

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

- Application DR08-25-S for further exemption from rule 42 gas injection requirements
- Application DR08-26-T for the exemption of direct connect gas gates from rule 41 gas injection information requirements
- Application DR08-27-U for the exemption of single retailer/non-open access gates from the allocation process

1 Introduction

Gas Industry Co has received three additional exemption applications under the Gas (Downstream Reconciliation) Rules 2008 (“the Rules”).

Two of the applications are from Vector and relate to proposed exemptions from the rule 41 and rule 42 requirements for the provision of gas injection information. Both applications are consequential to an exemption already granted – in the case of rule 41 an exemption granted for the exclusion of nominated direct connect gas gates from the allocation process but for the continued provision of injection information; and in the case of rule 42 a time limited exemption from rule 42 granted to transmission system owners, including Vector.

The third application is from Nova Gas and is for the exemption of its bypass network gas gates from the allocation process. These gates supply only Nova Gas customers through its bypass distribution networks. A similar application has already been considered and declined by the Gas Industry Co Board, so the new application effectively seeks reconsideration of that decision.

This notice publishes and seeks submissions on these exemption applications. Submissions must be received by Gas Industry Co no later than 5pm on Wednesday, 22 October 2008. The submission period has been limited to one week because:

- the existing rule 42 exemption, to which application DR08-25S relates, expires on 31 October 2008 and it is also desirable to have the other two applications considered before allocation activity starts in early November; and
- the issues raised have, to a large extent, been previously consulted on in earlier exemption applications.

It is requested that submitters use the submission template attached as Appendix A. Submissions should be forwarded by email to submissions@gasindustry.co.nz.

A detailed description of the exemption framework can be found in the initial exemptions consultation paper of 21 August 2008 (which can be downloaded from <http://gasindustry.co.nz/Consultation.php>).

2 Description and Analysis of Exemptions Sought

2.1 Application DR08-25-S

Summary of application

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

GIC Code: DR08-25-S

Applicant: Vector Gas Limited (Transmission)

Exemption Type: Standard

Exemption Sought: A time limited exemption is sought from the application of rule 42 for Vector, in respect of all gas gates on OATIS which have telemetry meters. The time limit proposed is 30 April 2009, to match the time limit already set under *Exemption (DR08-15 to 18-S: Injection information) Notice 2008*, for the exemption of gas gates with non-telemetry meters from the application of rule 42.

Summary of Reasons:

- Vector was initially granted an exemption from the provisions of rule 42 until 31 October 2008 but will not be in a position to meet the requirements by 31 October 2008 because the process of providing the information requires manual intervention. The current requirement is for the information to be provided on a daily basis rather than just on business days, and irrespective of any technical problems with gas gate meter or corrector problems.
- Compliance with rule 42 will thus require significant time, money and additional resources to change. Further, even if additional resources were available and costly system changes made, there is no certainty that Vector will meet the deadlines as meter failures remain out of Vector's control.
- the process for loading telemetry data into OATIS is manual and one staff member is required to perform it (taking 2 hours). Vector does not currently have staff in this area that work on weekends. If staff were required to work at weekends to carry out this task, Vector would be unable to recoup the costs involved because of constraints arising from regulatory impositions. The problem would be resolved by amending rule 42 to apply to "business days" rather than "days".
- on average, data for one telemetry site per week is currently provided due to meter or corrector problems that Vector cannot necessarily control. This will result in Vector breaching the Rules. The corrected data is generally received three to four days after it was due. Vector is not in a position to provide an estimate in this situation and would have to undertake significant OATIS redevelopment to enable the system to accept estimated files. In any event, to do so is far too risky and is considered to be unnecessary.

Additional information

- the exemption sought is essentially a modification of an exemption from rule 42 already granted to transmission system owners. A copy of this exemption [*Gas (Downstream Reconciliation) Rules 2008 Exemption (DR08-15 to 18-S: Injection information) Notice 2008*] is attached as Appendix C.

Issues

- rule 42 is not essential to the allocation process, but the information provided is considered to be for the benefit of retailers so as to enable retailers to forecast gas gate consumption. To a

large extent, this information is provided already under the Vector Transmission Code (“VTC”) but not on a daily basis. The key issue is whether retailers consider the daily provision of estimated/unvalidated injection information under rule 42 (in addition to what is provided under the VTC) is valuable and desirable, despite the additional costs claimed to be incurred by Vector to provide that service. If such additional costs are incurred by Vector, there is also the potential that those costs may be passed on to participants through Vector’s other commercial arrangements.

