



VERITEK

Final Audit Report

Event Audit to Identify Sources of UFG in Respect of Greater Auckland Gas Gate for May & June 2009

For



Prepared by Steve Woods – Veritek Ltd

Date Audit Report Complete: 28/01/2010



Executive Summary

This audit was commissioned by the Gas Industry Company to identify reasons for excessive unaccounted for gas (UFG) at the Greater Auckland gas gate for the consumption periods of May and June 2009, and to recommend areas for further evaluation.

As a result of the interim allocation, the level of UFG was reduced from 109,346 GJ to 48,613 GJ for May 2009 and from 92,951 GJ to 48,150 GJ for June 2009. This suggests there are some issues to be resolved with some retailers' forward and historic estimate processes.

At least 18% of UFG (50,860 GJ) remaining after the interim allocations for the period October 2008 to June 2009 can be attributed to the under-reporting of allocation volume by E-Gas. A performance audit under Rule 65 is recommended to confirm the extent, and determine the cause, of this under-reporting.

A number of other data and consumption discrepancies were identified, which were referred back to the relevant retailers for further evaluation. These discrepancies have contributed approximately 164 GJ per month to UFG. This could increase to 300 to 500 GJ per month once all investigations are complete. This could account for approximately 1.5% of the UFG remaining after interim allocations for the period October 2008 to June 2009. The findings are summarised as follows:

- Consumption data was not provided to the Distributor or allocation agent for 15 active ICPs.
- Unexpected consumption data was provided for over 400 ICPs which are not active and contracted.
- 13 meter pressure or meter dial discrepancies were confirmed, and investigations into a further 87 are continuing. I do not expect that these discrepancies will contribute materially to UFG.
- Investigations into 65 ICPs showing unexpectedly low consumption confirmed that one ICP had an incorrect pressure factor applied. Investigations are continuing by the relevant retailers with regard to 7 ICPs, and were not complete at the time this report was finalised.

Rule 65 of the Gas (Downstream Reconciliation) Rules 2008 requires that "[t]he industry body must arrange at regular intervals performance audits of the allocation agent and allocation participants." It is recommended that performance audits of all allocation participants are commissioned as soon as practicable, and that the scope includes:

- Processes for preparing allocation information, including forward and historic estimates;
- The accuracy of allocation information vs billed information;
- Registry management processes; and
- Final results of investigations into discrepancies identified by this audit.

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1. Background

The results of the initial allocation for May and June 2009 revealed high levels of UFG at a number of gas gates, including Greater Auckland, which had UFG of 9.74% for May 2009 and 7.61% for June 2009.

This event audit was commissioned by the Gas Industry Company under rule 66 of the Gas (Downstream Reconciliation) Rules 2008 in order to identify the reasons for excessive UFG at the Greater Auckland gas gate for the consumption periods of May and June 2009.

To provide context as to normal or acceptable levels of UFG within the gas industry, I refer to the 2007 paper prepared for GIC by Maunsell Limited, entitled "Allocation of Unaccounted for Gas". That paper states that the pre-deregulation UFG figure was approximately 2.0%, and notes that the 2006 figure for the Greater Auckland gas gate was 2.59%.

It was believed that the forward estimate calculation methodologies employed by some retailers may have contributed to a portion of the UFG. This assumption was tested as part of this audit.

2. Objectives

The objective of this event audit was to identify the reasons for excessive UFG in May and June 2009 at the Greater Auckland gas gate (GTA03610), and to recommend additional areas for further evaluation.

3. Scope and Methodology

The scope of this audit was established in conjunction with the Gas Industry Company (GIC), and a Terms of Reference (dated 20 July 2009) was agreed prior to commencement of the audit.

This audit report has been prepared in accordance with the "Guideline note for rules 65 to 75 and 80: the commissioning and carrying out of performance audits and event audits" (Guideline Note), which was produced in March 2009 by the GIC.¹

This audit was conducted initially at a "desktop" level, followed by the on-site analysis of data for one retailer (E-Gas). This on-site analysis was conducted to investigate significant discrepancies between billed data and data supplied to the allocation agent for all AG4 ICPs for the period October 2008 to June 2009. Significant discrepancies were not evident in relation to any other retailers' data; therefore no other on-site investigations were conducted.

