

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

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- Application DR09-01-U regarding a new direct connect consumer gas gate at Stratford
- Applications DR09-02-S and DR09-05-S regarding negative values for the gas gate residual profile
- Application DR09-03-T regarding allocation of injection quantities where no consumption has been submitted
- Application DR09-04-S regarding rule 39 notification timeframes and the submission of zero data

### 1 Introduction

This consultation paper seeks submitters' views on five exemption applications in respect of the Gas (Downstream Reconciliation) Rules 2008 (the "Rules").

Two applications have been submitted by Contact Energy Limited (Contact). The first application (DR09-01-U) seeks to have the newly commissioned direct connect gas gate at Stratford (STR00501/Stratford 3) exempted from certain provisions of the Rules, in a similar manner to the specified direct connect gas gates in the existing exemption: [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption: Direct Connect Gas Gates\) Notice 2008](#). An urgent exemption was granted on an interim basis on 8 January 2009 and, following the completion of this consultation, Gas Industry Co must determine whether to revoke, replace or amend the exemption. The second application from Contact (DR09-04-S) seeks an exemption for retailers from the current timeframe for providing a rule 39/GAS020 notice to the allocation agent.

The other exemptions considered in this consultation paper seek to address two issues that have arisen in the operation of the allocation process. In the medium term, Gas Industry Co intends to address these issues via the consideration of amendments to the Rules. However, in the interim, it is proposed that exemptions be granted to ensure the allocation process can operate effectively and fairly.

Application DR09-03-T is proposed by Gas Industry Co and seeks to provide an exemption and additional arrangements in the allocation process where no consumption information has been submitted for a gas gate but injection quantities exist.

Applications DR09-02-T (from Gas Industry Co) and DR09-05-S (from Mighty River Power) seek to provide an exemption and alternative arrangements to remedy the problems resulting from the generation of negative gas gate residual profile (GGRP) values in the allocation process. Gas Industry

Co undertook some work on options to address this issue and has proposed an exemption application to have a zero-limit on GGRP values. However, just prior to the release of this consultation paper, Mighty River Power submitted an exemption application which seeks to address this issue by allowing retailers to apply their own GGRP values. Both of these options are discussed in relation to the exemption applications.

This consultation paper publishes and seeks submissions on these exemption applications. Submissions must be received by Gas Industry Co no later than 5pm on Thursday, 5 February 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](http://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/sites/default/files/u21/Inform%2520paper%2520on%2520exemptions\\_148798.2.pdf](http://www.gasindustry.co.nz/sites/default/files/u21/Inform%2520paper%2520on%2520exemptions_148798.2.pdf)

## 2 Description and Analysis of Exemptions Sought

### 2.1 Application DR09-01-U: new Stratford 3 gas gate

#### Summary of application

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

**GIC Code:** DR09-01-U

**Applicant:** Contact Energy

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

**Exemption Sought:** In respect of the new Stratford 3 (STR00501) gas gate, an exemption is sought by Contact from the application of rules 16, 29-41, 43-53, 78 and 79. The exemption requested is a permanent exemption to apply from 15 December 2008 until 30 September 2010 and is sought for all retailers.

**Summary of Reasons:**

- The Stratford 3 gas gate is a direct feed off the Vector transmission system and there is no distribution network downstream of the welded point, ie it is a direct consumer gas gate.

- There is no point in downstream allocation applying to direct consumer gas gates as there is no UFG to be allocated.
- The exemption will have no impact on other participants or the allocation agent.
- Exemption is sought from 15 December 2008 (commissioning date) for a period that matches that of the one granted for all the other direct consumer gas gates, ie until 30 September 2010, to enable Gas Industry Co to be in a fully informed position to assess the merits and operation of this initial exemption and, if necessary, amend the rules.

## Additional information

- The exemption sought is essentially an extension of the existing direct connect gas gates exemption to the newly created direct connect gas gate at Stratford (Stratford 3/STR00501) ie so that this gas gate is exempt from the provision of consumption information and the application of the allocation process set out in the Rules to the new Stratford 3 gas gate. The existing standard exemption was granted in respect of the 36 identified direct connect gas gates known at the time – see the [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption: Direct Connect Gas Gates\) Notice 2008](#), which is attached as Appendix D.
- So as to ensure that Gas Industry Co was able to properly consider the exemption application and to ensure the applicant was not unduly disadvantaged in the interim, on 8 January 2009 Gas Industry Co granted an urgent exemption on an interim basis in respect of this application. The urgent exemption is in force until 28 February 2009 and exempts the new Stratford 3 (STR00501) gas gate from certain rules relating to the provision of consumption information and the allocation process during that period. The urgent exemption ([Gas \(Downstream Reconciliation\) Rules 2008 \(Urgent Exemption DR09-01-U: Direct Connect Gas Gate\) Notice 2009](#)) is attached as Appendix C.

## Issues

- On the information provided by Contact, the Stratford 3 gas gate appears to be a direct connect gas gate of the same nature as those direct connect gas gates covered by the existing exemption, ie supplies a consumer directly connected to the transmission system. Is that characterisation correct?
- Does the policy rationale set out below for the existing direct connect gas gates exemption apply equally to an exemption for the Stratford 3 gas gate?
  - in light of the potential additional implementation and compliance costs, the initial benefits of applying the allocation methodology set out in the Rules in respect of direct connect gas gates are reduced;
  - for reasons of simplicity and clarity, all direct connect gas gates should be treated the same in any exemption granted. All direct connect gas gates are connected to the transmission system and subject to existing upstream processes; and
  - there are unlikely to be any detrimental effects on competition for retailers or transmission system owners at direct connect gas gates, and granting the exemption is likely to ensure consumers at these direct connect gas gates are not subject to increased gas costs or prices due to retailer compliance costs with the Rules.
- The existing direct connect exemption exempts direct connect gas gates (and the associated allocation participants) from:

- complying with the consumer installation metering requirements set out in rule 29;
- providing consumption information for the direct connect consumers at those gas gates under rules 31 to 33, rule 40 and rule 52; and
- the application of the allocation and reconciliation processes set out in rules 48 to 50, rules 51 to 53 and rules 78 and 79.

However, Contact's application also seeks to exempt the new Stratford 3 gas gate from other rules including the provision of injection information by transmission system owners under rule 41 and other rules related to the provision of consumption information and the allocation process. Gas Industry Co's preliminary view is that, if an exemption is granted here, for consistency reasons, it should be on the same terms and conditions as the existing direct connect gas gate exemption unless there is good reason otherwise. Do submitters agree?

*Q1: Do submitters have any comments on the exemption DR09-01-U proposed by Contact regarding the new Stratford 3 direct connect gas gate?*

## 2.2 Applications DR09-02-T and DR09-05-S : Negative gas gate residual profile values

### Summary of application

The full applications are attached as Appendix E and Appendix F respectively. A summary of the applications is set out below:

**GIC Code:** DR09-02-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 values 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  $El_d - AQ_{1, 2, 3 \& 5}$  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.

**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 4 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.
- During the October, November and December 2008 initial allocations, 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 who 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.

**GIC Code:** DR09-05-S**Applicant:** Mighty River Power**Exemption Type:** Standard under rule 19

**Exemption Sought:** An exemption is sought from the application of rules 35 (application of profiles/seasonal adjustments for historic estimates) and 45.2.6 (application of GGRP quantities to group 3-6 consumption). It is proposed that retailers instead be able to apply their own internally calculated GGRP values and shape to accurately apportion historic estimates for allocation rather than the GGRP values determined under the Rules. The exemption is sought on an indefinite basis.

**Summary of Reasons:**

- The application of the current GGRP results in an unrepresentative result, both in terms of the Rules and in terms of practical reality. The negative GGRP values lead to incorrect allocation of volumes to the retailers and increases the probability of capacity-reservation overrun on the transmission network. As the GGRPs change on an allocation period basis, it would be impractical to apply for an exemption in each case. Rather it is better having an exemption covering all gas gates until such time as issues with the GGRP calculations are resolved
- The exemption period should be indefinite until such time as there can be complete confidence that the GGRPs issued are representative of actual consumption, and as such, can accurately assign allocation volumes.
- Mighty River Power does not support the concept of modifying arrangements so that the minimum value on any GGRP is set to zero. While setting negative GGRP values to zero improves the allocation result, it still is not a good representation of the profile since it:
  - assumes that actual non-TOU consumption is zero on those days, which is unlikely; and

- still inflates the risk of capacity overrun, admittedly less so than if the same GGRPs were negative. This is because it shifts consumption that would have been allocated to the days in which the original GGRP values are negative, into the days for which GGRP values are positive.

A worked example outlining Mighty River Power's rationale is also set out in Appendix F.

## Additional information

- Gas Industry Co has identified the following potential reasons for negative GGRP values:
  - *metering inaccuracies* – for example, a gas gate meter is under-reading the flow of gas through it. At gas gates where time-of-use (TOU) metered load comprises all, or a very large percentage of the load at the gas gate, the risk of metering inaccuracies causing negative GGRP values is higher;
  - *annual UFG (AUGF) factor inaccuracies* – for example, applying the AUGF factor to TOU metered consumers at a metered gas gate could potentially gross up those TOU metered consumers' consumption to a level which is greater than the gas gate injection quantity; and
  - *estimation inaccuracies* – for example, retailers may overestimate the quantities of non-TOU metered consumption at a gas gate. Also, at an unmetered gas gate with TOU metered consumption, the TOU quantity on a given day may be greater than the flat-line profiled injection quantity estimated for the gas gate by the allocation system<sup>1</sup>.
- The effect of negative GGRP values on the normalisation of the GGRP over a consumption period is demonstrated by 'Example 1: HE values using negative GGRP values' in Appendix E<sup>2</sup>. As can be seen in this example, when historic estimates are calculated for the consumption period/month, a number of days have non-TOU consumption values that are greater than the *entire* non-TOU consumption originally allocated for the month (in one instance more than double the monthly value). This is despite the quantity of non-TOU consumption profiled by the retailer (18 GJ) being identical to the quantity of non-TOU consumption allocated by the allocation agent at this gas gate in November 2008 (18 GJ) ie since Waverley WY23601 is a non-shared gas gate. As the total of the GGRP values for the consumption period gets closer to zero<sup>3</sup>, the inflation of the normalised GGRP values over the month becomes greater, and thereby the error in the historic estimates calculated by the retailers at that gas gate.
- Gas Industry Co accepts that errors introduced into the downstream allocation process by negative GGRP values can be material, and that this is not always going to be just a timing issue (eg non-representative AUGF factors<sup>4</sup>). Moreover, Gas Industry Co acknowledges that these errors can have material upstream consequences for retailers (eg transmission capacity overrun charges). Therefore, Gas Industry Co has proposed in exemption application DR09-02-T to address this issue by removing the calculation of negative GGRP values by the allocation system, with zero becoming the floor value.