- further, the question arises whether a longer term decision on this issue is appropriate without knowing what the additional costs might be. For example, would a more lengthy temporary exemption (similar to that already granted) provide an appropriate time within which to provide that cost information?
- an issue for Vector is that of dealing with the impact of telemetry meter failures which may unavoidably result in a breach of time limits. Under a rules-based regime, Gas Industry Co considers it inappropriate to deal with this concern by having a “best reasonable endeavours” obligation to meet rules timeframes. This approach creates unreasonable uncertainty for other participants, the allocation agent and the allocation process. Relaxing the time limits in cases where a meter failure occurs is also viewed as equally unsatisfactory. Gas Industry Co notes that no softening of timeframes in the rules is provided for other allocation participants (i.e. for consumption information submission or report generation) including for situations where those participants have meter or other technical issues. Gas Industry Co’s view in drafting the Rules, and other regulatory timeframes, is that this issue is best addressed via the compliance regime which determines whether an alleged breach is material or not (by reference to matters such as whether the alleged breach was inadvertent). Do submitters have views on any other approaches for dealing with this issue?

2.2 Application DR08-26T

Summary of application

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

GIC Code: DR08-26-T

Applicant: Vector Gas Limited (Transmission)

Exemption Type: Transitional

Exemption Sought: Exemption is sought from the application of rule 41 to the following direct connect gas gates, which are also the gas gates that have been exempted from the allocation process as follows:

ALF15501 Alfriston	MRV16301 Morrinsville DF
BAL08201 Ballance Ammonia-Urea	MSD01801 Marsden 1 (NZRC)
BAL09626 Ballance Ammonia-Urea	MSD01802 Marsden
BRO36301 Broadlands	MUT19001 Maungaturoto DF
GLB03401 Glenbrook	OKW23401 Okaiawa (Taranaki Byproducts)
KAW04410 Kawerau (ex-Caxton)	OTB00301 Otahuhu B Power Station
KAW04411 Kawerau (ex-Tasman)	RAG33401 Rangiuru
KIN04310 Kinleith (CHH mill)	RBM03101 Rainbow Mountain
KIW34201 Kiwitahi 1 (Peroxide)	SDN00101 Southdown Power Station
KTK23901 Kaitoke	TAC31001 Te Awamutu Cogeneration Plant
KUR33601 Kauri DF	TAT16401 Tatanui DF

LCF20010 Lichfield DF
MGK05401 Mangatainoka
MNG34001 Mangaroa
MOK35801 Mokoia

TCC00201 Taranaki Combined Cycle (TCC)
TIR33501 Tirau DF
TRC02003 Te Rapa Cogeneration Plant
WKE19201 Waikeria

Summary of Reasons:

- the direct connect gas gates listed above have been granted exemptions from being allocated under the Rules. Accordingly Vector does not believe there is a need to continue supplying injection quantities for these gas gates to the allocation agent under rule 41.
- the injection quantities for these gas gates will be of no use to the allocation agent due to the gates being exempt from rules 49 to 53 (and by implication rules 43 to 46).

Additional information

- the exemption sought relates to those gas gates which have been exempted from the allocation process as set out in the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*. A copy of this exemption is attached as Appendix E.
- the restriction of the exemption to these rules relative to the provision of consumption information for allocation of gas was deliberate, and the decision letter of 19 September 2008 sent to allocation participants specifically noted that:

“it was determined by the Board that all gas gates should generally be subject to the remainder of the Rules including the requirement to provide gas injection information”.
- this approach was adopted to ensure that injection information (which usually equates to the consumption information at those gas gates) would be provided so as to enable Gas Industry Co to monitor and assess what is occurring at direct connect gas gates over the term of the exemption. Similarly this information will provide a complete picture of the characteristics and pattern of gas supply at all gas gates that may be subject to Rules – i.e. shared, non-shared and direct connect gas gates. Although this information might not be used immediately, it is expected to be valuable where issues arise which require investigation across the whole of the gas supply system (downstream, upstream and where those boundaries may blur) or if the status of any gas gates changes in the future.
- the information is intended to be obtained by the allocation agent via OATIS when it downloads injection quantities for the allocation process.

