



# Submissions Analysis on Downstream Reconciliation Rules Review: Statement of Proposal June 2012

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## **About Gas Industry Co.**

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

## **Authorship**

This paper was prepared by the Market Operations Team

# Executive summary

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This document summarises the submissions that were received on the 'Statement of Proposal: Downstream Reconciliation Rules Review' (the Statement of Proposal) which was published on 26 July 2012.

The Statement of Proposal followed on from the 'Downstream Reconciliation: Options Paper' (Options Paper) which was consulted on in late 2011/early 2012 and reviewed the Gas (Downstream Reconciliation) Rules 2008 (the Rules) that have been in place from October 2008. An industry advisory group was formed to assist Gas Industry Co in its review of the Rules and their expertise and feedback was influential in the development of the Statement of Proposal.

Partly owing to the advisory group process, most of the changes presented in the Statement of Proposal received favourable feedback from submitters. There were some issues raised in the consultation process and this paper responds to those but for the most part the batch of changes from the Statement of Proposal will be progressed to a Recommendation to the Minister by the end of 2012. Gas Industry Co will expediently work through any residual issues to ensure industry participants are provided sufficient lead-in time before the new rules go-live.

When we summarised submissions on the Options Paper we discussed splitting the work into two separate Statements of Proposal. The first has now been completed. Work is underway to have the second Statement of Proposal completed during 2013.

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# 1

## Introduction

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### 1.1 Background

Gas Industry Co published the 'Statement of Proposal: Downstream Reconciliation Rules Review' (the Statement of Proposal) in July 2012. The Statement of Proposal followed on from the publication of the 'Downstream Reconciliation: Options Paper' (Options Paper) in December 2011. The Options Paper was Gas Industry Co's first step in its review of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) which was a fit-for-purpose review carried out to address issues that have been identified with the operation of the Rules since they "went live" in October 2008. A key outcome of the Options Paper process was to split the work into two separate Statements of Proposal: one to be published in mid-2012 and another to be published by mid-2013. This Summary of Submissions addresses the former Statement of Proposal. The paper concentrated on resolving ongoing exemptions and creating efficiencies in the compliance process.

In order to assist its analysis and implementation of the proposed changes to the Rules, Gas Industry Co established a group of industry experts who met on a regular basis. This group was instrumental in the development of the Statement of Proposal and Gas Industry Co thanks members for their input.

### 1.2 Submissions received

Submissions on the Statement of Proposal were received from:

- Contact Energy Limited ("Contact");
- Energy Direct NZ Limited ("EDNZ");
- Genesis Power Limited ("Genesis Energy");
- Greymouth Gas Limited ("Greymouth");
- Maui Development Limited ("MDL");
- Mighty River Power Limited ("MRP");
- Powerco Limited ("Powerco"); and
- Vector Limited ("Vector").

These submissions are available on Gas Industry Co's website at: <http://gasindustry.co.nz/work-programme/downstream-reconciliation/statement-proposal>.

### **1.3 Approach to submissions analysis**

This paper will summarise the submissions received according to the order of issues as presented in the Statement of Proposal.



# 2

## Issues not progressed in the Statement of Proposal

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### 2.1 Breach notifications to meter owners

Currently, the Rules do not impose any specific obligations on meter owners other than ensuring their metering equipment complies with NZS5259:2004. Rules relating to metering otherwise place the compliance burden on retailers. The Options Paper asked submitters whether they thought a new rule enabling the allocation agent to breach meter owners directly was a good idea. Submitters were divided on this matter.

There was a consensus among DRAG members that, beyond the general obligation for meter owners to ensure that their metering equipment is compliant with NZS5259:2004, commercial arrangements provide sufficient obligations on meter owners and that the gas metering market is contestable. The DRAG suggested that Gas Industry Co could consider creating guidelines or principles for metering contracts similar to work that Gas Industry Co has undertaken on distribution and retail contracts. It was also noted that such work was outside the ambit of the DRAG and the review of the Rules. However, the matter could be discussed further, for example, at the annual co-regulatory forum. .

The Statement of Proposal therefore proposed not to progress breach notifications to meter owners and not to progress a metering contracts workstream unless there was sufficient industry demand.