All audit activities were conducted by Steve Woods of Veritek Limited.

¹ http://www.gasindustry.co.nz/sites/default/files/u21/Guideline_note_-_rules_65-75_performance__event_audit_v1.0_final_149118.3.pdf.

The following table lists the recommended areas for investigation from the Terms of Reference, and summarises the approach adopted in each case.

Area of Investigation	Approach
Metering data discrepancies	Retailer information was compared with metering equipment owner information to identify discrepancies with the following data: <ul style="list-style-type: none"> • Pressure factors • Meter dials • Multipliers I recommended that further analysis is conducted during the performance audits, including: <ul style="list-style-type: none"> • Installed capacity vs monthly consumption • Accuracy of allocation groups
Distributor data discrepancies	Allocation information was compared with that provided to the Distributor to ensure data was provided for all active ICPs.
Consumption discrepancies	Allocation information was compared with “as billed” information to identify and quantify any differences. Historic consumption data was compared with current consumption data to identify any reductions or step changes. Transmission nominations were not compared with consumption submissions, this area may fall within the scope of future performance audits.
Participant’s processes	An on-site evaluation was conducted in relation to one retailer in order to investigate significant discrepancies between that retailers’ billed data and the data that it supplied to the allocation agent. I recommend that the scope of performance audits for all participants include evaluation of the processes for preparing allocation information.

A summary of the results of the interim allocation, and its effect on UFG, is contained in this report. In accordance with the Terms of Reference, this area has not been evaluated in detail. The Terms of Reference contain the following statement in relation to this matter: “...it is not expected that the Auditor will undertake an in-depth review of allocation participants’ processes for producing consumption estimates...”

4. Provision of Information

The Guideline Note requires that comment is made on the extent to which information was made available to the auditor.

This audit required participants to provide consumption information in relation to a two-year time period. All of the requested information was provided by all participants in accordance with rule 69.3; although, in most cases, the data was provided later than the short timeframes in my initial requests. The overall duration of this audit process reflects the timeliness of the delivery of data.

Participants were also requested to investigate a number of issues during the course of the audit. The preliminary investigation into data discrepancies has been completed by all participants. However, Genesis Energy and Nova Energy are still investigating some additional issues. I recommend that the results of these investigations are evaluated further during the performance audits.

The format of data provided during the audit was different for each participant. For future audits, it is recommended that the format of data is specified by the auditor at the time of request.

None of the information recorded in this audit report has been notified by participants under Rule 69.4 as confidential information.

5. Draft Audit Report Comments

A draft audit report was provided to the industry body (GIC), the allocation agent, and all allocation participants. In accordance with rule 70.3 of the Gas (Downstream Reconciliation) Rules 2008, those parties were given an opportunity to comment on the draft audit report and indicate whether they would like their comments attached as an appendix to the final audit report. The following parties provided comments.

Party	Attached as appendix
Nova Energy	No
E-Gas	No
Contact Energy	No
Genesis Energy	No
Mercury Energy	Yes
Vector Gas Limited	Yes
Gas Industry Company	No
Advanced Metering Services	No
Greymouth Petroleum	No
Energy Direct	No
Gas Net	No

The comments received were considered in accordance with rule 71.1, prior to preparing the final audit report. As a result, I have made some changes to the audit report.

I received some comments that raised issues outside the scope of the audit, and therefore have not been addressed in the audit report. Where comments related to broader issues than are to be addressed in this audit (eg, wording and administration of the Reconciliation Rules), the GIC plans to

take these comments into consideration for future audits and during the upcoming review of the Reconciliation Rules.

Finally, I note that E-Gas provided an explanation of the issue which caused the under-reporting of allocation volume. E-Gas also reported that this issue is now resolved. Although I have considered E-Gas's comments in full, the explanation provided does not change my conclusion in this audit report that there is a material issue as to E-Gas's compliance with the rules for the period October 2008 to September 2009. I propose that E-Gas's resolution of the under-reporting issue is evaluated during the performance audit.