<sup>1</sup> 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. 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. The risk of negative GGRP values arising in this manner 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.

<sup>2</sup> Using the November 2008 GGRP values for the unmetered gas gate WY23601, as contained in the GAR060 report.

<sup>3</sup> ie as the total of the negative GGRP values for the month comes closer to the total of the positive GGRP values for the month.

<sup>4</sup> Arising because of the calculation of AUGF factors using historical data.

- Gas Industry Co's preliminary view is that this is an appropriate approach to the calculation of GGRP values by the allocation system. By removing negative GGRP values, it recognises that non-TOU metered consumers must have a floor of zero on their consumption (as must also TOU metered consumers). This approach is viewed as less distortionary in the daily allocation of non-TOU metered consumption than using the most obvious alternative approach of a flat-line profile. Gas Industry Co notes that its proposed approach is identical to that used in the New Zealand electricity industry.
- It is acknowledged that this proposed approach still has the key accuracy limitation of shifting non-TOU consumption between days within the consumption period (as would a flat-line profile approach). However, Gas Industry Co notes that thus far the gas gates at which negative GGRP values are occurring are where non-TOU metered consumption comprises a relatively small component of total gas consumed. Therefore it is expected that the profile distortion will not have a material effect on the daily non-TOU metered quantities allocated to each retailer at a gas gate where negative GGRP values would otherwise occur. Gas Industry Co seeks feedback from retailers on this view, and also on whether the distortion that will exist is likely to have a material commercial impact on individual retailers because of upstream arrangements (eg transmission capacity overrun charges).
- Gas Industry Co's proposed approach of using a floor GGRP value of zero is demonstrated in *'Example 2: HE values using GGRP values with a floor of zero'* in Appendix E. This second example builds on the first example, so that a comparison of the results can be made. As can be seen in the second example, the residual profile shape for the consumption period is altered somewhat by setting a GGRP value floor of zero. However, the daily non-TOU metered quantities at the gas gate are now more in proportion to the total quantity of non-TOU metered consumption recorded.
- With respect to the cost of changing the allocation system to accommodate a floor of zero on GGRP values, the allocation agent M-co, has provided Gas Industry Co with an indicative cost of \$2,300 - \$3,000.
- Mighty River Power's exemption application essentially entails:
  - the GGRP (and the SADS) values generated under the Rules not being applied to calculate historic estimates for allocation groups 4 and 6 consumption data for submission to the allocation agent (ie under rule 35). It is proposed that retailers be able to apply their own GGRP values or seasonal shape methodology to calculate historic estimates for all allocations (as rule 35.3 essentially allows already for initial allocations); and
  - the GGRP calculation methodology in the Rules not being applied at all to the allocation of daily quantities for allocation groups 4 and 6 consumption (ie under rule 45.2.6).
- In respect of the proposed exemption for rule 35, it is proposed that for all allocations, retailers be allowed to apply their own GGRP values and seasonal adjustment methodology to calculate daily values for historic estimates. However, Gas Industry Co has concerns that this would provide the opportunity for retailers to game the historic estimate calculation process by shifting non-TOU consumption between consumption periods. Gas Industry Co is also unclear how this will assist to resolve the upstream risks identified in Mighty River Power's exemption application, as these risks arise because of the methodology used by the allocation agent to allocate non-TOU metered consumption information.
- In respect of the proposed exemption from rule 45.2.6, Mighty River Power's exemption application does not propose how the allocation system is to allocate the consumption information for

allocation groups 4 and 6 (ie what GGRP values the allocation system is to use under rule 45.2.6). The allocation system needs a commonly calculated set of GGRP values applicable to all retailers at a gas gate in order to allocate groups 4 and 6 data.

- Gas Industry Co's preliminary view is that the exemption proposed by Mighty River Power is unworkable in its current form because it has not offered an alternative profiling methodology to be used under rule 45.2.6. As discussed above, Gas Industry Co believes that the two most obvious alternative methodologies to that currently used for allocating non-TOU consumption information are the 'zero floor' approach or the flat-line profile approach, with the 'zero floor' approach considered less distortionary than the flat-line profile approach.
- Gas Industry Co acknowledges that, ideally, any exemption granted would be in effect for the first interim allocation in February 2009, ie in time for retailers to calculate their historic estimate interim consumption submission data for the October 2008 consumption period (due on 13 February 2009) and for the interim allocation by the allocation agent on 17 February 2009. However, it is almost certain that a decision of the exemption application will not be made in time for the new GGRP methodology to be incorporated into the allocation system in time to apply for the interim allocation occurring in February. A decision on the proposed exemptions would need to be made only 1 or 2 days following the closing date for submissions on this consultation paper, which is not expected to be possible. Gas Industry Co's Board is not expected to be able to meet until 19 February 2009 to consider the exemption applications, so Gas Industry Co is aiming for any exemption granted to be in effect for the initial and interim allocations occurring in March 2009. Gas Industry Co acknowledges that this delay may have some negative effects on allocation participants and requests submitters detail any such negative effects in their submissions. One potential option that may go some way to addressing any negative effects resulting from February's interim allocation is for Gas Industry Co to require the allocation agent to perform a special allocation later in February using the new GGRP approach (as provided for in any exemption granted).
- 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 the best alternative to the current methodology set out in the Rules? Gas Industry Co seeks feedback from retailers on whether the profile distortion still inherent in the proposed approach will have a material effect on the daily non-TOU metered quantities allocated to each retailer at the gas gates where negative GGRP values are occurring currently. Gas Industry Co also seeks feedback on whether the distortion that will exist (whether material or non-material) is likely to have a material commercial impact on individual retailers because of upstream arrangements at these gas gates (eg transmission capacity overrun charges).
- One concern with adopting this proposed approach to calculating GGRP values is that it may lessen the incentive on allocation participants to find and rectify metering and/or data errors that are causing negative GGRP values. Gas Industry Co notes that the overwhelming majority of negative GGRP values in the initial allocations for October, November and December 2008 were at gas gates where non-TOU metered consumption comprises a relatively small component of total gas consumed. Gas Industry Co queries whether this may indicate errors with the TOU metering at these



gas gates (the gas gate meter and/or TOU consumer meters). Gas Industry Co's preliminary view is that if this is the case, then an emphasis should be placed on rectifying the underlying cause(s) of negative GGRP values rather than simply amending the methodology used to calculate GGRP values. Such issues can also be addressed via the Rules through the commissioning of event audits by Gas Industry Co and where necessary event audits will be considered by Gas Industry Co on a case by case basis.

- If the 'zero floor' approach to calculating GGRP values was adopted via an exemption, Gas Industry Co intends to monitor the instances of zero GGRP values at gas gates<sup>5</sup>. The fact that negative GGRP values are (at least thus far) occurring at gas gates where non-TOU consumption represents a relatively small component of the total gas consumed might appear to indicate that setting a minimum GGRP value of zero is appropriate, as TOU-metered consumers and/or the gas gate meter appear to be causing the negative GGRP values rather than the non-TOU metered consumption information.
- Gas Industry Co also seeks feedback from submitters on whether, even if a floor of zero is placed on GGRP values, the calculation algorithm used by the allocation system for estimating daily injection quantities at unmetered gas gates with TOU consumers should be amended so that the allocation system takes 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.
- What (if any) negative impacts will there be on allocation participants if an exemption is not in place until March 2009? If an exemption was granted, do submitters consider that a subsequent special allocation for the October 2008 consumption period (applying any new GGRP methodology ie 'zero floor' or flat-line profile) would address any such negative effects?
- Gas Industry Co also seeks submitters' thoughts on its preliminary views on the matters to be considered in granting a transitional exemption as set out below:
  - the Rules currently do not adequately provide for accurate allocation and reconciliation in respect of gas gates with negative GGRP values;
  - the alternative "zero-floor" 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.

*Q2: Do submitters have any comments on exemptions DR09-02-T proposed by Gas Industry Co and DR09-05-S from Mighty River Power regarding potential arrangements to address negative GGRP values?*

<sup>5</sup> Gas Industry Co notes that zero GGRP values can occur at unmetered gas gates with large TOU consumers because of the algorithm used by the allocation system to calculate daily injection quantities.

## 2.3 Application DR09-03-T: Allocation of injection quantities where no consumption has been submitted

### Summary of application

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

**GIC Code:** DR09-03-T

**Applicant:** Gas Industry Co

**Exemption Type:** Transitional under rule 81

**Exemption Sought:** An exemption is sought from the application of rule 45, in instances where there is a positive injection quantity for any gas gate that has been submitted under rule 41 but either no consumption information or zero quantity consumption information has been submitted by all of the retailers at that gas gate under rules 31, 32 or 33, subject to the following terms and conditions:

- Where retailers are supplying gas at the relevant gas gate, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the non-zero injection quantity will be allocated in equal proportions between those retailers. Where only one retailer is recorded by the allocation system as supplying gas at the relevant gas gate, that retailer will be allocated the entire injection quantity.