#### Submissions received

For	Against
<b>Contact</b> agreed that commercial arrangements are the best place to incentivise metering contract performance.	<b>EDNZ</b> partially agreed with the proposal but suggested that not all meter owners operate in a contestable environment, especially where the meter owner is also the distribution network owner and does not permit other meter owners on its network without permission. Meter owners charge retailers a daily rental so their own income is not impacted by consumption inaccuracies. EDNZ would like to see meter owner's contractual obligations around accurate information strengthened.
<b>Genesis Energy</b> agreed with the proposal.	Greymouth did not agree with the proposal, although

For	Against
<p><b>MDL</b> agreed with the proposal and did not support the development of a separate workstream for guidelines or principles for metering contracts.</p>	<p>agreed there was no clearly identifiable market failure or presence of insufficient commercial arrangements, and stood by its response to the Options Paper which outlined that more regulatory structure is required around the metering industry because:</p> <ul style="list-style-type: none"> <li>• gas metering technology is difficult technology so appropriate incentives should be in place to incentivise technological advancement; and</li> <li>• from a principle perspective, meter owners should be treated the same as retailers or TSOs under the Rules.</li> </ul> <p>Greymouth suggests the Rules should be expanded to include:</p> <ul style="list-style-type: none"> <li>• audits of meter owner performance; and</li> <li>• ability to allege breaches against a meter owner whenever an alleged breach is raised against a retailer under current rules 31.1, 32.1, and 33.1.</li> </ul>
<p><b>Powerco</b> agreed with the proposal.</p>	
<p><b>Vector</b> agreed with the proposal. More prescriptive arrangements could compromise technological developments in the metering market.</p>	<p><b>MRP</b> accepted that gas metering could be a contestable service but believes it is more of a pseudo-monopoly. Gas Industry Co should therefore consider development of a principles guideline workstream.</p>

## Evaluation

Greymouth's suggestion that 'because gas metering is a difficult technology it ought to be regulated so as to incentivise technological advancement' is not on its own a reason to regulate. The Gas Act does not provide for regulations premised on 'technological advancement grounds'.

Gas Industry Co checked with EDNZ to see whether there were any specific instances where it considered metering was not a contestable service. EDNZ stated that written permission must be obtained from GasNet before a different meter could be installed. It was also unsure as to the protocol for installing meters on Vector's (former NGC) network. We are not aware of problems occurring on these networks and we are satisfied that, at least in theory, the metering market is contestable competitive. This is corroborated by gas registry data which shows multiple meter owners active on all open-access networks (albeit to a very limited extent on GasNet distribution systems). Nonetheless, Gas Industry Co will ask its stakeholders at the 2012 co-regulatory forum whether a dedicated metering workstream ought to be created, with the initial aim of undertaking a first-principles review of existing arrangements.

For the purposes of this review of the Rules, we are satisfied that obligations should not be further extended to meter owners. We have not been made aware of any circumstances where disagreements relating to reconciliation could not be resolved via contractual channels.

## **2.2 Exemptions process**

There was unanimous agreement with Gas Industry Co's proposal to retain the exemptions process. The Options Paper had posited removing the exemptions process as the review would remove many of the long-standing exemptions that were in place. Industry feedback to that suggestion was that the exemptions allow for a useful work-around in the event of a problem being encountered with the working of the Rules and they should therefore be retained. The DRAG echoed the industry's feedback on the Options Paper and Gas Industry Co agreed with that advice in the Statement of Proposal. The exemptions process will be retained as it is.

# 3

## Atypical gas gates

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### 3.1 Direct connect gas gates

Direct connect gas gates have been subject to an exemption since go-live. The Statement of Proposal recommended the development of an explicit rule to provide for non-allocated direct connect gas gates, developed in conjunction with the DRAG, along with another new rule requiring TSOs to provide the allocation agent or Gas Industry Co (as the case may be) with daily injection quantities when that information is requested.

#### Submissions received

For
<b>Contact</b> agreed with the proposals.
<b>EDNZ</b> agreed with the proposals.
<b>Genesis Energy</b> agreed with the proposals.
<b>Greymouth</b> agreed with the proposals but made some comments about the drafting of the rules.
<b>MDL</b> agreed with the proposals and pointed out that daily injection quantities are available on OATIS.
<b>MRP</b> agreed with the proposals.
<b>Powerco</b> noted the potential efficiency gains of the proposals.
<b>Vector</b> agreed with the proposal to codify a rule but suggested the definition be changed to "single use gas gates." Vector did not agree with the proposed rule requiring TSOs to provide daily injection data because industry arrangements were already in place to provide such information.

#### Evaluation

Greymouth's proposed amendments have been considered and while we note the concern that the drafting appears unnecessarily complex, the drafting was done so as to allow the industry body to determine qualifying gas gates and to avoid uncertainty as to what is and what is not a direct connect gas gate. The making of such determinations will not require additional resourcing.

While we note Vector's disagreement with the rule requiring TSO's to provide daily injection data on request to the allocation agent or to Gas Industry Co, the rule as drafted is a means of future-proofing access to daily injection data. Gas Industry Co's current access to this information is provided at Vector's discretion.