6. Results

6.1 Results of the Interim Allocation

As a result of the interim allocation, the level of UFG was reduced from 109,346 GJ (9.74%) to 48,613 GJ (4.33%) for May 2009 and from 92,951 GJ (7.61%) to 48,150 GJ (3.94%) for June 2009. The table below summarises this information per retailer. Those retailers with the greatest market share of AG6 ICPs show the greatest change between initial and interim allocations.

Retailer	Month	Initial	Interim	Difference	% Change
AGCL	May	128,569	137,927	-9,358	-6.8
	June	144,320	151,289	-6,970	-4.6
CTCT	May	147,489	181,118	-33,629	-18.6
	June	182,634	208,274	-25,640	-12.3
EDNZ	May	29,158	28,566	592	2.1
	June	33,208	33,004	204	0.6
EGAS	May	8,547	8,782	-235	-2.7
	June	10,203	10,322	-119	-1.2
EGLT	May	53,018	54,037	-1,018	-1.9
	June	64,293	64,822	-530	-0.8
GEND	May	7,648	7,706	-58	-0.8
	June	8,630	8,509	122	1.4
GENG	May	41,392	43,054	-1,662	-3.9
	June	49,350	51,535	-2,185	-4.2
GMTH	May	85,908	85,908	0	0.0
	June	81,225	81,225	0	0.0
GNGC	May	361,418	362,004	-586	-0.2
	June	380,652	381,239	-587	-0.2
GNVG	May	65,017	65,373	-356	-0.5
	June	62,376	60,690	1,686	2.8
MEEN	May	84,980	99,401	-14,421	-14.5
	June	112,017	122,798	-10,782	-8.8

In the draft audit report, the interim allocation figures were compared to the initial figures. The table above has been amended to use the interim results as the base comparator, in order to make the

format consistent with rule 37.2 (however the table still uses interim results in lieu of final results because final allocations have not occurred).

Rule 37.2 requires that the accuracy of the consumption information provided by a retailer for initial allocation, when compared with the consumption information provided by that retailer under rule 33 for *final* allocation, is within the percentage of error published by GIC (ie, 15% for the relevant period) The rules do not stipulate an accuracy threshold for the interim allocation. The results in the table above appear to indicate this 15% threshold is unlikely to be met by Contact Energy for May 2009. However, this will not be known until Contact provides the consumption information under rule 33 for final allocation for that month.

6.2 Allocation vs Billed Comparison

The interim allocation data was compared to the “as billed” data for AG4 ICPs for the period October 2008 to June 2009.

The table below shows some variances between allocation and billed data for a number of retailers.

Retailer	Allocation	Billed	Variation Billed to Allocated	Percentage Variation
AGCL	762,548	757,136	-5,412	-0.71%
GNVG	21,145	22,717	1,572	6.92%
CTCT	272,598	270,762	-1,836	-0.68%
EDNZ	38,074	39,351	1,277	3.25%
EGAS	48,836	42,080	-6,756	-16.05%
EGLT	272,582	292,471	19,889	6.80%
GENG	80,968	82,070	1,102	1.34%
GNGC	133,764	145,827	12,063	8.27%
MEEN	8,228	7,959	-270	-3.39%

The AGCL and GNVG variances seem more reasonable when their data is combined. The variances could be due to the incorrect allocation between retailer codes.

The variation in the GNGC data was due to two ICPs having the incorrect allocation group populated in the registry. An analysis of their allocation and billed volume for all allocation groups showed a variance of only 0.27%, which supports the finding above.

The EGLT allocation figure is 6.8% lower than the billed figure. Further analysis of this data was conducted at the E-Gas premises for a selection of ICPs, which confirmed that the AG4 allocation figures were less than the billed figures for five out of nine months, for the period October 2008 to June 2009. The May and June 2009 figures showed the largest discrepancies, which were more than 25%.

It was also found that the “as billed” data initially provided during the audit did not match the data contained in the E-Gas database. The data provided was lower than that in the database. E-Gas has since provided updated data, which indicates that their allocation volumes were lower than billed volumes, for all allocation groups, by 50,860 GJ from October 2008 to June 2009. This could account for more than 18% of the Greater Auckland UFG, after the interim allocations for these months. The July 2009 to September 2009 allocation data was less than the billed data by another 29,868 GJ, which will have contributed to the UFG for these months.