Instead of equal proportion allocations, an alternative option for allocation could be for the non-zero injection quantities to be allocated across all of the retailers at the gas gate in proportion to the previous consumption period's allocated quantities at that gas gate. In the instance where one or more retailers commence trading at the gas gate during the consumption period in question, then the non-zero injection quantities would be allocated equally across all of the retailers at that gas gate.

Please note that where there are no retailers supplying gas at the relevant gas gate, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the Rules and the allocation system do not provide for the injection quantity to be allocated to any retailer. As such, the transmission system owner for that gas gate assumes responsibility for the unallocated gas and it is proposed that this approach continue and no exemption be granted in respect of this issue.

#### Summary of Reasons:

- Where retailers are supplying gas at the relevant gas gate, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the injection quantity should be allocated between those retailers. However, the "global methodology" set out in the Rules (and implemented via the allocation system), does not anticipate the instance where retailers at a gas gate all submit zero consumption quantities, even though the gas gate injection quantity is positive (ie shows consumption at that gas gate)<sup>6</sup>. An exemption from rule 45 may be appropriate to enable the allocation process to operate effectively in this situation.
- Gas Industry Co's initial view is that an exemption is considered appropriate in instances where retailers supply gas at a gas gate but submit no or zero consumption quantities, as it is reasonable to assume that the retailers' consumers have used gas during the relevant consumption period if the injection quantity is positive. Given that these retailers are the only retailers at the gas gate, then the supply of gas by one or more of these retailers is causing the UFG (whether due to meter accuracy issues, failures to obtain meter reads or network failures).

<sup>6</sup> This contrasts with the "differencing methodology" where the incumbent retailer at the gas gate would be allocated the positive injection quantity in any instances where all retailers at the gas gate submitted zero consumption values.

- This approach provides an incentive for the retailers involved to investigate the reason(s) for the positive injection quantity/zero consumption quantities at the gas gate, so that corrective action can be taken.
- At a gas gate with a positive injection quantity but with no retailers supplying gas, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the Rules do not provide for allocation of the injection quantity to occur at the gas gate, as there is no retailer to attribute any consumption to (see rule 45.2.7). Operationally, the allocation system does not allocate the relevant gas gate in these situations and accordingly no allocated result for the gas gate is uploaded into OATIS. This approach is, prima facie, considered appropriate as, where no retailer is supplying gas at a gas gate, it is more likely that the positive injection quantity is due to a gas gate meter accuracy issue or pipeline losses. It is expected that this situation will occur relatively rarely as there are almost always retailers supplying gas at an allocated gas gate. The relevant transmission system owner can examine the issue, determine the cause of the problem and take/recommend any necessary corrective action (which, if appropriate, can be included in the next wash-up ie the interim, final or special allocation).

## Additional information

- A key policy assumption in respect of the Rules is that all gas will be allocated – ie the consumption information balances with the injection quantities at a gas gate. Complete allocation is also important for upstream reconciliation purposes. This outcome will not be achieved at gas gates where there is a positive injection quantity but no or zero consumption information is submitted at a gas gate under the Rules.
- Where this issue has arisen in initial allocations to date, the allocation agent has identified its occurrence and contacted the retailers at the gas gate to ascertain whether their zero consumption information is correct. Where that consumption information has been confirmed as zero, or the allocation agent has not received a response to its query, then the allocation system has calculated allocated quantities of zero at the affected gas gates (ie the positive injection quantity has not been allocated). This, in turn, has caused a problem in the loading of the affected gas gates' allocated quantities into OATIS, as the allocated quantities have been outside the OATIS threshold.
- This issue will continue to cause problems with respect to the uploading of allocated results into OATIS. In situations where the retailer(s) at a gas gate all submit zero consumption quantities even though the gas gate injection quantity records gas consumption, the difference between the allocated quantity of zero and the injection quantity is likely to be outside the GJ tolerance permitted by OATIS. Delays loading downstream allocation results into OATIS can in turn delay upstream allocation and transmission billing processes.
- The exemption application currently proposes that, in instances of zero consumption quantities at a gas gate with a positive injection quantity, the injection quantity will be allocated equally across the retailers at the gas gate. This is the simplest option and has the lowest estimated cost for amending the allocation system (approximately six days work at \$ 8,400). The alternative approach discussed in the exemption application is for the injection quantity to be allocated to retailers at the gas gate in proportion to the previous consumption period's allocated quantities, with equal allocation occurring in the instance where a retailer commences supply at the gas gate during the consumption period. This approach may be considered more equitable as allocation is based on retailers' historical consumption quantities but it is a slightly more complex methodology and is expected to cost slightly more to amend the allocation system (approximately seven days work at \$ 9,800).

- In the medium-term Gas Industry Co proposes to address the issue of zero consumption quantities at a gas gate where there is a positive injection quantity via consideration of amendments to the Rules. However, in the immediate term, Gas Industry Co is proposing that a transitional exemption be granted to address this problem so that the arrangements for downstream allocation and reconciliation can operate effectively.

## Issues

- Do submitters agree with the distinction made between gas gates with retailers trading (where retailers are apportioned the positive gas injection quantity) and those gas gates without retailers trading (where the transmission system owner assumes responsibility for the unallocated gas injection quantity)?
- If an exemption is to be granted for any gas gate with a positive injection quantity but where all retailers trading at that gas gate submit zero or no consumption quantities, do submitters have a preference as to the most appropriate approach for allocation (ie allocation in equal proportions between retailers at the gas gate, or allocation in proportion to each retailer's allocated quantities at that gas gate in the previous consumption period)?
- Gas Industry Co also seeks submitters' thoughts on its preliminary views on the matters to be considered in granting a transitional exemption as set out below:
  - the Rules currently do not adequately provide for efficient and fair allocation and reconciliation in respect of gas gates with positive injection quantities but zero consumption quantities;
  - 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.

*Q3: Do submitters have any comments on the transitional exemption application DR09-03-T proposed by Gas Industry Co regarding the arrangements for any residual unallocated gas?*

## 2.4 Application DR09-04-S: rule 39 notification timeframes and the submission of zero data

### Summary of application

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

**GIC Code:** DR09-04-S

**Applicant:** Contact Energy

**Exemption Type:** Standard under rule 19

**Exemption Sought:** An exemption is sought until the Rules are amended so that:

- Where a retailer has previously given a notice in respect of a particular gas gate under rule 39.1.1, it be allowed to submit a zero consumption file for the gas gate under rule 31 for the consumption period even if it no longer supplies any consumer installations during the complete consumption period.
- Where a retailer has ceased to supply any consumer installations at a particular gas gate, and subject to it submitting a zero file for the gas gate for the consumption period under rule 31, it be allowed up to five business days after the end of the following calendar month to provide a notice under rule 39.1.2 that it has ceased to supply any consumer installations at the gas gate. That is, the requirement under rule 39.2.3 be relaxed by one month plus five business days, subject to a zero file being submitted under rule 31 as appropriate.

#### **Summary of Reasons:**

- Under the current Rules, while submitting a zero file for a gas gate where a retailer has ceased trading enables compliance under rule 31, it breaches rule 39.
- With the equivalent electricity reconciliation rules around submission and trading notifications, there is no such issue. With electricity, Contact has provided trading notifications for every GXP we either trade at or are reasonably likely to trade at, and we have a process that results in submission of a zero file if no consumption is produced when we run our submission files shortly before the submission deadline. This recognizes:
  - that it is impractical to know before we run the reports that produce the consumption submission data if we have lost all consumers at a GXP in the month prior to the latest consumption period;
  - that the principle of trading notifications is to ensure the reconciliation manager expects to receive submission data for all GXPs where a trading notification has been provided.
- A similar approach should apply in gas, or alternatively retailers be given five business days after the end of the consumption period when it supplied no consumers at a particular gas gate to provide the notice required by rule 39.
- Contact has now put in place a process that ensures it submits consumption data (including zero consumption if we no longer have any consumers at a gas gate for the complete consumption period) for all gas gates expected by the allocation agent. Contact considers this is a practical outcome that meets the principles that underpin the purpose of rule 39.

## **Additional information**

- In terms of the operation of the Rules, Gas Industry Co notes that there is nothing in the Rules (including under rules 31 and 39) that prevents a retailer submitting zero consumption files for a gas gate where that retailer does not supply gas consumers. Doing so is simply additional to what rule 31 requires (ie that a retailer is to submit consumption information for those consumer installations it is responsible for at a gas gate). Rule 39 does not prevent the provision of such zero consumption information, as rule 39 has no express legal effect on the operation of rule 31. So, from a Rules standpoint, it is acceptable for a retailer to submit zero consumption files at gas gates where that retailer does not supply gas consumers. Accordingly, while practical issues may still arise for the allocation system surrounding the operation of the GAS020 trading notifications and the submission of zero consumption files, an exemption is not required to enable retailers to submit zero consumption information in these situations.
- However, to prevent retailer's being in breach of the rule 39 deadline for notifying the allocation agent where it has ceased or commenced supply at a gas gate, an exemption may be required.

Some retailers have advised Gas Industry Co that on occasion they are unable to notify the allocation agent by the last business day of a consumption period that they have commenced or ceased supplying gas at a gas gate during that consumption period.