Nothing from the submissions provides a cause for not implementing the proposed rules and they will be carried forward as in the Statement of Proposal, subject to minor drafting amendments, and included in the Recommendation to the Minister.

### 3.2 Global 1-month UFG methodology

Another long-standing exemption relates to the use of the 'global 1-month' method at certain gas gates where the global allocation methodology does not produce acceptable results. The Statement of Proposal recommended the development of an annual process to determine which gas gates would be subject to a 'global 1-month' methodology.

#### Submissions received

For	Against
<b>Contact</b> agreed with the proposal.	<b>Greymouth</b> agrees with the parameters of the proposal but says that Gas Industry Co has not done enough to show that TOU swings are the causes of the G1M problem. Greymouth requests that Gas Industry Co determines whether other UFG issues are causing the G1M problem before it carries out the proposed rule.  Greymouth also proposes several changes to the Rules.
<b>EDNZ</b> agreed with the proposal.	
<b>Genesis Energy</b> agreed with the proposal.	
<b>MRP</b> agreed with the proposal.	
<b>Vector</b> agreed with the proposal.	

#### Evaluation

The majority of submitters were in favour of expanding the application of the global 1-month allocation methodology to more gas gates on the basis of pre-determined suitability criteria. Greymouth disagreed on parts of the proposal and raised a number of points on the G1M problem, on the options for its solution, and on the preferred option put forward by Gas Industry Co.

The principle concerns raised by Greymouth were that there is no evidence the root cause of the G1M problem is inaccurate TOU data and that the G1M methodology should only be applied where other UFG causes can be expressly ruled out. Gas Industry Co responds to these issues in turn:

First, it is not necessary for TOU data to be 'inaccurate' for the G1M problem to occur. Where a TOU site or sites dominate a gas gate there is the potential for a small variance to arise between the measurement and conversion at the gate meter and at the customer meter, even if the two meters are NZS 5259 compliant and therefore deemed to be accurate. NZS 5259 quotes maximum permissible errors for metering equipment of  $\pm 1.5\%$  for a large meter capacity and  $\pm 3\%$  for smaller capacity meters. This is compounded by the allowable errors for conversion which NZS 5259 states should not exceed  $\pm 1.5\%$ .<sup>1</sup> For a gate with a 90:10 TOU/non TOU split, if the injection quantity submitted to the allocation agent is 1.5% above the true value and the TOU quantity 1.5% below, then this would translate to a monthly UFG factor applied to non TOU volumes of 1.285.

<sup>1</sup> NZS 5259:2004, Table 2 & 3, pages 15-16

This explanation for the G1M problem is supported by an examination of the annual UFG factors at the G1M contender gas gates (shown in the table below). If there were other material factors causing the fluctuations in the monthly UFG factor, such as orphan customers, reconciliation of ICPs against the wrong gate or gas leaks then this would be evidenced by a high annual UFG factor. Of the 28 gas gates identified as contenders for G1M status, only three have an annual UFG factor greater than 1.01 and the majority are less than 1.00. This does not correspond to the theory that factors other than TOU dominance are the root cause of the problem.

Gas Gate	AUFG
WVY23601	0.8990
HUN15301	0.9819
DAN05001	0.9830
KIN02601	0.9843
PHT04901	0.9849
WHK32101	0.9888
DRU15102	0.9895
KKI23701	0.9899
EGC30701	0.9901
TKP05101	0.9909
WTT20301	0.9925
KAP12901	0.9951
ELM12301	0.9953
PTR32601	0.9976

Gas Gate	AUFG
HTL16601	0.9989
HAR11801	0.9996
KIW34202	1.0000
TKS17401	1.0009
LNB24301	1.0012
WRK18901	1.0037
CAM17201	1.0038
MTN23801	1.0051
WTA16501	1.0076
MNA23402	1.0090
TUK06501	1.0090
RPR30801	1.0197
HRU16101	1.0220
RAM15201	1.0598

In response to Greymouth’s second suggestion—that other UFG issues must be categorically ruled out before applying the G1M methodology at a gate—Gas Industry Co does not consider that this represents a reasonably practicable option. The means for identifying UFG issues at a particular gas gate, namely event audits, are a costly and time consuming endeavour<sup>2</sup> and the audits conducted to date have uncovered broadly similar factors affecting all targeted gas gates. Gas Industry Co acknowledges that identifying sources of UFG is a key objective of the reconciliation arrangements but the approach has to be pragmatic to ensure that the costs of the auditing regime do not outweigh the benefits. According priority to gas gates where there is little long term UFG and where a reasonable cause for MUFG swings has already been established does not present a cost-effective proposal.<sup>3</sup> Further to this, if the retailer who is responsible for the large TOU site at the gate is made to share in the monthly UFG, and in the unlikely event that a problem persists after the change to the G1M methodology, then they are incentivised to investigate any issues that arise and the non TOU retailers are not unfairly disadvantaged in the interim.