Issues

- in the light of the additional information provided above, is there any justification for revisiting and/or amending the decision that has already been made by the Board?
- if submitters think the exemption sought is justified, what are their reasons?
- if the exemption was granted would this have an adverse impact on any other participants?

2.3 Application DR08-27-U

Summary of application

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

GIC Code: DR08-27-U

Applicant: Nova Gas Limited

Exemption Type: Exemption sought as urgent but the applicant has agreed to treat the application as standard on the grounds that there is sufficient time to do so before actions are required under the Rules from which Nova seeks an exemption.

Exemption Sought: An exemption is sought from the application of rules 16.3, 31, 32, 33, 39, 48, 49, 50, 51, 52, 53, 78 and 79 for each of the following gas gates:

FLB15601 Nova Flatbush

HWA20802 Nova – Hawera 2

TWB24810 Nova – Tawa B

HST05203 Nova – Hastings

HUN15302 Nova – Hunua 2

Summary of Reasons:

- the exemption is sought to avoid unnecessary costs associated with the provision of data to the allocation agent, the processing of data by the allocation agent, and levies for recovery of allocation agent costs.
- the gas gates listed above are non-open access pipelines of Nova Gas' that deliver gas to Nova's customers only. There is thus no requirement to allocate gas between retailers.
- the gross consumption at these gas gates is fully accounted for and is metered at the interconnection point to the Vector high pressure transmission system. UFG on the Nova Gas network is thus Nova Gas' sole responsibility.
- Nova Gas' bypass network competes with the Powerco and Vector open access distribution networks and offers an alternative distribution service for customers of Nova. Nova Gas asserts that their service offers benefits to their customers compared with the alternatives.
- as there are no other retailers able to distribute gas on Nova's network then no customer on the Nova network can switch to another retailer – instead they must disconnect and reconnect to the open access network. All gas that flows from the transmission system into Nova's distribution network can thus only be allocated to Nova.

Additional information

- the exemption sought relates to the exemption of direct connect gas gates from the allocation process as set out in the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*. A copy of this exemption is attached as Appendix E.
- in granting this exemption, the Board considered whether or not an exemption should also be granted to other types of non-shared gas gate, ie gas gates at which there is only one retailer. This was in part a response to applications from Nova Gas (applications DR08-20-S/DR08-21-S) seeking an exemption for Nova's "bypass pipeline" gas gates. The initial application from Nova is attached as Appendix G.
- the Board decided that such gates should not be exempted. The reasons are set out in the decision letter dated 19 September 2008 are as follows:

“The applications were declined with respect to all other types of gas gates nominated in the applications, in particular gas gates with a single retailer but supplying consumers through a distribution network. The reason for declining to exempt these gas gates is there is still considered to be a need for good quality and transparent information to be available in respect of gas quantities and UFG at these gas gates. Participation in the processes provided for in the Rules will ensure that retailers and consumers at these gas gates are treated in a manner consistent with all other gas gates. This approach is also consistent with enabling competition between retailers to occur through the availability of quality information at these gas gates. The fact that some of these gas gates are supplying “bypass” distribution networks is not considered to be a sufficient reason to grant an exemption.”

- adopting this consistent approach to all single retailer gas gates seeks to ensure that gas quantities and UFG can be determined across all parts of the downstream supply system – which will in turn assist the reliable allocation and reconciliation of downstream gas quantities for both allocation participants and consumers. One example of this is the Tawa A (TWA35610) gas gate where Gas Industry Co understands the calculation of allocated quantities and UFG may be affected by the accuracy of measurement at the Tawa B (Nova) gas gate. This is because the injection quantities at Tawa A are derived by deducting gas gate quantities measured at Tawa B (Nova) from the gas gate quantities measured at Waitangirua (WTG06910). Allocation of gas for Tawa B therefore provides a check on quantities measured.
- the applicant has indicated that the current application DR08-27-U (Appendix F) has been redrafted/revised on the basis of the initial Nova Gas application DR08-20-S (Appendix G). The applicant has not indicated what, if any, material new information is included in current application DR08-27-U (Appendix F). Submitters are invited to consider the extent to which the new application provides any new information that may be relevant.
- the applicant has not advised of the likely level of cost that would be incurred by Nova Gas in complying with the Rules at these non-open access gas gates. This additional information, as well as information surrounding the customer make-up at these gas gates, will be requested by Gas Industry Co from the applicant.