6.3 Distributor Data Comparison

Consumption information provided to the Distributor was compared with registry information. As shown in the table below, there are a number of discrepancies.

Issue	AG 1 & 2 ICPs	AG 4 ICPs	AG 6 ICPs	Total ICPs
No consumption information to Distributor for ACTC ICPs	-	22	98	120
Zero consumption to Distributor for ACTC ICPs	-	39	1,070	1,109
Consumption to Distributor for ACTV ICPs	-	-	329	329
Consumption to Distributor for DECR ICPs	-	-	1	1
Consumption to Distributor for INACT ICPs	-	-	50	50
Consumption to Distributor for READY ICPs	-	-	-	73

Details of these discrepancies were provided to the relevant retailers for their analysis. Six of seven retailers have completed their investigations, and this has identified over 400 ICPs with incorrect statuses on the registry.

There are 120 ICPs where data was not provided to the Distributor or the allocation agent. Investigations concluded that in most instances these ICPs were in the process of switching, and that data was provided for the interim allocation. The table below shows that data was incorrectly missing from the distributor and submission files for 15 ICPs.

Investigations into ICPs where the consumption was zero concluded that in most cases this was genuine. Only one ICP had unexpected zero consumption recorded due to a stopped meter.

The table below contains a summary of the confirmed discrepancies. The volume per month figures are approximate, however they show that the impact of these issues is minor. These matters have been reported as resolved by the retailers concerned.

Retailer	Data Missing (No of ICPs)	Incorrect Zero Consumption (No of ICPs)	Volume/Mth (GJ) (approx)
Nova Energy	5		17
E-Gas	9		60
Contact Energy		1	65

These matters are potential rule breaches; however I do not consider them to be material under rule 75.2 because of the small number of ICPs affected and the minor impact on UFG.

Nova Energy is still investigating a small number of ICPs, and is conducting a number of site visits. The results should be evaluated as part of the performance audits.

6.4 Retailer Data Discrepancies

Meter pressure factors in retailers' databases for AG4 ICPs were compared to those in meter owners' records, and 104 discrepancies were identified. This is 4.2% of all active AG4 ICPs. The details of these were provided to the relevant retailers for investigation. Five retailers have completed investigations into 17 of the discrepancies, and 11 of the discrepancies were confirmed as genuine. This led to an under-reporting of allocation volume of approximately 22 GJ/month. These discrepancies have now been corrected.

The remaining 87 pressure factor discrepancies are still under investigation by Nova Energy and Genesis Energy. I recommend that these results are evaluated during the performance audits. However, I do not expect that these discrepancies are likely to significantly contribute to UFG.

Meter dial data was also analysed. Seven potential discrepancies were identified and three were confirmed as genuine; although there was no impact on the accuracy of data. This matter is subject to a regular "audit" through the meter reading process, so the fact that only a small number were identified is expected.

The accuracy of multipliers was raised as a potential issue. However, none of the meter owners identified any meter multipliers in their records.

6.5 Consumption Comparison

Historic consumption information was provided by Contact Energy, and this was compared with average consumption information from the last 2 years with the current retailer. 65 ICPs (mainly AG4) were identified where the current consumption was less than 50% of the historic monthly figures. Investigations are complete in relation to 58 of these ICPs and only one issue was discovered. The ICP had a pressure factor discrepancy which caused the low consumption and is included in Section 6.4 above. I recommend that the results for the remaining seven ICPs be evaluated during the performance audits.

7. Compliance with the Rules

The Guideline Note requires that the audit report “comments on the extent to which the allocation participant complies with the rules with clear identification of any alleged rule breaches.”

Material potential rule breaches

The under-reporting of volume to the allocation agent by E-Gas is the most significant issue found by this audit. It would appear that E-Gas has breached rule 26.2 of the Gas (Downstream Reconciliation) Rules 2008, which requires that “[e]very allocation participant must provide the information required under these rules in a manner that is [a]ccurate and complete....” This matter is considered material because it appears to be a systemic issue affecting all ICPs, which resulted in the under-reporting of more than 80,000 GJ to the allocation agent for the period October 2008 to September 2009.