<sup>2</sup> Event audits performed to date have cost between \$30,000 and \$120,000 per gate

<sup>3</sup> The possible exception being Ramarama which has the highest AUFG of the G1M gas gates and only has three ICPs so would be relatively simple audit to undertake.

This proposal will be carried forward to the Recommendation to the Minister. Additional consideration will be given to rule drafting.

### 3.3 Unmetered and oversized gas gates

Although the Rules require that all gas gates have meters installed to measure injection quantities, seven gas gates currently do not have any such meters. Further, there are two gas gates where the installed meters are ‘oversized’ for the load at the gate and cannot accurately measure the current flow of gas. These nine gates are covered by exemptions and the Statement of Proposal recommended codifying a rule for unmetered and oversized gas gates. A follow-on rule was also proposed requiring the allocation agent to determine injection volumes at these gates by reference to submitted consumption information (broadly consistent with the formula in the existing exemption).

#### Submissions received

For	Against
<b>Contact</b> agreed with the proposal.	<b>MRP</b> disagrees with the proposal as it considers all gas gates should be appropriately metered.
<b>EDNZ</b> agreed with the proposal.	
<b>Genesis Energy</b> agreed with the proposal although noted the ideal solution would be for all gas gates to be appropriately metered.	
<b>Greymouth</b> agreed with the proposal although it makes some comments on the drafting of the proposed rules.	
<b>MDL</b> supports the proposed rule change as it considers uneconomic metering changes should not be required.	
<b>Powerco</b> supports the proposal.	
<b>Vector</b> agreed with the proposal though it disagreed with Gas Industry Co’s sentiment in the Statement of Proposal that existing metered gates are unlikely to be exempted in the future and must be replaced at the end of their lives. Vector recommends Gas Industry Co to develop guidelines setting out the basis on which existing meters need not be replaced in the future, where for example, replacement would be uneconomic.	

#### Evaluation

A majority of submitters favoured the creation of a rule for unmetered and oversized gas gates. Although it supports the proposal, Genesis Energy would prefer that all gas gates were appropriately metered. While Gas Industry Co is sympathetic to Genesis and MRP’s point, we consider that requiring appropriate meters to be installed at the presently exempted gas gates would risk the TSO taking the decision to decommission the gates rather than making an uneconomic investment.

Vector, though it agreed with the proposal, disagreed with the sentiment expressed in the Statement of Proposal that existing metered gas gates are unlikely to not be replaced at the ends of their lives. There is a fine balance that needs to be struck here. Gas Industry Co considers that appropriately metered gas gates are a fundamental input to the orderly operation of the Rules. While the list of oversized metered gas gates could change over time, particularly if a large user exits a network where it has historically dominated total load at the gate, the default position in the Rules will remain that all gas gates must be appropriately metered and updated as required. Eligibility for oversized or unmetered gas gate status will be considered on a case-by-case basis in accordance with the criteria in the Rules and any guidelines. We note for the electricity industry that all points of connection to the grid must have a metering installation and if it is expected that electricity will predominantly flow out of the grid then the grid owner is responsible for such metering installations.



# 4

## Apportionment of ongoing fees

The ongoing costs of the allocation system are recovered from retailers. The annual costs are approximately \$700,000 per year and are apportioned to retailers on a volume basis. Having considered alternate apportionment methods in the Options Paper, Gas Industry Co recommended no change to the method of apportionment in the Statement of Proposal.

### Submissions received

For	Against
<b>Contact</b> agreed with the proposal.	<b>Vector</b> did not agree with the proposal. It recommended Gas Industry Co defer its decision until the second Statement of Proposal in the review process which would allow for additional consideration, possibly including the procurement of independent advice. Vector recommended that future development costs be recovered on a 50:50 volume: ICP basis.
<b>EDNZ</b> agreed with the proposal.	
<b>Genesis Energy</b> agreed with the proposal and suggested that if the apportionment of ongoing fees was revisited in the future then Gas Industry Co ought to undertake a full review to consider how all ongoing market fees are apportioned.	
<b>Greymouth</b> agreed with the proposal.	
<b>MRP</b> agreed with the proposal.	

### Evaluation

A majority of submitters agreed with the proposal not to change the apportionment method. Vector disagreed with the proposal. Gas Industry Co considers that the issue of apportioning ongoing fees has been well traversed. As mentioned in the Statement of Proposal, the ongoing benefits of the Rules accrue to participants based on a *pro rata* basis with their allocated volumes. The issue of recovering development costs in future will be considered by Gas Industry Co if the reconciliation process under the Rules fundamentally changes. Using a D+1 regime as an example, Vector would have a strong argument for not recovering such development costs on a volume basis as the majority of their customers are TOU sites (in other words, they would be unlikely to benefit from a D+1 regime).