- In the initial allocations that have occurred to date, there have been three instances where an issue of compliance with rule 39 has arisen:
  - twice where a retailer commenced supplying at a new gas gate (due to a consumer switching to that retailer within the consumption period), but that retailer did not notify the allocation agent by the last business day of the consumption period in accordance with r39/GAS020, and no consumption information for that gas gate was provided for initial allocation. One of the retailers involved stated that it was not possible for it to submit the GAS020/r39 notice by the required r39 deadline as the losing retailer confirmed the switch after the last business day of the consumption period and then applied a retrospective switch date.
  - once where Contact (as set out in its exemption application) ceased to supply gas to any consumers at several gas gates (due to the consumers that Contact formerly supplied switching to new retailers within the consumption period), but Contact did not notify the allocation agent by the last business day of the consumption period in accordance with r39/GAS020. Hence, when performing the initial allocation for that consumption period, the allocation system flagged missing consumption information from Contact, per Contact's existing trading notifications.
- These instances raise questions about the causes of non-compliance with the requirements of rule 39 (and rule 31) ie are these compliance issues due to transitional "teething" issues following the introduction of stricter rules-based requirements for downstream reconciliation or are there more fundamental issues with the operation of rule 39?
- Some of the problem may be transitional in nature (eg the gas registry and its associated processes under the Gas (Switching Arrangements) Rules 2008 are not yet implemented and retailers do not yet have sufficient linkages between their customer switching systems and processes and their downstream allocation systems and processes). However, there does appear to be a more fundamental issue with the timeframe set out in rule 39.
  - if a retailer gains or loses a customer near the end of the month/consumption period (especially if the last day or two of the month/consumption period are non-business days), there exists the likelihood that the retailer will not be aware of the switch in time to meet the rule 39 notification deadline (where the switch means that the retailer commences or ceases supplying at a gas gate).
  - while the introduction of the gas registry and improved switching processes should reduce the materiality of this issue, it will not be eliminated. Therefore an argument can be made that the deadline in rule 39 should be extended.
- Gas Industry Co believes that there are two generic options for an exemption that could be granted to address the rule 39 timeframe issue:
  - an exemption that still requires retailers to make a notification under rule 39 prior to submitting consumption information for the relevant consumption period's initial allocation (ie by the third business day); or

- an exemption such as that proposed by Contact, which means that retailers do not have to provide a notification under rule 39 prior to submitting consumption information for the relevant consumption period's initial allocation.
- Gas Industry Co's preliminary view is that, if an exemption were to be granted, the approach adopted in the first exemption option above is preferred. This initial view is taken because:
  - the first option facilitates more accurate initial allocations than the second option, as it places a greater onus on retailers to be aware of when they commence/cease supplying consumers at gas gates. As such, there is an incentive for retailers to obtain as soon as possible as consumption information subsequent to a switch for submission in the initial allocation. Rule 39 in particular was drafted with this policy intent in mind, by providing a trading notification deadline several business days prior to the submission of initial consumption information.
  - retailers will not be allocated consumption quantities when they do not supply any consumers at a gas gate, whereas under the second option it will be possible for retailers not supplying consumers at a gas gate to be allocated gas (ie if the proposed exemption DR09-03-T is granted, a retailer with no customers at a gas gate but which has submitted a zero file would be allocated a proportion of the injection quantity).
  - Gas Industry Co, as the market administrator under the Gas Governance (Compliance) Regulations 2008, is able to have breaches of rule 39 identified and notified to it by the allocation agent. This is because such breaches are brought to the attention of the allocation agent as part of the (non-) submission of consumption information files by retailers for initial allocations. The allocation agent in turn is required under the Gas Governance (Compliance) Regulations 2008 to report alleged breaches to Gas Industry Co. If retailers have a window in which to provide their rule 39 notifications that extends beyond the third business day of the month following the consumption period in which they commenced/ceasing supplying consumers at a gas gate, then it is more difficult for the allocation agent and Gas Industry Co to assess compliance with rule 39 (Gas Industry Co will essentially be relying on self-reporting by allocation participants, which is voluntary under the Gas Governance (Compliance) Regulations 2008).
- In determining a possible timeframe for retailers to provide a rule 39 notification, Gas Industry Co has looked at three key factors:
  - *the timeframe within which a retailer is to be notified of a consumer switch*: From March 2009, when the gas registry goes live, at the conclusion of each month/consumption period, the registry will deliver a report (the '*Stats\_IcpsByGasGateRetailer.csv*' file) to every registry participant which details the number of ICPs by status, gas gate and retailer as at the end of the month/consumption period. In addition, each retailer receives a detailed report of all ICP parameters for each ICP for which they are the responsible retailer as at the end of the month by 0900 hours on the first business day of the month as required by rule 85. Accordingly, once the registry goes live, it is anticipated that retailers should be able to confirm the number of active ICPs at each gas gate resulting from consumer switches in a consumption period by 0900 hours on the first business day of the following month;
  - *the time required by a retailer to input consumer switching information into its allocation process and advise the allocation agent as necessary under rule 39*: Gas Industry Co seeks feedback from retailers on whether they are able to ensure that any changes to the gas gates at which they supply consumers as indicated in the registry reports described above is also then notified to the allocation agent within two business days via a rule 39/GAS020 notification; and

- *the time required by the allocation agent to amend the standing data in the allocation system as a result of rule 39 notifications from retailers:* The allocation agent has indicated that it requires half a business day to process a rule 39 notification from retailers just prior to initial allocation.
- Assuming that retailers are able to translate the month-end registry report into a rule 39 notification to the allocation agent within two business days, then to meet the 12pm fourth business day timeframe for rule 31 (as amended by the *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) Notice 2008*), then the first generic option for an exemption from rule 39 for retailers commencing/ceasing supply at a gas gate is to have a deadline of 12pm on the third business day of the month following the consumption period in which they commence/cease supply at a gas gate. Gas Industry Co acknowledges that this may still a tight timeframe for retailers to comply with in some instances, but considers the benefits of improved initial allocations mean that it is likely to be an appropriate deadline.
- Gas Industry Co acknowledges the second option for an exemption (as has been proposed by Contact in its application) may be appropriate instead of the first option outlined above. This is likely to be so where the timeframes proposed for the first option are considered too ambitious or tight, and cause retailers to incur significant compliance costs. In this case, an exemption from rule 39 which allows retailers *commencing* or *ceasing* supply at a gas gate is to have a deadline of 12pm on the third business day of the second month following the consumption period in which they commence/cease supply at a gas gate (ie a retailer commencing supply at a gas gate in February 2009 must provide its rule 39 notification by 12pm, 3 April 2009). The reason for suggesting this timeframe is to limit to one the number of initial allocations whose accuracy is potentially impaired by late rule 39 notifications.

## Issues

- Is the situation described by Contact in its application sufficiently concerning and frequent to justify an exemption being granted or can allocation participants effectively mitigate the concerns themselves?
- Would granting an exemption that extended the rule 39 deadline to the third business day of the month immediately following the consumption period mitigate the concerns raised in the exemption application, or do submitters consider further time is needed?
- Will retailers be able to ensure that any changes in the registry report (where the retailer is not already aware that it has commenced or ceased supply at a gas gate) provided on the first business day of the month following the consumption period are also incorporated into a rule 39/GAS020 notification to the allocation agent by the third business day of that month? If not, what are the reasons for that view?
- Do submitters share Gas Industry Co's concerns in respect of the accuracy of initial allocations being compromised by a rule 39 exemption that provides a deadline beyond the third business day of the month immediately following the consumption period? Or do submitters believe that this issue is not material and is outweighed by the likely compliance costs on allocation participants arising as a consequence of retailers failing to meet this proposed deadline?
- If an exemption were granted, what terms and conditions and/or alternative arrangements should apply?



- Would the granting of an exemption be desirable to better achieve the objectives set out in section 43ZN of the Gas Act 1992 and the purpose of the Rules?

*Q4: Do submitters have any comments on the exemption DR09-04-S proposed by Contact regarding the rule 39 notification deadlines and submission of zero data?*



# Appendix A Recommended Format for Submissions

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

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

| Question  | Comment |
|---|---------|
| <i>Q1: Do submitters have any comments on the exemption DR09-01-U proposed by Contact regarding the new Stratford 3 direct connect gas gate?</i>  |         |
| <i>Q2: Do submitters have any comments on exemptions DR09-02-T proposed by Gas Industry Co and DR09-05-S from Mighty River Power regarding potential arrangements to address negative GGRP values??</i> |         |
| <i>Q3: Do submitters have any comments on the transitional exemption application DR09-03-T proposed by Gas Industry Co regarding the arrangements for any residual unallocated gas?</i>                 |         |
| <i>Q4: Do submitters have any comments on the exemption DR09-04-S proposed by Contact regarding the rule 39 notification deadlines and the submission of zero data?</i>                                 |         |



## Appendix B DR09-01-U Contact

|  |                  |
|--|------------------|
| <b>Gas Industry Company Limited</b>  | <b>DR09-01-U</b> |
| <b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>  |                  |
| <ol style="list-style-type: none"><li>1. Please complete a separate form for each type of exemption sought.</li><li>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.</li><li>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.</li><li>4. Gas Industry Co may request additional information after receiving and reviewing the application</li></ol> |                  |
| <b>1. Name and contact details for the participant(s) seeking exemption:</b><br>Company name: Contact Energy Ltd                      Phone: (04) 462 1265<br>Contact Name: Rod Crone                                      Fax: (04) 463 9295<br>Email: rod.crone@contactenergy.co.nz                      Mailing Address: P O Box 10742, Wellington 6143   |                  |
| <b>2. Type of exemption sought (delete all but one):</b><br>Urgent (under rule 20)   |                  |
| <b>3. Provisions of the Rules from which the exemption is sought:</b><br>Rules 16, 29-41, 43-53, 78-79   |                  |
| <b>4. State the reasons on why you are seeking the exemption and why the exemption sought should be granted</b><br>Exemption is sought for a new welded point/gas gate known as "Stratford 3" with a welded point/gas gate code of STR00501. Stratford 3 is a direct feed off the Vector transmission system and there is no distribution network downstream of the welded point, i.e. it is a direct consumer   |                  |

|   |
|---|
| <p>gas gate.</p> <p>There is no point in downstream allocation applying to direct consumer gas gates as there is no UFG to be allocated.</p> <p><b><i>Describe how the exemption sought may affect other participants (including service providers) and any costs and benefits to them:</i></b></p> <p>The exemption will have no impact on other participants or the allocation agent.</p> <p><b><i>Specify how long the exemption sought is to be in effect for. Give reasons for the period that you specify:</i></b></p> <p>Exemption is sought from 15 December 2008 (commissioning date) for a period that matches that of the one granted for all the other direct consumer gas gates, i.e. until 30 September 2010, to enable Gas Industry Co to be in a fully informed position to assess the merits and operation of this initial exemption and if necessary amend the rules.</p> <p><b><i>Specify what conditions and/or alternative arrangements relating to the exemption sought are appropriate:</i></b></p> <p>N/A</p> |
| <p><b>5. Additional information for an urgent exemption:</b></p> <p><b><i>If your application is urgent, specify the date(s) by when a decision is needed:</i></b></p> <p>As soon as possible.</p> <p><b><i>State the reasons for seeking an urgent exemption rather than a standard exemption:</i></b></p> <p>As mentioned above the exemption is sought from 15 December when the gate became operational and we would like to preclude any downstream allocation at this gate</p>  |
| <p><b>6. Additional information for a transitional exemption</b></p> <p><b><i>State the reasons for seeking a transitional exemption rather than a standard exemption:</i></b></p>  |
| <p><b>Please email this form to <a href="mailto:bas.walker@gasindustry.co.nz">bas.walker@gasindustry.co.nz</a></b></p>  |