Issues

- given the reasons for declining the initial application from Nova Gas set out above, do the grounds set out by Nova Gas in the current application provide any new and justifiable basis for the reconsideration by the Board of its previous decision not to grant an exemption?
- if the Board’s decision is to be reconsidered:
 - do submitters support or not support the granting of an exemption? If a view is expressed, give the reasons for that view.
 - do submitters consider the transparency and quality information benefits in having non-open access single retailer gas gates subject to the Rules are justified?
 - from the consumer’s perspective, are there benefits in having retailers subject to a consistent approach to allocation and reconciliation across all downstream gas gates? If non-open access gas gates were exempted, would there be any negative outcomes for consumers at those gas gates?
 - do submitters agree with the applicant’s claim that applying the Rules to these gas gates will introduce a barrier to investment and reduce competition between distributors? Are there any competition advantages or disadvantages at the retailer level in granting the exemption?

Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of submitters' 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 exemptions in their responses.

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

Question	Comment
<i>Q1: Do submitters have any comments on the rule 41 exemption application DR08-25-S from Vector?</i>	
<i>Q2: Do submitters have any comments on the rule 42 exemption for nominated direct connect gas gates, application DR08-26-T from Vector?</i>	
<i>Q3: Do submitters have any comments on the application DR08-27-U from Nova seeking exemption from the allocation of gas for "bypass pipeline" gas gates?</i>	

Appendix B DR08-25-S from Vector

Gas Industry Company Limited

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

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

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

Company name: Vector Gas Limited
(Transmission)

Phone: 04 462 8676

Fax: 04 462 8625

Contact Name: Jo Murray

Mailing Address: Vector Limited, Private Bag
39980, Wellington

Email: jo.murray@vector.co.nz

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

Standard (under rule 19)

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

An exemption is sought from the application of rule 42 requirement for Vector to provide:

- estimated daily energy quantities to each retailer at a gas gate for the previous day's gas flow;
- that information by 1000 hours each day (in relation to the previous day) and at another time on that day as required and notified by the industry body.

in respect of all telemetry sites on OATIS.

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

Vector was initially granted an exemption from the above provisions for one month.

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However Vector Transmission will not be position to meet the requirements of rule 42 in one month's time due to:

- The process requiring manual intervention;
- The definition of 'day' in rule 42; and
- The periodic occurrence of telemetry meter failures.

Compliance with this rule will require significant time, money and additional resource to change. Further, even if additional resources were available and costly system changes made, there is no certainty that Vector Transmission will meet the deadlines as meter failures remain out of our control.

The process for processing telemetry data is as follows:

On each Business Day Vector's data and measurement team receives roughly 700 individual raw data files; there is no standard format for these files and when last investigated, standardisation of files would be a significant cost over and above current processing costs. These files are then filtered and amalgamated to create data files required for approximately 200 telemetry sites for the Maui and Vector Transmission Pipelines. Once all files have been received, a member of the team then proceeds to process each individually and convert the data into energy (GJs). The files are uploaded through an FTP site into a system, which performs the energy conversion and produces output files in the standardised hourly delivery report (HDR) and daily delivery report (DDR) formats. Next, the energy data files are uploaded into OATIS to provide 'unvalidated' data for each site. The process can only be performed by one individual taking two hours from 8am to 10am on a Business Day to complete.

Difficulties:

(a) The definition of 'day' in Rule 42

As described above, the process for uploading telemetry data into OATIS is not automatic, it is a manual process and a staff member is required to perform it. Vector does not currently have staff in this area that work on the weekends and due to budget constraints arising from regulatory impositions, is not able to recoup the costs arising from carrying out this additional requirement.

Vector has previously and continues to suggest the GIC change the definition of 'day' in rule 42 to reflect the current regime of providing data on clearly defined 'Business Days' aligned with the definition provided in the Gas (Downstream Reconciliation) Rules 2008.

