

<b>Subject</b>	<b>Gas (Downstream Reconciliation) Rules 2008</b> <b>Guideline note for rules 44, 46A and 51 – correction of allocations by allocation agent, correction of an annual UFG factor and special allocations</b>
<b>Version</b>	<b>2.0</b>
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## **1. Introduction**

- 1.1 From time to time errors are discovered in the consumption information or injection information that is submitted to the allocation agent and consideration is given as to whether it is necessary to correct allocation results. The Gas (Downstream Reconciliation) Rules 2008 ('the Rules') allow for various types of corrections to be made:
- (a) Rule 44 sets out the processes for the notification of errors in consumption information submitted to the allocation agent and, where such errors would have resulted in a materially different allocation, allows the allocation agent to amend results (if time permits) or requires Gas Industry Co to consider whether to direct a special allocation.
  - (b) Rule 46A allows an annual UFG factor to be recalculated and republished if an error is discovered which Gas Industry Co considers may have, or have had, a sufficiently unfair impact on allocation results.
  - (c) Rule 51 sets out when Gas Industry Co may require the allocation agent to perform a special allocation, either in addition to, or replacing, the allocation results from the previous allocation of gas quantities.
- 1.2 The purpose of this note is to provide guidance on how rules 44, 46A and 51 are to be given effect by allocation participants and by Gas Industry Co, including some detail of what is considered to constitute a "sufficiently unfair impact" under rule 46A. Under rule 51, Gas Industry Co may also determine any specific procedures that will apply to a special allocation; this guideline sets out the general process that will be followed for special allocations including how each decision will be assessed.

1.3 This note is explanatory in nature and is not legally binding. It needs to be read in conjunction with the Rules and the general approach set out for participants in no way reduces the requirement upon participants to know and comply with their obligations under the Rules. This note may be amended from time to time.

## **2. Correction of allocations – application of rule 44**

2.1 Under rule 44, allocation participants are to advise the allocation agent immediately if they discover a material error in consumption or injection information submitted to the allocation agent. The allocation participant must immediately advise the allocation agent of the nature and extent of the error and provide corrected consumption or injection information as soon as practicable.

### *Errors discovered in the next business day*

2.2 Up until 1730 hours on the next business day following an initial, interim or final allocation, the allocation agent may amend the allocation results using the corrected consumption or injection information in accordance with rule 44.3. To exercise this discretion, the allocation agent must have amended the allocation results and notified affected allocation participants by this time. If an allocation participant provides the allocation agent with corrected consumption or injection information within sufficient time for an amended allocation to occur, then it is expected that the allocation agent shall amend the allocation results.

2.3 If the allocation agent is unable to amend the allocation results by 1730 hours on the next business day after the allocation results were provided, then the process for errors discovered later than the next business day will apply.

### *Errors discovered later than the next business day*

2.4 If an error is discovered later than 1730 hours on the next business day after the original allocation results were provided, the allocation agent must consider whether the correction of that error would have resulted in a materially different allocation. If the allocation agent reasonably considers the correction of that error would have resulted in a materially different allocation then:

- (a) it must notify the affected allocation participants and Gas Industry Co; and
- (b) Gas Industry Co must decide in accordance with rule 51 whether a special allocation should occur.

2.5 In determining whether the correction of that error would have resulted in a materially different allocation, the allocation agent must have regard to all of the relevant circumstances surrounding the error and its effect. However, to provide a degree of consistency and certainty,

Gas Industry Co has sought to identify some objective thresholds and factors to assist the allocation agent in making this decision. These include where:

- (a) there is a change in a retailer's allocated quantity at an allocated gas gate of more than 1,000GJ, the correction of that error is generally considered to result in a materially different allocation;
- (b) there is a change in a retailer's total allocated quantities across all allocated gas gates of more than 2,000GJ, the correction of that error is generally considered to result in a materially different allocation; and
- (c) there are any other matters including financial impacts<sup>1</sup> that, in the particular circumstances surrounding the error and its effect, the correction of that error is reasonably considered to result in a materially different allocation.