# 5

## Correcting AUFG factors

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The Statement of Proposal recommended the creation of a rule enabling the correction, where necessary, of an AUFG factor if it is found to be incorrect.

### **Submissions received**

There was unanimous support for the proposal. The only comment to come out of submissions was from Vector suggesting that Gas Industry Co should be required to consult allocation participants before determining whether an AUFG correction should be made.

Gas Industry Co notes that allocation participants will have an opportunity to comment on the circumstances in which Gas Industry Co will consider whether an AUFG correction should occur as Gas Industry Co will be issuing a guideline note on the correction of AUFG factors. There will be clear parameters on when an AUFG factor correction can occur.

# 6

## Compliance related issues

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### 6.1 Estimated daily energy quantities

The Rules require that retailers provide to the allocation agent 'actual daily energy quantities' for each consumer installation in allocation groups 1 & 2. TSOs must also provide to the allocation agent 'actual daily energy quantities' injected at each gas gate. If these 'actual quantities' cannot be provided then up to three breach notices can be alleged by the allocation agent (one for each allocation stage).

Retailers are required to provide their best estimate of consumption information if they cannot provide actual TOU data (though this is not deemed to represent compliance with the obligation to provide actual data) however TSOs are not allowed to estimate in order to replace actual data as the obligation to estimate injection data lies with the allocation agent. Additionally, the use of the word 'actual' in rule 41 has created some uncertainty.

The Statement of Proposal recommended removing references to the word 'actual' throughout the Rules and replacing it with a newly defined term 'daily metered energy quantities.' If such a quantity cannot be provided then the relevant participant will be required to provide its best estimate of the quantity and flag this to the allocation agent as being an estimate. The methodology used by participants to estimate will be examined during performance audits.

#### Submissions received

For
<b>Contact</b> agreed with the proposal.
<b>EDNZ</b> agreed with the proposal.
<b>Genesis Energy</b> agreed with the proposal as it is a pragmatic solution to technical breaches where the administration costs of a breach outweighs the effect of the breach itself.
<b>Greymouth</b> agreed with the proposal but queried some elements of the rule drafting, including whether 'register reading' was an adequate description.
<b>MDL</b> generally agreed with the proposal but proposed a drafting amendment.
<b>MRP</b> agreed with the proposal.
<b>Vector</b> generally agreed with the proposal but made proposed several drafting amendments.

#### Evaluation

All submitters agreed with the proposal, subject to some drafting suggestions.

Greymouth queried whether “register reading” in the new rule 30.3 was adequate. Gas Industry Co intends to give this issue further consideration before making its Recommendation to the Minister.

Greymouth also queried how rule 30.3 would interplay with rules 26.5.1 and 26.5.2. Gas Industry Co’s view is that proposed rule 30.3 would not constrain anything in proposed rules 26.5.1 and 26.5.2 or vice-versa. Proposed rule 26.5 would impose general obligations on allocation participants to ensure accurate, complete and non-misleading registry information. This obligation would apply irrespective of the method used by a participant to record a daily metered energy quantity. As noted in the Statement of Proposal, this obligation shall be auditable.

MDL suggested that the ‘daily metered energy quantity’ definition’s reference to “allocation participant” be replaced with “meter owner” as meter owners are the parties responsible for providing metering data under the MPOC. Gas Industry Co disagrees with MDL’s suggestion because the provision is intended to capture a broader set of allocation participants than just meter owners. It is not necessarily the case that meter owners will have a data collection function. Also, the obligation to provide estimates to the allocation agent sits with TSOs and retailers not meter owners.

Vector proposed an alternate definition for ‘daily metered energy quantities’ because in its view Schedule 1 was written to apply to meters for consumers in allocation groups 1 and 2. Vector considers Schedule 1 is therefore not comprehensive enough to adequately cover all of the situations that may require a metering correction. Gas Industry Co will liaise with Vector on appropriate alternative’s to Schedule 1. One possibility is that a set of principles be contained in the Rules which TSOs must comply with when making metering corrections.

## **6.2 Trading notifications**

On occasion, the allocation agent alleges breaches of rule 39 which requires retailers to notify the allocation agent whenever they:

- commence supplying gas to a consumer installation at a gas gate at which it has not previously supplied gas; or
- cease supplying gas to any consumer installations at a gas gate; or
- commence or cease a transmission services agreement (TSA) with a TSO in respect of gas supplied at a gas gate.