(b) Telemetry Meter Failures

On average, data for one telemetry site a week is currently not provided due to a problem with the meter or corrector. This is not something Vector can exert absolute control over and accordingly the current wording will result in Vector breaching the Rules. The corrected data generally is received three to four days after the day it was due to be processed. A notice is posted on OATIS when data is missing to inform all users of the Maui and Vector Transmission Pipelines.

Vector is unable to estimate the data as it would require creating a mock file, something our system is not capable of producing. Vector is also not in a position to provide a figure for an estimate. In order to ensure accuracy, Vector prefers to leave the field blank until the correct data is received. Creating mock files and/or providing estimates is far too risky and unnecessary from Vector's point of view. Even if we were able to create a mock

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file or provide an estimate, Vector would have to undertake significant OATIS re-development to enable the system to accept estimated files in addition to unvalidated and validated ones.

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

Participants will be unaffected – current processes will stand and they will have access to the information in accordance with the timeframes set out in the VTC.

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

Vector prefers that the timeframe granted to match that for rule 42 (non-telemetry gas gates) under exemption DR08 – 15,16,17 and 18 and that the exemption applies from 1 October 2008 to 30 April 2009.

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

5. Additional information for an urgent exemption:

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

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

6. Additional information for a transitional exemption

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

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

Appendix C

Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-15 to 18-S: Injection information) 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 DR08-15 to 18-S: Injection information) 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 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. Standard Exemption

Transmission system owners are granted an exemption under rule 19 from the requirements of rule 41 subject to the following terms and conditions:

- (a) The rule 41 deadline for the provision of actual daily energy injection quantities by transmission system operators is amended to 1200 hours on the 4th business day of every month that follows a consumption period.
- (b) The rule 31 deadline for the provision of consumption information by retailers is amended to 1200 hours on the 4th business day of every month that follows a consumption period.
- (c) The rule 48.2 deadline for the allocation agent to perform initial allocations and provide reports on those allocations to retailers is amended to 1200 hours on the 5th business day of every month.
- (d) No later than 31 March 2009, Gas Industry Co will provide a report, prepared in consultation with allocation participants, which reviews the record of rule 41 compliance over the first 5 months of allocations, provides investment and other relevant information on the implications of terminating the exemptions and transmission system owners

achieving compliance with rule 41, and sets out a recommended course of action for the period beginning on termination of the exemption.

- (e) This exemption will apply from 1 October 2008 to 30 April 2009.

Transmission system owners are granted an exemption under rule 19 from the requirements of rule 42 subject to the following terms and conditions:

- (a) The exemption applies from 1 October 2008 to 31 October 2008 for gas gates with telemetry metering.
- (b) The exemption applies from 1 October 2008 to 30 April 2009 for gas gates without telemetry metering.
- (c) No later than 31 March 2009, Gas Industry Co will provide a report, prepared in consultation with allocation participants, which provides investment and other relevant information on the implications of terminating the exemptions and transmission system owners achieving compliance with rule 42, and sets out a recommended course of action for the period beginning after the expiry of the exemption.

4. Reasons for granting the standard exemptions

The reasons for the exemptions are:

- (a) For practical reasons, transmission system owners will be unable to immediately meet the full rule 41 and 42 requirements for providing gas injection information, both for timing and cost reasons; and
- (b) The exemption will provide time for the costs, benefits and other implications of remedying this situation to be investigated and reported..

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 D DR08-26-T from Vector

Gas Industry Company Limited

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

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

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

Company name: Vector Limited (Transmission) Phone: 04 462 8676

Contact Name: Jo Murray Fax: 04 462 8625

Email: jo.murray@vector.co.nz Mailing Address: Vector Limited, Private Bag 39980, Wellington

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

Transitional (under rule 81)

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

Exemption from rule 41, for the following Vector direct consumer gas gates:

ALF15501 Alfriston
BAL08201 Ballance Ammonia-Urea
BAL09626 Ballance Ammonia-Urea
BRO36301 Broadlands
GLB03401 Glenbrook
KAW04410 Kawerau (ex-Caxton)
KAW04411 Kawerau (ex-Tasman)
KIN04310 Kinelith (CHH mill)
KIW34201 Kiwitahi 1 (Peroxide)
KTK23901 Kaitoke
KUR33601 Kauri DF
LCF20010 Lichfield DF
MGK05401 Mangatainoka
MNG34001 Mangaroa

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MOK35801 Mokoia
MRV16301 Morrinsville DF
MSD01801 Marsden 1 (NZRC)
MSD01802 Marsden
MUT19001 Maungaturoto DF
OKW23401 Okaiawa (Taranaki Byproducts)
OTB00301 Otahuhu B Power Station
RAG33401 Rangiuuru
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

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

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

The above direct consumer gates have been granted exemptions from being allocated under the Rules. Accordingly, Vector does not believe there is a need to continue supplying injection quantities for these gates to the allocation agent (as currently required pursuant to rule 41).