2.6 Note that if the allocation agent considers the correction of the error would not have resulted in a materially different allocation or Gas Industry Co decides not to require a special allocation in respect of the error, the corrected consumption or injection information is to be resubmitted in the next scheduled allocation for that consumption period (ie included in either the interim or final allocation). If there is no further scheduled allocation in that situation, the corrected consumption information is not used and the existing allocation results stand.

*Information on error to be provided by allocation agent to Gas Industry Co*

2.7 Gas Industry Co's consideration of whether or not to require a special allocation relies significantly on the information provided by the allocation agent (and the information that has been provided by allocation participants to the allocation agent). To assist Gas Industry Co in making this decision, the allocation agent is expected to provide Gas Industry Co with all relevant information surrounding its knowledge of the error and its effect on the allocation results. This information must include as a minimum:

- (a) The allocation affected (ie the consumption period(s) in question and whether the allocation is an initial, interim or final allocation);
- (b) The difference between the existing allocation results and the allocation results that would apply if the corrected information was used;<sup>2</sup>

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<sup>1</sup> For example, the following situations may be also considered to result in a materially different allocation:

- There is a change in a retailer's allocated quantity at an allocated gas gate which will, on the best available information, have a financial impact in excess of \$5,000 on an allocation participant at the allocated gas gate; and
- There is a change in a retailer's total allocated quantities across all gas gates which will, on the best available information, have a financial impact in excess of \$7,000 on an allocation participant

<sup>2</sup> Note in order to provide this information, the allocation agent may need to rerun the allocation calculations. To avoid doubt, if a re-run is required, the re-run is not in any way an allocation under the Rules and the allocation agent will not publish the re-run on the allocation agent website or upload it into OATIS.

- (c) Information identifying which of the thresholds set out in paragraph 2.5 above apply and how they have been considered; and
- (d) Any other information relevant to Gas Industry Co's decision on whether to direct a special allocation under rule 51.

2.8 The allocation agent is to also provide the appropriate allocation participants (ie those allocation participants at an allocated gas gate affected by the error) with the same information. This is to assist an allocation participant in understanding the error and any effect it may have on the participant.

### **3. Directing a special allocation - application of rule 51**

3.1 A special allocation is performed by the allocation agent in a similar manner as an initial, interim or final allocation, but:

- (a) it needs to be directed by Gas Industry Co in accordance with rule 51; and
- (b) it can occur at any time, rather than at the set times applying to initial, interim or final allocations in rules 48 to 50.

3.2 A special allocation can be performed up to 12 months after a final allocation has been performed (ie up to 25 months after the consumption period affected).

3.3 When deciding whether or not to direct the allocation agent to undertake a special allocation, Gas Industry Co must:

- (a) believe that the current allocation information or allocation results are sufficiently unfair that it is not appropriate to wait until the next (if any) scheduled interim allocation or final allocation is performed; and
- (b) balance the unfairness of the current allocation information or allocation results against any commercial reasons for retaining the current allocation results.

3.4 As noted in paragraph 1.2 above, Gas Industry Co may determine specific procedures applying to a special allocation. These specific procedures may be generic (ie such as those set out in this note that are intended to apply to all special allocations) or they may be case specific (ie to apply to a single particular special allocation). Examples of such procedures would include the process and consultation steps to be taken before reaching a decision or identifying factors to be assessed before reaching any decision. These procedures may also relate to the type of allocation methodology to be used for a particular special allocation – though a departure from the allocation methodology provided in the Rules is likely to be exercised only in exceptional cases.