Two options were presented for feedback in the Statement of Proposal. One was to require retailers only to provide notifications in respect of supplementary agreements to TSAs. That option would also require the allocation agent to use the gas registry to determine which retailers should be submitting consumption against each gas gate. The other option was to delay the compliance test until the interim allocation, rather than with the initial allocation. The first option was the DRAG’s preferred option but will cost more than the second option.

## Submissions received

For	Against
<b>Contact</b> agreed with the proposal.	<b>EDNZ</b> disagreed with the proposal and preferred the alternate option to delay the compliance test until the interim allocation.
<b>Genesis Energy</b> agreed with the proposal.	<b>Greymouth</b> disagreed with the proposal and preferred the alternate option to delay the compliance test until the interim allocation.
<b>Powerco</b> agreed with the proposal.	<b>MRP</b> preferred that the compliance test be delayed until the interim allocation.
<b>Vector</b> agreed with the proposal.	

## Evaluation

Gas Industry Co notes that the objections to the proposal relate to the cost of the change, most of which pertains to having the allocation agent link its system with the registry. Anecdotal evidence from DRAG discussions suggested that a similar change in the electricity market had encountered problems. Gas Industry Co will give further consideration to this issue, including whether a less costly version of option one is available. For instance, the allocation agent could simply use a report provided by the registry operator rather than linking systems.

# 7

## Additional issues raised by the DRAG

### 7.1 Audits of specific gas registry fields

Two options were discussed for enabling audits to be carried out against the accuracy of participant's population of gas registry fields. One was to amend the Rules to audit the registry fields relevant to reconciliation. The other option was to amend the Gas (Switching Arrangements) Rules 2008 (the Switching Rules) to allow for audits.

#### Submissions received

For
<b>Contact</b> agreed with the proposal provided the scope of the audits is restricted to data that would affect consumer billing or allocation/reconciliation.
<b>EDNZ</b> agreed with the proposal to include audits of certain fields under the Reconciliation Rules, such as: <ul style="list-style-type: none"><li>• network pressure;</li><li>• ICP altitude; and</li><li>• meter identifiers.</li></ul>
<b>Genesis Energy</b> agreed with the proposal to create a rule but preferred that it be made as part of the Switching Rules.
<b>Greymouth</b> supported the proposal to create a rule but preferred that it be made as part of the Switching Rules.
<b>MDL</b> was comfortable with the rule provided it be limited to allocation participants at allocated gas gates.
<b>MRP</b> agreed with the proposal to create a rule but seemed to prefer that it be made under the Switching Rules.
<b>Powerco</b> agreed with the proposal and preferred that it be made with regard to registry data that impacts reconciliation.
<b>Vector</b> agreed with the proposal but preferred that it be made as part of the Switching Rules.

#### Evaluation

There was unanimous support for making a rule that would hold relevant participants accountable for ensuring accurate data population of the registry.

Gas Industry Co will give this further consideration however we believe that the inclusion of audit provisions in the Switching Rules is a good means of ensuring accurate data population of the registry. A review of the Switching Rules is in its initial stages. In the meantime, it is reasonable to add a general obligation in the Downstream Reconciliation Rules to accurately populate the registry.

## 7.2 Responsibility for event audit costs

The Statement of Proposal recommended a change to rule 75 that would better align the apportionment of event audit costs with the cost-to-causers principle. The proposed change would give the auditor more discretion in determining who should be responsible for paying the costs of an event audit.

### Submissions received

For
<b>Contact</b> agreed with the proposal.
<b>EDNZ</b> agreed with the proposal.
<b>Genesis Energy</b> agreed with the proposal.
<b>Greymouth</b> agreed with the proposal.
<b>MRP</b> agreed with the proposal.
<b>Powerco</b> agreed with the proposal.
<b>Vector</b> agreed with the proposal provided the general parameters of how the costs would be allocated are clearly defined.

### Evaluation

There was unanimous support for the proposal. The only issue was raised by Vector on clarifying the general parameters of how the auditor may apportion the costs. We note that the amendments proposed to rule 75 do provide some parameters. The apportionment of costs is related to the contribution of material issues to the event for which an audit was commissioned.

Subject to any final drafting changes, Gas Industry Co intends that the proposal will be carried forward to the Recommendation to the Minister.

## 7.3 Audits of major system changes

The DRAG discussed creating a rule that requires any allocation participant carrying out a “major” system change (that is likely to impact on its obligations under the Rules) to submit to an audit of the new system. The definition of what is a major system change was proposed to be defined in an industry guideline published by Gas Industry Co. A post go-live audit was also suggested, though a rule change was not drafted, and feedback was sought on this issue.