Non-material potential rule breaches

Preliminary investigations into the other discrepancies mentioned in Sections 6.3 and 6.4 of this report are complete for all retailers. Genesis Energy and Nova Energy are still conducting some further investigations. The results to date have identified some potential rule breaches, which are listed in the table below. I do not consider these to be material issues under rule 75.2 because of the small number of ICPs affected and the minor impact on UFG.

Retailer	Potential rule breach (non-material issues)	Rule
Nova Energy	The consumption information for five ICPs was not included in the file submitted to the allocation agent.	26.2
Energy Direct	Pressure factor incorrect for one ICP.	28.2
Mercury Energy	Pressure factor incorrect for six ICPs.	28.2
On Gas	Pressure factor incorrect for four ICPs.	28.2
Contact Energy	Meter stopped at one ICP.	26.2
E-Gas	The consumption information for nine ICPs was not included in the file submitted to the allocation agent.	26.2

8. Information Regarding Allocation of Audit Costs

Rule 75.2 sets out the process for determining which party or parties are responsible for the audit costs. As the auditor, I do not decide the apportionment of costs. However, I am required by section 3 of the Terms of Reference to provide relevant information, including identification of the material issue or issues.

In accordance with the Terms of Reference, the following information addresses the matters relevant to allocation of costs under rule 75.2 for this event audit:

- As stated in this report, the audit has identified that a material issue has been raised as to compliance with the rules;
- The material issue is the under-reporting of allocation information by E-Gas in apparent contravention of rule 26.2;
- Only one material issue has been identified (the under-reporting appears to have contributed to at least 80,000 GJ of UFG for the period October 2008 to September 2009);
- As stated above, the party to which the material issue relates is E-Gas; and
- There being only one such party, that party's contribution to the material issue is 100%.

I also considered the under-estimation of initial allocation volumes by a number of retailers. This under-estimation had a considerable effect on short-term UFG. However, at this point in time, I do not consider it to be a material issue as to compliance with the rules.

Rule 75.2 refers to whether "the auditor concludes that a material issue has been raised in relation to compliance with these rules..." I can only evaluate compliance with rule 37.2, and reach a conclusion, once all acts or omissions that would constitute the elements of a breach have taken place. Although my draft report anticipated the possibility of a future breach based on the interim allocation data, rule 37.2 clearly refers to consumption information provided by the retailer under rule 33 for *final allocation*. The retailer will not provide the consumption information under rule 33 for final allocation until the 13th month following the consumption period (i.e. June 2010 for the May 2009 consumption period). Therefore, it is not possible for me to reach a conclusion as to compliance with rule 37.2 at this point in time, and I do not consider this to be a material issue for purposes of rule 75.2.

9. Conclusions

The allocation vs billed comparison confirmed that under-reporting of consumption information to the allocation agent by E-Gas has contributed a total of approximately 50,860 GJ of UFG at the Greater Auckland gas gate for the period October 2008 to June 2009. This equates to at least 18% of the total UFG for that period. The July 2009 to September 2009 allocation information was less than the billed data by another 29,868 GJ, which will have contributed to the UFG for these months. In total E-Gas has under reported consumption information to the allocation agent by more than 80,000 GJ for the period October 2008 to September 2009.

The auditor considers that the current allocation results are sufficiently unfair to warrant the GIC to request a special allocation under Rule 51 for the consumption periods October 2008 to September 2009.

Some discrepancies were identified in relation to retailers' data which has had a minor affect on allocation volume and has contributed approximately 164 GJ per month to UFG. For the period October 2008 to June 2009, this equates to approximately 0.5% of UFG (1,476 GJ) at the Greater Auckland gas gate.

The initial allocation information for May and June 2009 was significantly under-estimated by some retailers. The interim allocation in accordance with rule 32 is now complete for these months. As a result, the UFG has reduced from 9.74% to 4.33% for May 2009 and from 7.61% to 3.94% for June 2009. Some retailers have reported that the issues leading to this under-estimation have now been addressed.