The injection quantities for these gas gates will be of no use to the allocation agent due to the gates being exempt from rules 48, 49, 50, 51, 52, 53 (and by implication, rules 43, 44, 45 and 46).

Vector seeks this exemption in respect of all the sites listed in Box 3 above. If the GIC removes the exemption for direct connect gas gates at BAL08201 and BAL09626 then Vector notes that this exemption will no longer need to be applied at these gates..

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

This exemption will have no impact on other participants.

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

Vector requests that the length of the exemption matches that of the one granted for the all direct consumer sites, which is currently 2 years.

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:

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

6. Additional information for a transitional exemption

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

Vector would prefer a standard exemption but since the direct consumer sites were granted a two year exemption Vector will accept a transitional exemption.

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

Appendix E

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 KIWITAHĪ 1 (Peroxide)
KTK23901 Kaitoke
KUR33601 Kauri DF
LCF20010 Lichfield DF
MGK05401 Mangatainoka

1

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)
NP500530 New Plymouth Power Station
OKW23401 Okaiawa (Taranaki Byproducts)
OTB00301 Otahuhu B Power Station
RAG33401 Rangiuu
RBM03101 Rainbow Mountain
SDN00101 Southdown Power Station
TAC31001 Te Awamutu Cogeneration Plant
TAT16401 Tatanui 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 transitional 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 F DR08-27-U from Nova Gas

Gas Industry Company Limited

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

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

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

Company name: Nova Gas Ltd Phone: 04 917 8851

Contact Name: Charles Teichert Fax:

Email: cteichert@tpm.co.nz Mailing Address:

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

Urgent (under rule 19)

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

Rules 16.3,31, 32, 33, 39, 48, 49, 50, 51, 52, 53, 78, 79.

For each of the following gates:

FLB15601 Nova – Flatbush

HST05203 Nova – Hastings

HWA20802 Nova – Hawera 2

HUN15302 Nova – Hunua 2

TWB24810 Nova – Tawa B

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

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

Why the Exemption is sought.

The exemption is sought to avoid unnecessary costs associated with:

- the provision of data to the allocation agent; and
- processing of data by the allocation agent; and
- levies for recovery of allocation agent fees

The gas gates listed above are non open access pipelines of Nova's that deliver gas to Nova's gas customers only. The gross consumption for these gas gates is fully accounted for and is metered at the interconnection point to the Vector high pressure transmission system.

Nova's bypass network is for use by Nova customers only and as such there is no requirement for allocation of gas between retailers. All gas at the pipeline interconnection point is allocated to Nova Gas and is based on the meter at the interconnection point and not downstream metering. UFG on the Nova network is Nova's sole responsibility for managing.

Nova's bypass network competes with the Powerco and Vector open access distribution networks and offers an alternative distribution service for customers of Nova. Benefits of that service include improved security of supply, quality of service through higher pipeline pressures and the absence of UFG as well as lower distribution charges.

Rule 65.2.3 of the switching rules require a retailer to have a distribution services agreement before a valid switch can be completed. As there are no other retailers able to distribute gas on Nova's network then no customer on the Nova network can switch to another retailer – instead they must disconnect (and they do from time to time) from the Nova network and reconnect to the open access network.

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Following on from this, then all gas that flows from the transmission system into Novas distribution network can only be allocated to Nova and this is consistent with what has occurred historically.

This makes redundant the application of the reconciliation rules to Nova with respect to volumes distributed via its own distribution network.