### Submissions received

For	Against
<b>Contact</b> agreed that a rule should be created to require pre and post go-live audits with an industry guideline defining “material.”	<b>Greymouth</b> did not support the proposal as it considered that the rule may impose on commercial operational decisions. Greymouth said that the Rules already provide adequate incentives to ensure that a system change is implemented accurately.
<b>EDNZ</b> partially agreed with the proposal. It suggested the proposed rule should be limited to changes that could affect gas reconciliation. EDNZ agreed that	

For	Against
major should be defined in an industry guideline.	
<b>Genesis Energy</b> supported the creation of a pre go-live audit but recommended the post go-live audit be timed alongside performance audits where possible. A common dictionary definition of major ought to suffice for the purposes of the rule proposal.	
<b>MRP</b> supported the creation of a rule but preferred that the audit would occur after go-live of a participant's new system. MRP suggested the definition of major be included in the Rules.	
<b>Powerco</b> supported a pre go-live audit but not a post go-live audit.	
<b>Vector</b> agreed with the proposal and preferred that an industry guideline be used to define what a major system change is. Vector suggested that both pre and post go-live audits were excessive. Instead, a pre go-live audit ought to be compulsory and a post go-live audit could be at Gas Industry Co's request.	

## Evaluation

While Greymouth's point is noted, it should be clarified that a major system change audit would not be carried out for any other reason than to ensure the participant's new system does not produce erroneous allocation results that adversely impact other participants. In other words, the proposed rule is to ensure that one person's system change does not adversely affect any other person's allocation results. While allocation inaccuracies are generally 'washed-out' at the interim and final stages, all participants benefit from more accurate initial allocations because their financial planning and forecasting is more certain.

Gas Industry Co will give further consideration to whether both a pre and a post go-live audit are necessary before making a Recommendation to the Minister. This issue was discussed at a DRAG meeting and there appeared to be some confusion as to what a 'pre' and 'post' go-live audit might entail. Gas Industry Co will seek to ensure that the terms of reference for any such audits are clear.

## 7.4 Removal of rule 42

Rule 42 requires TSOs to give notice to each retailer receiving gas at a gas gate connected to the TSO's network of the unvalidated daily energy quantities that were injected the previous day. An exemption from rule 42 exists for certain gas gates where this information is not available due to a lack of telemetry or SCADA. The DRAG discussed whether such a rule was required given the relevant quantities are made available to shippers on OATIS, pursuant to Schedule 4 of the VTC. In other words, it appeared as though rule 42 was redundant. The Statement of Proposal therefore proposed its deletion from the Rules. In order to future-proof access to the data provided under rule 42, participants were asked whether the obligations of rule 28.4 could be extended to cover daily delivery information provided by TSOs.



## Submissions received

For	Against
<b>Contact</b> agreed that rule 42 could be deleted and that the obligations of rule 28.4 could reasonably be extended to TSOs.	<b>Greymouth</b> disagreed there was a need to delete rule 42 because the information being provided was essential for shipper's balancing. Just because the information was being provided on OATIS doesn't mean that it would be in the future.
<b>EDNZ</b> agreed that rule 42 could be deleted and agreed to extend rule 28.4 to TSOs provided there were minimal costs in doing so.	
<b>Genesis Energy</b> agreed with the proposal.	
<b>MDL</b> agreed with the proposal and while not objecting to rule 28.4 extending to TSOs, proposed that it be limited to 28.4.2. If 28.4.1 were to also apply then the drafting would need to be carefully considered.	
<b>MRP</b> agreed with the proposal.	
<b>Vector</b> agreed that rule 42 was redundant but <b>did not agree</b> rule 28.4 should be extended to TSOs as contractual arrangements are sufficiently clear regarding various parties' obligations around data integrity.	

## Evaluation

Greymouth's concern is that the access to the information intended by rule 42 may be removed if both rule 42 is deleted and if Vector changed its arrangements with respect to the VTC and OATIS and no longer provided that information. Rule 42 is not directly related to downstream reconciliation and as such it is not appropriate for such a provision to be contained in the Rules. Further, if it was proposed to remove the requirement for access to the data from the VTC then that change would be subject to the VTC amendment process set out in the VTC.

Gas Industry will give further consideration to the drafting of rule 28.4 before making its Recommendation. Although it agrees in principle to have rule 28.4 extended to TSOs, Vector's submission pointed out that as currently drafted it did not properly apply to TSOs.

## 7.5 Publication of GAR170

The DRAG discussed whether to publish more widely the GAR170 report which shows retailers' monthly submissions by allocation group and gas gate. This report is currently only available to Gas Industry Co. The publication of the GAR170 would not require a rule change but would provide additional market information.