# Appendix C DR09-01-U existing urgent exemption

## Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-01-U: Direct Connect Gas Gate) Notice 2009

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

### Notice

#### 1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-01-U: Direct Connect Gas Gate) Notice 2009.
- (b) This notice comes into force on the date of this notice.

#### 2. Interpretation

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

#### 3. Urgent Exemption

An urgent exemption from the application of rules 29, 31, 32, 33, 39, 40, 48, 49, 50, 51, 52, 53, 78 and 79 is granted in respect of the Stratford 3 (STR00501) gas gate subject to the following terms and conditions:

- (a) To avoid doubt, as no quantities of gas will be allocated to a retailer by the allocation agent in an initial allocation under rule 48 in respect of the Stratford 3 (STR00501) gas gate, ongoing fees payable under rule 16 of the Rules do not apply to the Stratford 3 (STR00501) gas gate.
- (b) The exemption will expire on 28 February 2009.

#### **4. Reasons for granting the urgent exemption**

The reasons for granting the urgent exemption are:

- (a) Contact Energy Limited has applied to Gas Industry Co to exempt the new Stratford 3 (STR00501) gas gate from the application of the Rules, consistent with the approach adopted for existing direct connect gas gates under the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (b) On the information provided to Gas Industry Co, the Stratford 3 (STR00501) gas gate supplies a consumer directly from the transmission system and therefore is considered to be a direct connect gas gate in the context of the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (c) An urgent exemption is desirable to ensure that Gas Industry Co is able to properly consider Contact Energy Limited's exemption application and to ensure the applicant is not unduly disadvantaged in the interim.
- (d) The urgent exemption is limited to the end of February 2009 to allow consultation to occur following the New Year break and to enable Gas Industry Co to properly consider Contact Energy Limited's exemption application.

**DATED** at Wellington this 8<sup>th</sup> day of January 2009.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.



# Appendix D Existing direct connect gas gate exemption

## Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008

Pursuant to rule 19 of the Gas (Downstream Reconciliation) Rules 2008, Gas Industry Company Limited ("Gas Industry Co"), as the industry body appointed pursuant to s43ZL of the Gas Act 1992, gives the following notice.

### Notice

#### 1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008.
- (b) This notice comes into force on the day after the date this notice is published on Gas Industry Co's website.

#### 2. Interpretation

- (a) In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under section 43F, 43Q and 43S of the Gas Act 1992 by notice published in the New Zealand Gazette, as may be amended from time to time.
- (b) Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.
- (c) Direct connect gas gates means the gas gates that supply one or more consumers directly from the transmission system and are either set out below or otherwise determined and published by Gas Industry Co to be direct connect gas gates for the purposes of this notice.

|                                |
|--------------------------------|
| ALF15501 Alfriston             |
| BAL08201 Ballance Ammonia-Urea |
| BAL09626 Ballance Ammonia-Urea |
| BER00653 Bertrand Road         |
| BRO36301 Broadlands            |
| GLB03401 Glenbrook             |
| HPS02993 Huntly Powerstation   |
| KAW04410 Kawerau (ex-Caxton)   |

|  |
|--|
| KAW04411 Kawerau (ex-Tasman)           |
| KIN04310 Kinleith (CHH mill)           |
| KIW34201 Kiwitahi 1 (Peroxide)         |
| KTk23901 Kaitoke                       |
| KUR33601 Kauri DF                      |
| LCF20010 Lichfield DF                  |
| MGK05401 Mangatainoka                  |
| KAP09612 Kapuni                        |
| MNG34001 Mangaroa                      |
| MCS01143 Mokau Compressor Station      |
| MOK35801 Mokoia                        |
| MRV16301 Morrinsville DF               |
| MSD01801 Marsden 1 (NZRC)              |
| MSD01802 Marsden                       |
| MUT19001 Maungaturoto DF               |
| NGA00669 Ngatimaru Road (Delivery)     |
| NPS00530 New Plymouth Power Station    |
| OKW23401 Okaiawa (Taranaki Byproducts) |
| OTB00301 Otahuhu B Power Station       |
| RAG33401 Rangiuru                      |
| RBM03101 Rainbow Mountain              |
| SDN00101 Southdown Power Station       |
| TAC31001 Te Awamutu Cogeneration Plant |
| TAT16401 Tatuani DF                    |
| TCC00201 Taranaki Combined Cycle (TCC) |
| TIR33501 Tirau DF                      |
| TRC02003 Te Rapa Cogeneration Plant    |
| WKE19201 Waikeria                      |

### 3. Exemption

An exemption from the application of rules 29, 31, 32, 33, 39, 40, 48, 49, 50, 51, 52, 53, 78 and 79 is granted in respect of direct connect gas gates subject to the following terms and conditions:

- (a) To avoid doubt, as no quantities of gas will be allocated to a retailer by the allocation agent in an initial allocation under rule 48 in respect of direct connect gas gates, ongoing fees payable under rule 16 of the Rules do not apply to direct connect gas gates.
- (b) This exemption expires on 30 September 2010.

#### **4. Reasons for granting the exemption**

The reasons for granting the exemption are:

- (a) Until recently some allocation participants have not appreciated that direct connect gas gates are subject to the Rules and are therefore unlikely to be in a position to comply with the Rules for those direct connect gas gates.
- (b) In light of the potential implementation and compliance costs, the initial benefits in applying the consumption information obligations and global allocation methodology set out in the Rules are reduced in respect of direct connect gas gates, particularly given the circumstances outlined in clause 4(a) above.
- (c) For consistency and operational reasons, all types of direct connect gas gates (including those with more than one retailer or consumer) have been exempted for the purposes of this exemption.
- (d) There are unlikely to be any detrimental effects on competition for retailers or transmission system owners at direct connect gas gates, and granting the exemption is likely to ensure consumers at these direct connect gas gates are not subject to increased gas costs or prices due to retailer compliance costs with the Rules.
- (e) The exemption is limited to a two year period to ensure Gas Industry Co will be in a fully informed position to assess the merits and operation of this initial exemption.

**DATED** at Wellington this 17th day of September 2008.

For and on behalf of Gas Industry Company Limited:

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



# Appendix E DR09-02-T Gas Industry Co

|  |                     |                               |                    |                          |         |                                     |                     |
|--|---------------------|-------------------------------|--------------------|--------------------------|---------|-------------------------------------|---------------------|
| <b>Gas Industry Company Limited</b>  | <b>DR09-02-T</b>    |                               |                    |                          |         |                                     |                     |
| <b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>  |                     |                               |                    |                          |         |                                     |                     |
| <ol style="list-style-type: none"><li>1. Please complete a separate form for each type of exemption sought.</li><li>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.</li><li>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.</li><li>4. Gas Industry Co may request additional information after receiving and reviewing the application</li></ol>   |                     |                               |                    |                          |         |                                     |                     |
| <b>1. Name and contact details for the participant(s) seeking exemption:</b><br><table style="width: 100%; border: none;"><tr><td style="width: 50%;">Company name: Gas Industry Co</td><td style="width: 50%;">Phone: 04 494 6582</td></tr><tr><td>Contact Name: Bas Walker</td><td>Fax: NA</td></tr><tr><td>Email: bas.walker@gasindustry.co.nz</td><td>Mailing Address: NA</td></tr></table>  |                     | Company name: Gas Industry Co | Phone: 04 494 6582 | Contact Name: Bas Walker | Fax: NA | Email: bas.walker@gasindustry.co.nz | Mailing Address: NA |
| Company name: Gas Industry Co  | Phone: 04 494 6582  |                               |                    |                          |         |                                     |                     |
| Contact Name: Bas Walker   | Fax: NA             |                               |                    |                          |         |                                     |                     |
| Email: bas.walker@gasindustry.co.nz  | Mailing Address: NA |                               |                    |                          |         |                                     |                     |
| <b>2. Type of exemption sought (delete all but one):</b><br>Transitional (under rule 81)   |                     |                               |                    |                          |         |                                     |                     |
| <b>3. Provisions of the Rules from which the exemption is sought:</b><br><p>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:</p> <ul style="list-style-type: none"><li>• In respect of any gas gates where a gas gate residual profile quantity for a day in the consumption period, as calculated in accordance with rule 45.2.5, is less than zero (ie a</li></ul> |                     |                               |                    |                          |         |                                     |                     |

negative quantity):

- the allocation agent is exempt from the requirement to apply the formula  $Eld - AQ1, 2, 3 \text{ \& } 5$  in rule 45.2.5 to determine the gas gate residual profile quantity for that day ; and
- the gas gate residual profile quantity for that day to be applied for the purposes of the Gas (Downstream Reconciliation) Rules 2008 is zero.