Once the E-Gas data is corrected, the remaining UFG percentage after the interim allocations for the period October 2008 to June 2009 will reduce from 3.4% to approximately 2.8%, which brings the UFG much closer to the 2006 figure of 2.59% noted in Section 1.

Some registry and information management processes are not robust. I have therefore recommended in Section 10 below that these are reviewed as part of the scope of the performance audits.

10. Recommendations

A performance audit of E-Gas under Rule 65 is recommended to confirm the extent, and determine the cause, of E-Gas's under-reporting of allocation volume. This performance audit should include an analysis of allocation data for all gas gates and all consumption periods from October 2008 until the audit date.

Rule 65 of the Gas (Downstream Reconciliation) Rules 2008 requires that "[t]he industry body must arrange at regular intervals performance audits of the allocation agent and allocation participants." It is recommended that performance audits of all allocation participants are commissioned as soon as practicable, and that the scope includes:

- Processes for preparing allocation information, including forward and historic estimates;
- The accuracy of allocation information vs billed information;
- Registry management processes; and
- Final results of investigations into discrepancies identified by this audit.

The Audit Update (dated 19 October 2009) recommended a field audit of 250 AG4 and some AG6 installations, to determine if any additional discrepancies exist with respect to pressure factors, dials and multipliers. This recommendation remains an option for retailers to consider.

11. Further Analysis

The Audit Update that was provided to participants on 19 October 2009 included the following list of recommendations as matters for further analysis. Many of these points are likely to be addressed in the scope of the recommended performance audits. However, some of the field audit recommendations will not be included. Retailers may consider adopting these field audit recommendations, depending on the level of UFG reduction as a result of the recommended performance audits.

ICP creation

- Physical Distributor ICP creation records vs registry ICPs, including the bypass network.
- Bypass network ICP field audit of 100 connections to check that they are not still connected to the original network.
- Meters issued by meter owners which do not appear in retailer's databases after 6 months.
- Meters which are "Active" in meter owners databases and do not appear on the registry or in retailer's databases.

ICP Status

- Check all inactive, new, ready and Decommissioned ICPs with consumption to ensure the status is correct.
- Check meter owner records for ICPs with meters where retailer records or the registry indicate meters have been removed.

Metering set up

- Field audit of 200 AG6 ICPs to check regulator pressure and number of meter dials.
- Field audit of 250 (10%) of AG4 ICPs across all retailers, to test meter accuracy, meter pressure and validate multipliers and number of dials against meter owners' and retailers' records.
- Check programming records for all AG1 and 2 ICPs. (121 in total)

Retailer databases and processes

- Check end to end data management processes, from meter reading through to submission information. Confirm that calculations are correct in relation to pressure, temperature, altitude, super compressibility and calorific value.
- Check new connection and registry validation processes.
- Check all before and after consumption figures for AG1, 2 and 4 ICPs which have had a meter change or have switched in the last 10 years.

Appendices

Appendix One – Mercury Energy

Responses to draft Event Audits for GTA03610

MRP agree that inadequacies in retailer's forward estimation processes in dealing with the unseasonably colder weather for May and June 2009 lead to the significant UFG in the Initial allocation. This is evident in the significant decreases in UFG (GTA03610: 56% and 48% for May and June), with the completion of the Interim wash-up cycle. MRP support the recommendation that retailers need to make improvements to their forward estimation processes in order to better forecast consumption for Initial Allocations.

MRP agree to the completion of Special Allocations for the period October 2008 to June 2009, due to material under-submissions. This is more important now as the Final Allocation for October 2008 has been completed and there is no further opportunity to wash this up through normal processes.

MRP agrees that the completion of Performance Audits under Rule 65 is required.

MRP further agree that as the Registry is considered the database of record, participants should be reviewing this information regularly to ensure ongoing accuracy of information into the Allocation system. There should be consideration given to having metering information added to the Registry and the meter owners responsibility for updating and maintaining this information increased. Meter owners are in the best position to update this information regarding their assets. This is akin to the current consultation being undertaken in Electricity with the Part D Rules review.