- 3.5 Gas Industry Co may request a special allocation on its own initiative – for example, in situations where there has been no error or no material error advised by the allocation agent under rule 51. Gas Industry Co does not generally intend to unilaterally investigate situations that might warrant such action. However, any allocation participant is able to request Gas Industry Co to consider initiating a special allocation on the basis that the current allocation information or allocation results are sufficiently unfair. Allocation participants are to put any requests for a special allocation to Gas Industry Co in writing. Requests must include detailed reasons, together with full supporting information.
- 3.6 To assist its assessment, Gas Industry Co will generally seek the views of, and additional information from, the allocation agent and the allocation participants (including both retailers and transmission system owners) likely to be affected by a special allocation – particularly in respect of the degree of unfairness of the current allocation results and the commercial considerations for retaining those current allocation results.<sup>3</sup> In respect of material errors notified under rule 44, Gas Industry Co will also rely on the information previously provided to it in respect of the error by the allocation agent.
- 3.7 Gas Industry Co will notify all allocation participants of any decision, including reasons, to require the allocation agent to perform a special allocation.

*Allocation information/results must be sufficiently unfair*

- 3.8 In considering whether the current allocation information or allocation results are sufficiently unfair such that it is not appropriate to wait for the next scheduled allocation, Gas Industry Co will have regard to all of the relevant circumstances. In particular, it will consider the following factors:
- (a) the extent to which the objective thresholds and factors described in paragraph 2.6 above in relation to assessing materiality have been met or exceeded and the resulting degree of unfairness in the current allocation results. The financial impact on an allocation participant is also relevant here<sup>4</sup>;
  - (b) the magnitude or nature of any claimed unfairness including, but not limited to, matters such as the effect of letting uncorrected allocation results stand until the next allocation on transmission charges, mismatch and imbalance positions, the billing of affected consumers, and any residual negative effects on other commercial or research activities reliant on such information;
  - (c) the degree to which any unfairness would be remedied, or the benefits that would be achieved, by directing an immediate special allocation rather than waiting until the next scheduled allocation. Timing may be of particular relevance if:

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<sup>3</sup> Gas Industry Co will endeavour to provide all relevant information surrounding the error to allocation participants and the allocation agent so as enable informed views to be provided – however, information which is confidential or commercially sensitive will generally be withheld.

<sup>4</sup> See footnote 1.

- (i) a special allocation can be directed and published before transmission billing is carried out, such that corrected results can be used in calculating throughput and mismatch positions;
  - (ii) the publication, or non-publication, of a special allocation at a certain time would create an unfair and/or unforeseen negative impact on the mismatch position of a shipper who was not itself in error (compared with the situation that would prevail but for the error);
  - (iii) the next scheduled allocation or allocations will rectify the error, thus making a special allocation unnecessary;
- (d) the magnitude of any impact on other allocation activities or the wider operation of the Rules, such as the calculation and publication of annual UFG factors, seasonal adjustment daily shape values, ongoing fees, G1M gas gates etc.
  - (e) whether the correction of an error may be more efficiently or expeditiously addressed under the Gas Governance (Compliance) Regulations 2008;
  - (f) where there are no errors in the current allocation information or allocation results, the unfairness resulting from the application of the allocation methodology set out in the Rules – including the extent to which the current allocation results attribute UFG to retailers or consumers who, on the best available information, are unlikely to be responsible for that UFG.

*Unfairness versus commercial reasons for retaining allocation results*

3.9 In balancing any unfairness of the current allocation information or results against any commercial reasons for retaining those results, Gas Industry Co will have regard to the following factors:

- (a) Whether there are any affected allocation participants that oppose a special allocation occurring. Where unfairness in respect of the current allocation results exists and there are no objections, Gas Industry Co will generally direct a special allocation. Where an affected allocation participant does object, Gas Industry Co will only direct a special allocation if it is satisfied that the commercial reasons in the objection are outweighed by the negative effect or unfairness on all other affected allocation participants;
- (b) The quantitative and qualitative aspects of the commercial reasons for retaining or amending the current allocation results – including the financial cost to allocation participants, and any negative effects or additional costs on the allocation agent in carrying out the special allocation. Where the financial cost to an allocation participant (in retaining the allocation results) is greater than the total financial cost to allocation

participants (in amending the allocation results), Gas Industry will generally direct a special allocation.