#### **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 4 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.

During the October, November and December 2008 initial allocations, the calculation of the daily gas gate residual profile (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.

#### ***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 \$2,300 - \$3,000.

***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. 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:

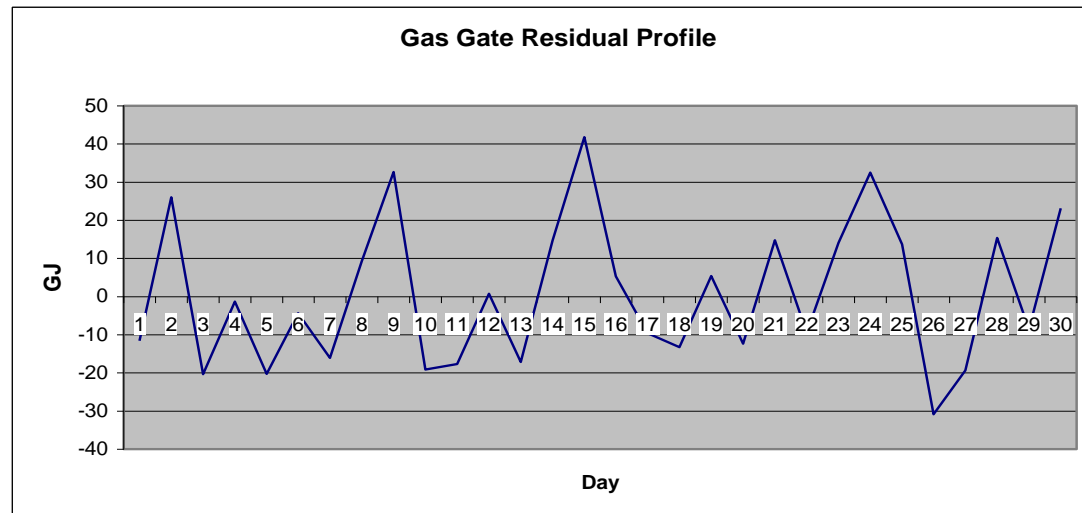
- The Rules currently do not adequately provide for accurate allocation and reconciliation in respect of gas gates with negative GGRP values;
- The alternative arrangement set out above is a fit for purpose arrangement and should meet the intended objective of rule 45;
- Granting the exemption is not 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](mailto:exemptions@gasindustry.co.nz)**

Consumption to be profiled (GJ) 18  
 Days 30  
 Gas Gate WVVY23601

(1)

| Day          | Gas Gate Residual<br>Profile (GGRP) in GJ |
|--------------|---|
| 1            | -11.578                                   |
| 2            | 26.052                                    |
| 3            | -20.338                                   |
| 4            | -1.348                                    |
| 5            | -20.258                                   |
| 6            | -4.328                                    |
| 7            | -16.058                                   |
| 8            | 9.302                                     |
| 9            | 32.662                                    |
| 10           | -19.158                                   |
| 11           | -17.658                                   |
| 12           | 0.742                                     |
| 13           | -17.168                                   |
| 14           | 14.632                                    |
| 15           | 41.792                                    |
| 16           | 5.322                                     |
| 17           | -9.598                                    |
| 18           | -13.288                                   |
| 19           | 5.392                                     |
| 20           | -12.368                                   |
| 21           | 14.752                                    |
| 22           | -9.478                                    |
| 23           | 14.062                                    |
| 24           | 32.462                                    |
| 25           | 13.662                                    |
| 26           | -30.828                                   |
| 27           | -19.358                                   |
| 28           | 15.362                                    |
| 29           | -8.528                                    |
| 30           | 23.142                                    |
| <b>Total</b> | <b>18.00</b>                              |

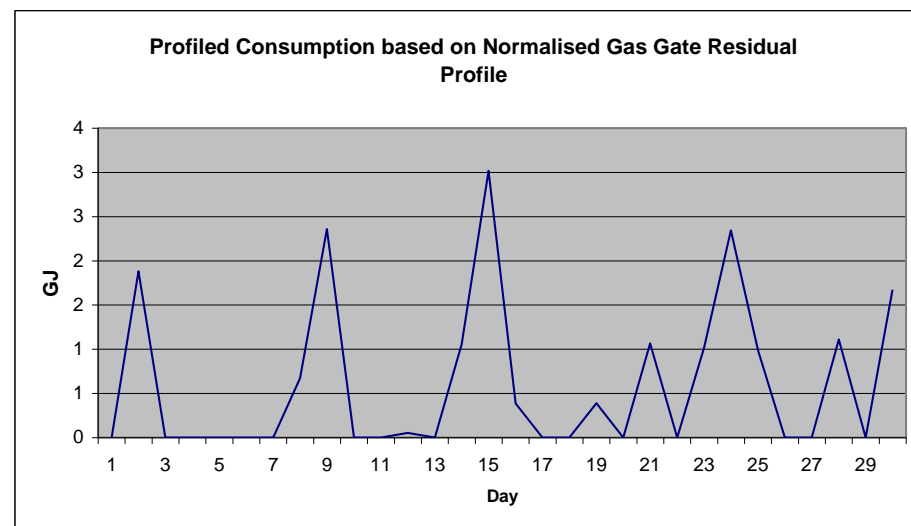
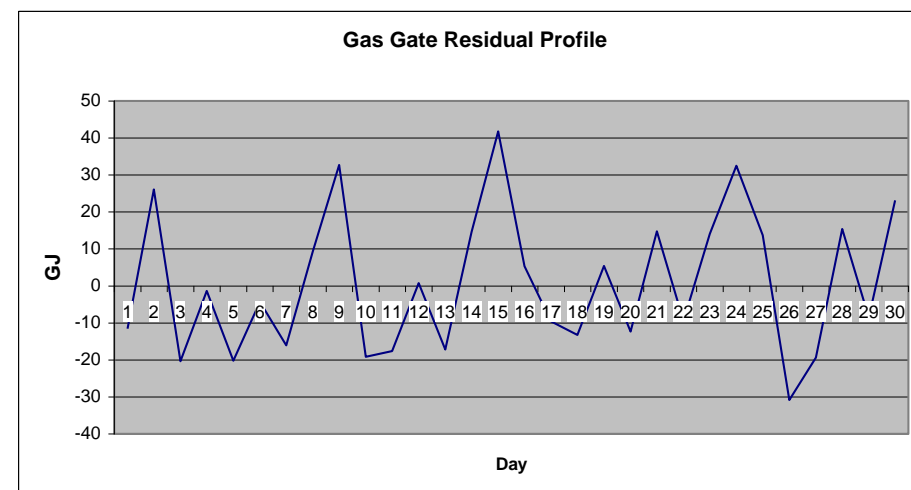


**Example 1: HE values using negative GGRP values**



Consumption to be profiled ( 18  
Days 30  
Gas Gate WVY23601

| Day          | (1)<br>Actual Gas<br>Gate Residual<br>Profile (GGRP)<br>in GJ | (2)<br>Adjusted Gas<br>Gate Residual<br>Profile (GGRP)<br>in GJ | (3)<br>Adjusted GGRP<br>Normalised | (4)<br>Profiled Consumption<br>based on Normalised<br>GGRP (GJ) with zeroes<br>replacing negative values |
|--------------|---|---|------------------------------------|--|
| 1            | -11.578   | 0   | 0.00                               | 0.0  |
| 2            | 26.052  | 26.052  | 0.10                               | 1.9  |
| 3            | -20.338   | 0   | 0.00                               | 0.0  |
| 4            | -1.348  | 0   | 0.00                               | 0.0  |
| 5            | -20.258   | 0   | 0.00                               | 0.0  |
| 6            | -4.328  | 0   | 0.00                               | 0.0  |
| 7            | -16.058   | 0   | 0.00                               | 0.0  |
| 8            | 9.302   | 9.302   | 0.04                               | 0.7  |
| 9            | 32.662  | 32.662  | 0.13                               | 2.4  |
| 10           | -19.158   | 0   | 0.00                               | 0.0  |
| 11           | -17.658   | 0   | 0.00                               | 0.0  |
| 12           | 0.742   | 0.742   | 0.00                               | 0.1  |
| 13           | -17.168   | 0   | 0.00                               | 0.0  |
| 14           | 14.632  | 14.632  | 0.06                               | 1.1  |
| 15           | 41.792  | 41.792  | 0.17                               | 3.0  |
| 16           | 5.322   | 5.322   | 0.02                               | 0.4  |
| 17           | -9.598  | 0   | 0.00                               | 0.0  |
| 18           | -13.288   | 0   | 0.00                               | 0.0  |
| 19           | 5.392   | 5.392   | 0.02                               | 0.4  |
| 20           | -12.368   | 0   | 0.00                               | 0.0  |
| 21           | 14.752  | 14.752  | 0.06                               | 1.1  |
| 22           | -9.478  | 0   | 0.00                               | 0.0  |
| 23           | 14.062  | 14.062  | 0.06                               | 1.0  |
| 24           | 32.462  | 32.462  | 0.13                               | 2.3  |
| 25           | 13.662  | 13.662  | 0.05                               | 1.0  |
| 26           | -30.828   | 0   | 0.00                               | 0.0  |
| 27           | -19.358   | 0   | 0.00                               | 0.0  |
| 28           | 15.362  | 15.362  | 0.06                               | 1.1  |
| 29           | -8.528  | 0   | 0.00                               | 0.0  |
| 30           | 23.142  | 23.142  | 0.09                               | 1.7  |
| <b>Total</b> | <b>18.00</b>  | <b>249.34</b>   | <b>1.00</b>                        | <b>18.00</b>   |



