather than 1 or 2) and 'Profile code' shall refer to 'STOU' (rather than XTOU).

The allocation agent shall be exempted from applying the process in rule 55 to these gas gates for the establishment of a STOU static deemed profile and instead the allocation agent shall, upon request from Gas Industry Co, create a STOU profile code to apply to these gas gates. The profile code shall be owned by Gas Industry Co and shall be registered by the allocation agent, under rule 56, against the large time-of-use (TOU) ICPs at the gas gates in question. All retailers trading at these gas gates shall have permission to use the profile code.

TOU consumer installations at these gas gates will continue to comply with all other allocation group 1 or 2 installation requirements.

5. Additional information for an urgent exemption:

No applicable.

6. Additional information for a transitional exemption

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

Gas Industry Co acknowledges it may be arguable that:

- The Rules may not currently adequately provide for accurate allocation and reconciliation in respect of gas gates with this large TOU/small non-TOU load split, and whether application of the global 1-month UFG methodology is intended to be an appropriate transitional arrangement for a short-term period, to address negative impacts that are not the result of wilful intent to avoid compliance or inadequate attempts to achieve compliance with the Rules;
- The alternative global 1-month UFG methodology arrangement set out above may be a fit for purpose arrangement and would meet the intended objective of rule 45;
- Granting the exemption may not be inconsistent with the purpose of the Rules and may assist the fair, efficient and reliable allocation of downstream gas quantities.

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

Appendix D DR09-08-T Gas Industry Co

Gas Industry Company Limited **DR09-08-T**

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

1. Please complete a separate form for each type of exemption sought.
2. Complete sections 1 to 4 of the form for all exemption types. Complete section 5 only in addition for urgent exemptions, and section 6 only in addition for transitional exemptions.
3. Please provide all relevant information. Expand the sections of the form as necessary to provide reasonably full information, but detailed supporting information should be set out in attachments to the form.
4. Gas Industry Co may request additional information after receiving and reviewing the application.

1. Name and contact details for the participant(s) seeking exemption:

Company name: Gas Industry Co

Phone: 04 494 6582

Contact Name: Ian Dempster

Fax: NA

Email: ian.dempster@gasindustry.co.nz

Mailing Address: NA

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

Transitional (under rule 81)

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

An exemption is sought from the application of rule 45.2.5 in respect of any gas gates where negative vales are generated for the gas gate residual profile (GGRP) during any given consumption period. In such situations, it is proposed that zero be the floor for GGRP values so that negative values cannot occur and the exemption be subject to the following terms and conditions:

- In respect of any gas gates where a GGRP quantity for a day in the consumption period, as calculated in accordance with rule 45.2.5, is less than zero (ie a negative quantity):

- the allocation agent is exempt from the requirement to apply the formula $EI_d - AQ_{1, 2, 3 \& 5}$ in rule 45.2.5 to determine the gas gate residual profile quantity for that day; and
- the GGRP quantity for that day to be applied for the purposes of the Gas (Downstream Reconciliation) Rules 2008 is zero; and
- where, after applying the zero-floor GGRP quantity under 45.2.5, the total gas gate allocated quantities for a day do not equal the actual daily injection quantity, then the allocated quantities for allocation groups 1, 2, 3 and 5 are to be scaled proportionally for each retailer so that the total gas gate allocated quantities for a day equal the actual daily injection quantity.

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

The application of the allocation processes set out in rules 45 and 46 can result in a negative residual quantity of gas to be allocated to allocation groups 4 and 6 for a day, as a result of the sum of the gas allocated to allocation groups 1, 2, 3 and 5 being greater than the gas gate injection quantity for the day. In such instances the allocation agent effectively 'credits' or subtracts gas consumption quantities from allocation groups 4 and 6, even though in reality consumers in these allocation groups may have consumed gas during the day(s) in question.

In allocations to date, the calculation of the daily GGRP has resulted in negative values at some gas gates. While the calculation and publication of negative GGRP values pose no issues for the allocation system, they do however pose a problem for retailers, which are required to use GGRP values (in the form of seasonal adjustment daily shape values (SADSVs)) in the calculation of historic estimates. In order to normalise GGRP values over a month while retaining the un-normalised residual profile for the month, GGRP values calculated by the allocation system are significantly inflated by the existence of negative GGRP values. This leads to daily non-TOU consumption being overestimated and can give material errors, which in turn not only affect retailers' historic estimate calculations but can adversely impact retailers' upstream arrangements (eg cause transmission capacity overrun charges to be incurred).

It is proposed to address this issue by removing the calculation of negative GGRP values by the allocation system, with zero becoming the floor value. To ensure that daily allocated quantities balance with daily injection quantities, allocated quantities will be scaled proportionally for each day in a consumption period where a zero-floor approach only would otherwise result in the total allocated quantities at a gas gate for a day not equalling the actual daily injection quantity.

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

providers) and any costs and benefits to them:

Compared with the status quo, there do not appear to be known adverse effects for allocation participants. A change will need to be made to the allocation system to enable the allocation agent to implement the changed approach, with the costs estimated to range between $12,100 - $12,800.

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

The exemption sought is for the full duration of the transitional period, ie until 30 September 2010. In the medium-term Gas Industry Co proposes to address the issue of negative GGRP values via consideration of amendments to the Rules. However, in the immediate term, it is proposed that a transitional exemption be granted to address this problem so that the arrangements for downstream allocation and reconciliation can operate fairly and effectively.

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

It is proposed that where GGRP values calculated in accordance with rule 45 would ordinarily be negative, they are adjusted so that they equal zero. Allocated quantities for that day are then scaled proportionally so that allocated quantities equal the injection quantity for that day. Positive GGRP values calculated in accordance with rule 45 are not adjusted.

5. Additional information for an urgent exemption:

No applicable.

6. Additional information for a transitional exemption

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

On the information available, Gas Industry Co's preliminary view is that:

- The Rules currently do not adequately provide for accurate allocation and reconciliation in respect of gas gates with negative GGRP values;

○ The alternative arrangement set out above is a fit for purpose arrangement and should meet the intended objective of rule 45; ○ Granting the exemption is not inconsistent with the purpose of the Rules and should, in fact, assist the fair, efficient and reliable allocation of downstream gas quantities.
Please email this form to exemptions@gasindustry.co.nz