Why the Exemption should be granted

Section 19 provides the criteria for the granting of exemptions which are:

1) Section 43ZN objectives

Section 43ZN of the Gas Act 1992 provides:

"Objectives of industry body in recommending regulations for wholesale market, processing facilities, transmission, and distribution of gas

- *The objectives of the industry body, in recommending gas governance regulations under section 43E, are as follows:*
 - *(a) the principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner; and*
 - *(b) the other objectives are—*
 - *(i) the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements:*
 - *(ii) barriers to competition in the gas industry are minimised:*
 - *(iii) incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced:*
 - *(iv) delivered gas costs and prices are subject to sustained downward pressure:*
 - *(v) risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties:*
 - *(vi) consistency with the Government's gas safety regime is maintained."*

Should an exemption not be approved by the GIC then additional costs would be incurred by Nova with respect to its competitive bypass distribution network that disadvantages it compared to its Powerco/Vector open access network competitors.

Open access networks derive benefits from the allocation arrangements as increased volumes of gas can be distributed. However that benefit is traded off against the necessity to provide for the allocation of gas quantities among multiple parties trading on that network.

Requiring a non open access network that competes with an open access network to incur costs associated with compliance with the new Reconciliation Rules will represent a reduction in competitive tension and introduce a barrier to investment in

new bypass distribution networks.

Granting the exemption is consistent with the objectives set down in S43ZN of the Act in relation to:

- (a) maintaining economic efficiency, and reliability of supply created by having multiple competing distribution networks
- (b) (i) ensuring that there not disincentives to new investment in competitive distribution networks;
- (b) (ii) barriers to competition in the market for distribution services are minimised;
- (b) (iii) maintaining incentives for development and investment in new distribution networks and in particular those that compete with existing monopoly networks;
- (b) (iv) delivered gas costs are subject to downward price pressure through competition in not only the energy part of the supply chain but also the distribution segment.

2) The purpose of the Rules

The purpose of the rules as per Section 2 of the Reconciliation Rules states:

"The purpose of the rules is to establish a set of uniform processes that will enable the fair, efficient and reliable downstream allocation and reconciliation of downstream gas quantities"

We believe granting an exemption is consistent with the purpose because:

- it would not be fair or efficient to impose requirements and costs on a reconciliation participant where there is no allocation of gas quantities between multiple retailers and there is no benefit achieved from doing so. Ultimately, this leads to higher costs being passed through to consumers.
- granting an exemption will not affect the reliability of allocation processes.

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

The exemption will not affect other participants. Service providers will simply have fewer gates to be responsible for in their allocation activities.

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

From 1 October 2008.

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

It may be appropriate to consider conditions such as:

- 1) the exemption is only valid until such time as it is made redundant by a future rule change: and
- 2) the exemption is only valid while Nova maintains its non open access policy on its bypass network.

5. Additional information for an urgent exemption:

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

1 October 2008.

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

The exemption request has been applied for and consulted on previously and was rejected by the Board and as such there is reduced time to consider a revised exemption request before the new reconciliation rules require action by Nova and the Allocation Agent in early November.

Having more thoroughly researched the issue following discussions with GIC regarding the initial exemption request being declined we believe that the exemption request is valid and should be successful with more detail being provided to the Board.

6. Additional information for a transitional exemption

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

Please email this form to bas.walker@gasindustry.co.nz

Appendix G Previous application DR08-20-S from Nova Gas

Gas Industry Company Limited

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

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

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

Company name: Nova Gas Ltd

Phone: 04 917 8851

Contact Name: Charles Teichert

Fax:

Email: cteichert@tpm.co.nz

Mailing Address:

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

Standard (under rule 19)

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

Rules 31, 32, 33, 39, 48, 49, 50, 51, 52, 53, 78, 79.

For each of the following gates:

FLB15601 Nova - Flatbush

HST05203 Nova - Hastings

HWA20802 Nova - Hawera 2

HUN15302	Nova - Hunua 2
TWB24810	Nova - Tawa B
OKW23401	Okaiawa (Taranaki Byproducts)

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

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

Why the Exemption is sought.

The five of the gas gates listed above are bypass pipelines of Nova’s that deliver gas to Nova’s gas customers only. The last gas gate listed is a customer supplied directly from the Vector high pressure transmission system. The gross consumption for these gas gates is fully accounted for and is metered at the interconnection point to the Vector high pressure transmission system.

Taranaki Byproducts at the dedicated Okaiawa gas gate is billed on the basis of the meter at the gas gate so there is no UFG to be calculated or allocated.