**Example 2: HE values using GGRP values with a floor of zero**



# Appendix F DR09-05-S Mighty River Power

|   |                  |
|---|------------------|
| <b>Gas Industry Company Limited</b>   | <b>DR09-05-S</b> |
| <b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>   |                  |
| <ol style="list-style-type: none"> <li>1. Please complete a separate form for each type of exemption sought.</li> <li>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.</li> <li>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.</li> <li>4. Gas Industry Co may request additional information after receiving and reviewing the application</li> </ol> |                  |
| <b>1. Name and contact details for the participant(s) seeking exemption:</b><br><div style="display: flex; justify-content: space-between;"> <div>Company name: Mighty River Power</div> <div>Phone: (09) 580 3658</div> </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div>Contact Name: Chrissy Burrows, Compliance Manager</div> <div>Fax: (09) 580 3515</div> </div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div>Email: Chrissy.burrows@mightyriver.co.nz</div> <div>Mailing Address: P O Box 92008, Auckland</div> </div>  |                  |
| <b>2. Type of exemption sought (delete all but one):</b><br>Standard (under rule 19)  |                  |
| <b>3. Provisions of the Rules from which the exemption is sought:</b><br>Rule 35 – Application of Profiles and Seasonal Adjustments for Historic Estimates<br><br>45.2.6 – Application of GGRP quantities to Group 3 – 6 consumption.   |                  |
| <b>4. State the reasons on why you are seeking the exemption and why the exemption sought should be granted</b><br>Mighty River Power (MRP) has provided information to GIC in relation to the application of the   |                  |

GGRP values and their subsequent resultant effects on both the allocated volume and UFG applied to this. MRP believes that the application of the current GGRP results in an unrepresentative result, both in terms of the Rules and in terms of practical reality. As the GGRPs change on an allocation period basis, it would be impractical to apply for an exemption in each case, rather having an exemption covering all gas gates applied until such time as issues with the GGRP calculations is resolved.

In seeking this exemption, MRP believes it should also be applicable to other participants, as the effects of the invalid GGRP's is not limited to MRP's allocation volumes, but to any who trade on a gas gate where GGRP's cause adverse effects on allocation.

The period of validity for the exemption should be indefinite until such time as there can be complete confidence that the GGRP's issued are representative of actual consumption, and as such, can accurately assign allocation volumes. Until this is achieved, MRP would intend on using internal GGRP values and shape to accurately apportion historic estimates for allocation.

Please refer to both the presentation and Overrun Charge document previously provided to GIC for further supporting information.

**5. Additional information for an urgent exemption:**

**6. Additional information for a transitional exemption**

**Please email this form to [exemptions@gasindustry.co.nz](mailto:exemptions@gasindustry.co.nz)**

Consumption (GJ) 100  
Days 10

**Table 1**

In Table 1 the GGRP has negative values (highlighted in column 1) and therefore the profiled consumption based on Normalised GGRP (column 3) has negative values, too.

Notice that the most positive and most negative values are very large in magnitude (larger than amount of consumption (100GJ) being profiled). This plotted on graph 1.

|              | (1)                                    | (2)             | (3)  |
|--------------|--|-----------------|--|
|              | Gas Gate Residual Profile (GGRP) in GJ | Normalised GGRP | Profiled Consumption based on Normalised GGRP (GJ) |
| Day          |  |                 |  |
| 1            | 0.96                                   | 6.52            | 651.7  |
| 2            | 13.40                                  | 91.27           | 9126.9   |
| 3            | 12.60                                  | 85.82           | 8582.1   |
| 4            | -18.20                                 | -123.96         | -12396.3   |
| 5            | -16.80                                 | -114.43         | -11442.7   |
| 6            | 1.16                                   | 7.90            | 790.1  |
| 7            | 9.00                                   | 61.30           | 6130.0   |
| 8            | 7.30                                   | 49.72           | 4972.1   |
| 9            | -11.20                                 | -76.28          | -7628.5  |
| 10           | 1.93                                   | 13.15           | 1314.6   |
| <b>Total</b> | <b>0.15</b>                            | <b>1</b>        | <b>100</b>   |

**Table 2**

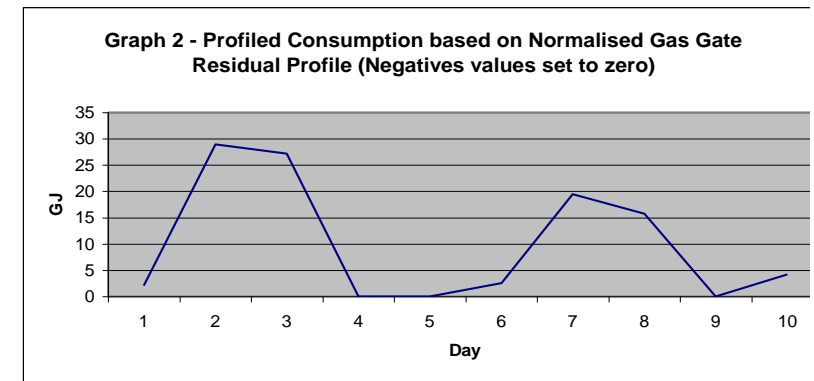
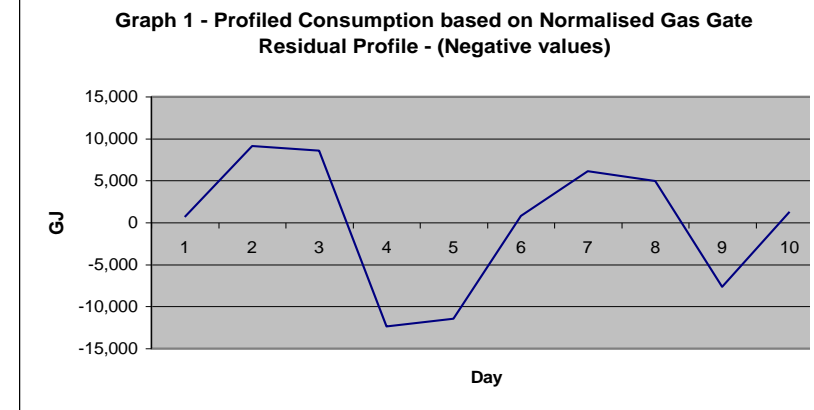
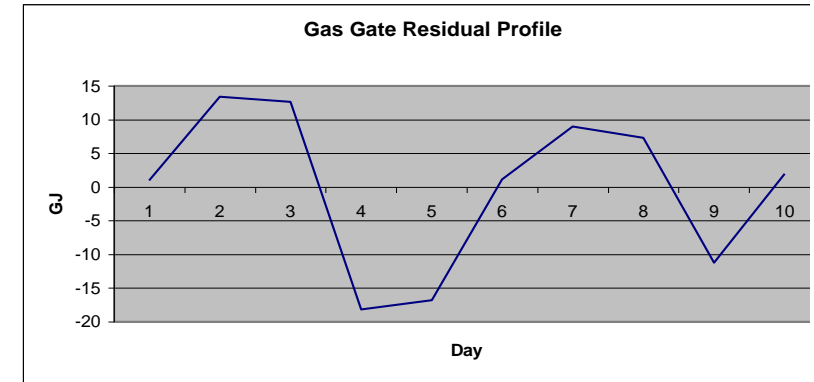
Table 2 is the same as Table 1, except that the the GGRP values that were negative in Table 1 have been set to zero.

Notice that the profiled consumption based on Normalised GGRP (column 3) has non-negative values.

Notice also that the most positive values are much smaller in magnitude than same values in table 1. (E.g., value in Table 1 for Day-2 is 9126 and value in Table 2 for the same day is only 28.9).

|              | Gas Gate Residual Profile (GGRP) in GJ | Normalised GGRP | Profiled Consumption based on Normalised GGRP (GJ) |
|--------------|--|-----------------|--|
| Day          |  |                 |  |
| 1            | 0.96                                   | 0.02            | 2.1  |
| 2            | 13.40                                  | 0.29            | 28.9   |
| 3            | 12.60                                  | 0.27            | 27.2   |
| 4            | 0.00                                   | 0.00            | 0.0  |
| 5            | 0.00                                   | 0.00            | 0.0  |
| 6            | 1.16                                   | 0.03            | 2.5  |
| 7            | 9.00                                   | 0.19            | 19.4   |
| 8            | 7.30                                   | 0.16            | 15.8   |
| 9            | 0.00                                   | 0.00            | 0.0  |
| 10           | 1.93                                   | 0.04            | 4.2  |
| <b>Total</b> | <b>46.35</b>                           | <b>1</b>        | <b>100</b>   |

## MRP Worked Example: using a floor of zero





# Appendix G DR09-03-T Gas Industry Co

|   |                  |
|---|------------------|
| <b>Gas Industry Company Limited</b>   | <b>DR09-03-T</b> |
| <b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>   |                  |
| <ol style="list-style-type: none"><li>1. Please complete a separate form for each type of exemption sought.</li><li>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.</li><li>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.</li><li>4. Gas Industry Co may request additional information after receiving and reviewing the application</li></ol>  |                  |
| <b>1. Name and contact details for the participant(s) seeking exemption:</b><br>Company name: Gas Industry Co                      Phone: 04 494 6582<br>Contact Name: Bas Walker                              Fax: NA<br>Email: bas.walker@gasindustry.co.nz              Mailing Address: NA  |                  |
| <b>2. Type of exemption sought (delete all but one):</b><br>Transitional (under rule 81)  |                  |
| <b>3. Provisions of the Rules from which the exemption is sought:</b><br>Where there is a positive injection quantity for any gas gate that has been submitted under rule 41 but either no consumption information or zero quantity consumption information has been submitted by all of the retailers at that gas gate under rules 31, 32 or 33, an exemption is proposed from rule 45 so that the injection quantity is still allocated on the basis set out below: <ul style="list-style-type: none"><li>• Where retailers are supplying gas at the relevant gas gate, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the injection quantity will be allocated in equal proportions between those retailers. Where only one retailer is recorded by the allocation system as supplying gas at the relevant gas gate, that retailer will be allocated the</li></ul> |                  |

entire injection quantity; and

- Where there are no retailers supplying gas at the relevant gas gate, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the Rules and the allocation system do not provide for the injection quantity to be allocated to any retailer. As such, the transmission system owner (TSO) for that gas gate gains responsibility for the unallocated gas. It is proposed that this approach continue and no exemption be granted in respect of this issue.