## Submissions received

For	Against
<b>Contact</b> agreed with the proposal as it would provide transparency of submissions.	<b>EDNZ</b> did not agree with the proposal but would be willing to disclose information consistent with the

For	Against
	SupSub report.
<b>Genesis Energy</b> agreed with the proposal.	<b>Greymouth</b> did not agree with the proposal as the publication of the GAR170 would appear to be more appropriately addressed in the next Statement of Proposal.
<b>MRP</b> agreed with the proposal.	
<b>Powerco</b> agreed with the proposal.	
<b>Vector</b> agreed with the proposal provided there was negligible cost in making the GAR170 publicly available. If there were costs, they should be recovered by way of a user-pays subscription fee.	

## Evaluation

Given that it does not require any rule changes, Gas Industry Co will remove this proposal from the bundle of changes which will form the Recommendation to the Minister. That will allow us to test the optimal format of the report to be published (if that is decided) and to investigate whether there would be any costs involved in making the information publicly available.

# 8

## Minor and technical amendments

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The Statement of Proposal discussed a range of minor and technical amendments, including:

- future-proofing the reference to NZS 5259:2004;
- amending the calculation of SADSVs;
- allowing for a special allocation to replace an initial, interim or final allocation where necessary;
- apportioning the ongoing fees on the basis of interim allocation results instead of initial;
- giving of notices to allocation participants by the allocation agent; and
- deleting the transitional provisions.

### Submissions received

For
<b>Contact</b> agreed with the proposals.
<b>EDNZ</b> agreed with the proposals.
<b>Genesis Energy</b> agreed with the proposals.
<b>Greymouth</b> agreed with the proposals but made a drafting recommendation.
<b>MRP</b> agreed with the proposals.
<b>Powerco</b> agreed with the proposals.
<b>Vector</b> agreed with the proposals.

### Evaluation

The changes will be made as per the Statement of Proposal. Greymouth's drafting recommendation related to ensuring that any amendments to NZS 5259:2004 were sufficiently signalled and allowed adequate input from industry participants. These are not issues that can be included in the Rules as they are processes relevant to Standards New Zealand.

# 9

## Other transitional issues

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The Statement of Proposal discussed several transitional issues, including:

- extending the (at the time of writing) current exemptions;
- making any consequential rule changes through the Rules as a result of other proposals;
- the recovery of any development costs resulting from rule changes; and
- the go-live date of the new Rules.

### Submissions received

For
<b>Contact</b> agreed with the proposals.
<b>EDNZ</b> agreed with the proposals.
<b>Genesis Energy</b> agreed with the proposals but queried whether some of the non-technical changes could be implemented before the proposed go-live date.
<b>Greymouth</b> agreed with the proposals and made some drafting suggestions for some of the proposals.
<b>MDL</b> strongly supported extending the exemptions.
<b>MRP</b> agreed with the proposals but reiterated that it did not support aligning the allocation agent's systems with the registry.
<b>Powerco</b> agreed with the proposals but requested proactive engagement by Gas Industry Co to allow participant's sufficient time to make changes to their systems prior to go-live.
<b>Vector</b> agreed with the proposals but requested that clear implementation timelines are announced with sufficient notice. Vector reiterated its preference that future development costs be recovered on a beneficiary/user pays basis.

### Evaluation

Submitters agreed with the proposals and they will all be carried forward to the Recommendation (where relevant).

Genesis Energy wondered whether some of the non-technical changes could be implemented before the proposed go-live date. We consider that while some of the changes could be implemented when the new rules are gazetted with the remainder of the Rules to go-live at a later point, there is scope for confusion about which version of the Rules is the correct version. Splitting the go-live date in this way may also increase costs and impose tight deadlines for the allocation agent who will have to make system changes and could also create unnecessary drafting difficulties.

Gas Industry Co intends to provide as much certainty and clarity about when the changes will go-live however there are certain things outside of its control such as whether the Minister accepts the Recommendation. This is a reason to aim for a conservative go-live date.

# 10 Conclusion

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## 10.1 Next steps

Gas Industry Co's next steps will be to carry out the necessary work in order to get a Recommendation to the Minister completed. The tasks required will include:

- resolving the final policy settings of the changes throughout the Statement of Proposal taking into account submissions received;
- liaising with the allocation agent to ensure their systems will be ready for go-live;
- finalising the drafting of the Rules; and
- preparing the Recommendation, including briefing officials where necessary.

Gas Industry Co intends to have the Recommendation completed by the end of November. This means the new rules should be gazetted by the end of March 2013 and would provide industry participants with three months to prepare for a best case scenario go-live date of 1 June 2013. Gas Industry Co anticipates there will be minimal preparation necessary for industry participants to be ready for go-live. However, some flexibility may be required in readying the allocation system for the changes which may result in a later go-live date than 1 June 2013.