*Notification of decision*

3.10 When a decision has been made by Gas Industry Co to either:

- (a) direct a special allocation under rule 51 generally; or
- (b) not to direct a special allocation in response to advice from the allocation agent under rule 44,

that decision, along with reasons, will be notified to the allocation agent and to all of the allocation participants potentially affected by, or with an interest in, the decision. This will generally comprise the transmission system owner and all the retailers at the affected allocated gas gate. In notifying that decision, information which is confidential or commercially sensitive will generally be withheld.

3.11 When directing the allocation agent to perform a special allocation, Gas Industry Co will specify whether or not the special allocation replaces the previous allocation for the consumption period. This has an impact on whether the results of the special allocation are used for the purpose of rule 16 (ongoing fees) and rule 37 (estimation accuracy)

3.12 Gas Industry Co will also endeavour to use previous experience and precedent as a guide in determining whether or not to direct special allocations.

*Final allocations in error*

3.13 Where an error has been identified in relation to an initial or interim allocation one of the considerations, in deciding whether or not to direct a special allocation, is that the error can be corrected at the next allocation stage (interim or final). However, if there is an error in a final allocation then there is not a further allocation stage in which to correct the error.

3.14 Given that allocation results are used as the basis for a range of charges in the gas industry, there is great reliance on the accuracy of the final allocation. Some final allocation results will be used as input into the calculation of annual UFG factors and G1M gas gates and it is important that these figures are as accurate as possible. In addition, when using final allocation results for further analysis it is essential that the data series is sound.

3.15 Gas Industry Co's interpretation of rule 51.2.1 is that the lack of a subsequent allocation stage after a final suggests that errors in final allocations will need to be addressed by special allocations unless the errors are immaterial or there are compelling commercial reasons for retaining the results of the final allocation.

#### **4. Correction of an annual UFG factor – application of rule 46A**

- 4.1 The allocation agent must, if directed by Gas Industry Co, determine and publish a corrected annual UFG (AUGF) factor to be applied, in accordance with rule 45, to consumption periods in the relevant gas year for one or more allocated gas gate.
- 4.2 The corrected AUGF factor will be applied to all allocations of consumption periods in the relevant gas year that take place after the publication of the corrected annual UFG factor. For example, if an AUGF factor is republished on 1 March 2013, it will be applied to the initial allocations of February 2013 to September 2013, the interim allocations of November 2012 to September 2013 and the final allocations of all months in the gas year. Previous allocation stages will only be revisited to the extent that special allocations are directed by Gas Industry Co that take place after republication.
- 4.3 The corrected AUGF factor must be determined in accordance with rule 46.3.1, unless Gas Industry Co determines any specific procedures that should apply under rule 46A.4. The consumption information used to determine the AUGF factor should be the best available consumption information for all retailers as at the date of recalculation.
- 4.4 The direction to correct and republish an AUGF factor will specify the affected allocated gas gate(s). The allocation agent will republish the list of AUGF factors for all allocated gas gates (ie, the complete GAR090 report), but the AUGF factors will only be recalculated for the gas gates specified by Gas Industry Co.
- 4.5 Gas Industry Co may require the allocation agent to correct and republish an AUGF factor up to 15 months after an AUGF factor has been determined and published in accordance with rule 46.4. This time period covers the three months between the publication of the AUGF factors and the start of the gas year (July to September) plus the 12 months of the gas year to which the AUGF factors apply (October to the following September).
- 4.6 Before directing the allocation agent to correct an AUGF factor, Gas Industry Co must be of the opinion that the current AUGF factor may have, or have had, a sufficiently unfair impact on allocation results at the affected allocated gas gate. In determining whether the impact is sufficiently unfair, Gas Industry Co has identified some objective materiality thresholds. An AUGF factor may be corrected where:
  - (a) the change in the magnitude of the AUGF factor is in the order of 0.01 (for example a change from 1.035 to 1.025); and/or
  - (b) the AUGF correction results in a movement of 1000GJ between TOU and non-TOU allocations in any one month.



4.7 Based on previous experience, the timing of the potential AUFG correction is also of significance when deciding whether or not to require a correction. For example, an error that is discovered before the first allocation of the gas year has been performed (ie in the period July to October) may result in a correction being directed that doesn't meet the materiality criteria set out in clause 5.6.