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

##### ***Reasons for granting exemption***

A key policy assumption in respect of the Rules is that all gas will be allocated – i.e. the consumption information balances with the injection quantities at a gas gate. Complete allocation is also important for upstream reconciliation purposes.

However, the “global methodology” set out in the Rules (and implemented via the allocation system), currently does not provide for the instance where retailer(s) at a gas gate all submit zero consumption quantities, even though the gas gate injection quantity is positive (i.e. shows consumption at that gas gate).

An exemption is considered appropriate in instances where retailers supply gas at a gas gate but submit no or zero consumption quantities, as it is reasonable to assume that the retailers’ customers have used gas during the relevant consumption period if the injection quantity is positive. Given that these retailers are the only retailers at the gas gate, then the supply of gas by one or more of these retailers is causing the UFG (whether due to meter accuracy issues, failures to obtain meter reads or network failures).

This approach provides an incentive for the retailers involved to investigate the reason(s) for the positive injection quantity/zero consumption quantities at the gas gate, so that corrective action can be taken.

Gas Industry Co’s preliminary view is that the injection quantity at an affected gas gate should be allocated in equal proportions between those retailers supplying gas at that gas gate, as determined by the gas gate notice (GAS020 trader notification) provided to the allocation agent under rule 39.

At a gas gate with a positive injection quantity but with no retailers supplying gas, as determined by the gas gate notice (GAS020 trader notification) under rule 39, the Rules do not provide for allocation of the injection quantity to occur at the gas gate, as there is no retailer to attribute any consumption to (see rule 45.2.7). Operationally, the allocation system does not



allocate the relevant gas gate in these situations and accordingly no allocated result for the gas gate is uploaded into OATIS. This approach is, prima facie, considered appropriate as, where no retailer is supplying gas at a gas gate, it is more likely that the positive injection quantity is due to a gas gate meter accuracy issue or pipeline losses. It is expected that this situation will occur relatively rarely as there are almost always retailers supplying gas at an allocated gas gate. The relevant TSO can examine the issue, determine the cause of the problem and take/recommend any necessary corrective action (which, if appropriate, can be included in the next wash-up (i.e. the interim, final or (if appropriate) special allocation).

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

Implementation of the exemption will require some changes to be made to the allocation system, with the costs estimated to be in the range of \$8,400 - \$9,800. These costs will become a component of the annual operations fee (recovered through the ongoing fee).

If the exemption is granted, gas will be allocated in equal proportions to all retailers recorded by the allocation system as supplying gas at an affected gas gate, even though they have all submitted either no or zero quantity consumption information. There may be a minor cost or benefit to individual retailers at the affected gas gate, depending on whether it eventuates that their customers did not or did consume gas during the consumption period. These costs/benefits are not anticipated to be overly large for two reasons. Firstly, this issue is expected to occur at gas gates where the gas quantities are small, and secondly the wash-up process (i.e. subsequent allocations) should serve to reduce the impact.

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

The exemption is sought for the full duration of the transitional period, ie until 30 September 2010. While in the medium-term Gas Industry Co proposes to address the issue of zero consumption quantities at a gas gate where there is a positive injection quantity 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:***

The alternative arrangements proposed are set out above in section 3 above.

**5. Additional information for an urgent exemption:**

|  |
|--|
| Not applicable.  |
| <p><b>6. Additional information for a transitional exemption</b></p> <p><b><i>State the reasons for seeking a transitional exemption rather than a standard exemption:</i></b></p> <p>The problem covered by this application is generic in character and Gas Industry Co is proposing the exemption for the benefit of allocation participants, so as to assist in the fair, efficient and reliable allocation of downstream gas quantities.</p> <p>On the information currently available, Gas Industry Co's preliminary view is that:</p> <ul style="list-style-type: none"> <li>○ The Rules currently do not adequately provide for efficient and fair allocation and reconciliation in respect of gas gates with positive injection quantities but zero consumption quantities;</li> <li>○ The alternative arrangement set out above is a fit for purpose arrangement and should meet the intended objective of rule 45;</li> <li>○ 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.</li> </ul> |
| <p align="center"><b>Please email this form to <a href="mailto:exemptions@gasindustry.co.nz">exemptions@gasindustry.co.nz</a></b></p>  |

# Appendix H DR09-04-S Contact

|  |                  |
|--|------------------|
| <b>Gas Industry Company Limited</b>  | <b>DR09-04-S</b> |
| <b>Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008</b>  |                  |
| <ol style="list-style-type: none"><li>1. Please complete a separate form for each type of exemption sought.</li><li>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.</li><li>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.</li><li>4. Gas Industry Co may request additional information after receiving and reviewing the application</li></ol> |                  |
| <b>1. Name and contact details for the participant(s) seeking exemption:</b><br>Company name: Contact Energy Ltd                      Phone: (04) 462 1265<br>Contact Name: Rod Crone                                      Fax: (04) 463 9295<br>Email: rod.crone@contactenergy.co.nz                      Mailing Address: P O Box 10742, Wellington 6143   |                  |
| <b>2. Type of exemption sought (delete all but one):</b><br>Standard (under rule 19)   |                  |
| <b>3. Provisions of the Rules from which the exemption is sought:</b><br>Rules 31, 39  |                  |
| <b>4. State the reasons on why you are seeking the exemption and why the exemption sought should be granted</b><br><br>Contact is seeking the exemption to avoid being in breach of an impractical rule 39 relating to trading notifications. The exemption should be granted so as not to waste valuable participant  |                  |

and service provider resources on responding to and considering breach allegations associated with an impractical rule.

When Contact made its 8/10/07 submission on the 4/9/07 draft rules we brought to Gas Industry Co's attention the impracticality of rule 39 (36 in the draft). Attached is an extract from a redlined version of the draft rules which Contact attached to its submission as requested by Gas Industry Co.

While minor changes to the rules were made following industry submissions the current rule 39 remains problematic when a retailer ceases to supply consumer installations at a particular gas gate.

Contact has become aware that Gas Industry Co has advised the allocation agent that the alleged breach notice 2008-11 submitted by the allocation agent relating to rule 31 should have been made as an alleged breach of rule 39, and accordingly the allocation agent has now advised Contact today that it intends to now allege a breach related to the same issue under rule 39.

Effectively the principle being applied is that while submitting a zero file for a gas gate where we have ceased trading enables compliance under rule 31, it breaches rule 39.

With the equivalent electricity reconciliation rules around submission and trading notifications there is no such issue. With electricity, Contact has provided trading notifications for every GXP we either trade at or are reasonably likely to trade at, and we have a process that results in submission of a zero file if no consumption is produced when we run our submission files shortly before the submission deadline. This recognizes:

- Firstly, that it is impractical to know before we run the reports that produce the consumption submission data if we have lost all consumers at a GXP in the month prior to the latest consumption period.
- Secondly, that the principle of trading notifications is to ensure the reconciliation manager expects to receive submission data for all GXPs where a trading notification has been provided.

The reconciliation manager therefore always receives data from Contact for all GXPs it is expecting consumption data for.

We consider a similar approach should apply in gas, or alternatively retailers be given 5 business days after the end of the consumption period when it supplied no consumers at a particular gas gate to provide the notice required by rule 39 (as we submitted on 8/10/07).

Rules 31 and 39 do not provide this flexibility as currently written.

On 4/12/08 Contact was breached by the allocation agent under rule 31 for not submitting consumption data for several gas gates where Contact had previously advised we supplied consumers. Shortly after the issue was brought to Contact's attention we submitted zero files and the market administrator subsequently determined that the alleged breach did not raise any material issues and decided to take no further action.

Following further investigation it became apparent that for two gas gates Contact had lost its only customers in the month previous to the consumption period to which rule 31 applied, hence the reason for not submitting any consumption data. We therefore have now put in place a process that ensures we submit consumption data (including zero consumption if we no longer have any consumers at a gas gate for the complete consumption period) for all gas gates expected by the allocation agent.

We consider this is a practical outcome that meets the principles that underpin the purpose of rule 39.

Accordingly Contact seeks the following exemptions until rule changes can be considered to enable practical implementation of trading notifications where a retailer has ceased supplying any consumers at a gas gate for a complete consumption period.

- Where a retailer has previously given a notice in respect of a particular gas gate under rule 39.1.1, it be allowed to submit a zero file for the gas gate under rule 31 for the consumption period even if it no longer supplies any consumer installations during the complete consumption period.
- Where a retailer has ceased to supply any consumer installations at a particular gas gate, and subject to it submitting a zero file for the gas gate for the consumption period under rule 31, it be allowed up to 5 business days after the end of the following calendar month to provide a notice under rule 39.1.2 that it has ceased to supply any consumer installations at the gas gate. That is, the requirement under rule 39.2.3 be relaxed by 1 month plus 5 business days, subject to a zero file being submitted under rule 31 as appropriate.

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

The exemption will have no negative impact on other participants or the allocation agent, however it will provide benefits for other retailers, the allocation agent and Gas Industry Co, by not being distracted by breach issues that have no material impact.

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

Exemption is sought from the date of this application until such time as the rules are amended to ensure practical limitations are recognised.

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

N/A

**5. Additional information for an urgent exemption:**

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

N/A

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

N/A

**6. Additional information for a transitional exemption**

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

N/A

**Please email this form to [bas.walker@gasindustry.co.nz](mailto:bas.walker@gasindustry.co.nz)**