Nova’s bypass network is for use by Nova customers only and as such there is no requirement for allocation of gas between retailers. All gas at the pipeline interconnection point is allocated to Nova Gas and is based on the meter at the interconnection point and not downstream metering. UFG on the Nova network is Nova’s sole responsibility for managing.

Nova’s bypass network competes with the Powerco and Vector distribution networks and offers an alternative distribution service for customers of Nova. Benefits of that service include improved security of supply, quality of service through higher pipeline pressures and the absence of UFG as well as lower distribution charges.

Requiring Nova to submit data and the Allocation Agent to process that data will not be of any benefit and simply represents additional processing costs. On the basis that there is no net benefit to the customer or the industry, an exemption is appropriate.

Why the Exemption should be granted

Section 19 provides the criteria for the granting of exemptions which are:

- 1) Section 43ZN objectives

Section 43ZN of the Gas Act 1992 provides:

“Objectives of industry body in recommending regulations for wholesale market, processing facilities, transmission, and distribution of gas

- *The objectives of the industry body, in recommending gas governance regulations under section 43E, are as follows:*
 - *(a) the principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner; and*

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- (b) the other objectives are—
 - (i) the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements:
 - (ii) barriers to competition in the gas industry are minimised:
 - (iii) incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced:
 - (iv) delivered gas costs and prices are subject to sustained downward pressure:
 - (v) risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties:
 - (vi) consistency with the Government's gas safety regime is maintained."

Should an exemption not be approved by the GIC then additional costs would be incurred by Nova with respect to its competitive bypass distribution network that disadvantages it compared to its Powerco/Vector open access network competitors.

Open access networks derive benefits from the allocation arrangements as increased volumes of gas can be distributed. However that benefit is traded off against the necessity to provide for the allocation of gas quantities among multiple parties trading on that network.

Requiring a non open access network that competes with an open access network to incur costs associated with compliance with the new Reconciliation Rules will represent a reduction in competitive tension and introduce a barrier to investment in new bypass distribution networks.

Granting the exemption is consistent with the objectives set down in S43ZN of the Act in relation to maintaining efficiency, competition, incentives to invest in distribution networks and sustained downwards pressure on delivered gas costs.

With respect to fully metered direct use of gas where there is no UFG and no need for allocation of gas between multiple participants the exemption would be consistent with achieving the objectives of efficiency and sustained downwards pressure on gas prices.

2) The purpose of the Rules

The purpose of the rules as per Section 2 of the Reconciliation Rules states:

"The purpose of the rules is to establish a set of uniform processes that will enable the fair, efficient and reliable downstream allocation and reconciliation of downstream gas quantities"

We believe granting an exemption is consistent with the purpose because:

- it would not be fair or efficient to impose requirements and costs on a reconciliation participant where there is no allocation of gas quantities between multiple retailers and there is no benefit achieved from doing so. Ultimately, this leads to higher costs being passed through to consumers.
- granting an exemption will not affect the reliability of allocation processes.

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

The exemption will not affect other participants. Service providers will simply have fewer gates to be responsible for in their allocation activities.

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

From 1 October 2008.

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

It may be appropriate to consider conditions such as:

- 1) the exemption is only valid until such time as it is made redundant by a future rule change:
and
- 2) the exemption is only valid while a non open network or any direct connect customer has an exclusive supply arrangement.

We note that several other participants (Contact, Vector and Genesis) have applied for similar exemptions, which indicate that perhaps a future rule change may be a better means of dealing with these situations. It is also true that my a direct connect customer may have an exclusive supply arrangement currently, it is always possible that in the future the customer may elect to break up the single site into multiple connections and take supply from multiple retailers. There are several instances of this currently such as at the Edgecumbe Dairy Factory where Nova supplies the cogeneration plant at that site and Contact Energy supplies other aspects of the Fonterra dairy factory. It may also be feasible that Nova could possible provide distribution services to multiple retailers on its bypass network.

For these reasons it may be appropriate to make all such exemptions relating to single supplier gates conditional.

5. Additional information for an urgent exemption:

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

DR08-20-5 from Nova Gas

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

6. Additional information for a transitional exemption

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

Please email this form to bas.walker@gasindustry.co.nz