Appendix Two – Vector Gas Limited



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Dear Tom and Steve

Draft Audit Reports to Identify Sources of UFG for Tawa A and Greater Auckland Gas Gates (May 2009 and June 2009)

1. Vector Gas Limited (Vector Transmission - **Vector**) appreciates the opportunity to comment on the draft Audit Reports issued to industry participants on 19 November 2009 for UFG at Tawa A and Greater Auckland gas gates (**Reports**). We have also noted the comments of E-Gas in its email dated 20 November 2009.

Vector's Interest

2. Vector's interest in the Reports is to:
 - support any initiative, that will:
 - ensure the integrity of the retailer consumption information that is supplied to the Allocation Agent, so that the results of the initial allocation are accurate:
 - reduce the unacceptable UFG present in the initial allocations; and
 - reinforce the points Vector made in its recent submission to the GIC on the margin of error allowed under rule 37 of the Gas (Downstream Reconciliation) Rules 2008 (**attached**).

Reports

3. The Tawa A Report found that UFG at this gas gate was 'very high', particularly for the initial allocation across the 2 months. Further, while the interim allocation results for the same period resulted in a significant reduction in the UFG, the report still concluded that:

"Although the final allocations for May 2009 and June 2009 will not be known until June 2010 and July 2010, it is anticipated that

consumption information provided for final allocation by retailers with a large proportion of domestic customers is unlikely to fall within the percentage of error currently set by the GIC.” (para 3, 2.1)

4. While the Greater Auckland report found that the level of UFG was, in most respects, within the GIC’s percentage of error for the accuracy of consumption information supplied for initial allocations, it nevertheless concluded that:

“The level of UFG was reduced by more than half for May 2009 as a result of the interim allocation. This suggests that there are some issues to be resolved with some retailers’ forward estimate processes.” (page 2)

5. Given the similar conclusions of both Reports, it is clear that retailers must provide more accurate initial consumption information in order to reduce UFG. Only if there is an across the board improvement by all retailers will the Government’s requirement in its Policy Statement in this regard be achieved for an efficient retail market.¹ Further, greater accuracy by retailers will better achieve the Government’s objectives for the gas sector (s43ZN(a) of the Gas Act 1992), and the purpose of the Rules in terms of fairness, efficiency and reliability of allocation and reconciliation of gas quantities.
6. Vector also notes that in some cases retailers have not provided information to the auditors, or provided incomplete or inconsistent information. Vector believes that the integrity of audits is paramount and the main factor to ensure that occurs is the provision of complete and relevant information to the auditors. A failure, by any retailer, to comply with their obligation under rule 69.3 of the Rules will necessarily undermine that integrity. Vector accepts that the GIC has, in its Guideline Note,² stated that:

“Once the audit framework has been in operation for a period of time, Gas Industry Co also intends to issue further guidance material to allocation participants on other aspects of the audit process in light of any experience gained.” (para 1.3)

7. However, Vector does not accept that this absolves retailers from full compliance with their requirements to supply the auditors with all the relevant information that is requested by the auditors.

Specific Concern

8. More specifically, Vector is concerned by the significant under-reporting of retailer consumption for the initial allocation runs, which was identified in both Reports by comparisons between the consumption data used for the initial and interim allocations.
9. More accurate retailer consumption data in the initial allocations will reduce the UFG and help ensure that upstream balancing charges are allocated to causers. A reduction of UFG in the interim allocations will

¹ ‘Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities’ (Government Policy Statement on Gas Governance, April 2008, page 4)

² Guideline note for rules 65 to 75 and 80: the commissioning and carrying out of performance audits and event audits (GIC, Version 1, 17 March 2009)

not meet this objective because balancing charges are assigned based on the initial allocation results.

Compliance

10. Vector supports any general initiative (including performance audits, or compliance proceedings) which will promote better performance by retailers of their obligations under the Rules for the provision of accurate information for the initial allocations.

11. Consequential enforcement measures may also, indirectly:

- minimise the potential for 'gaming' by retailers; and
- begin to 'reward' retailers which have invested in processes and systems to improve the accuracy of their initial consumption information.

12. Further, Vector supports any subsequent compliance process where complete and accurate relevant information has not been provided to the auditors for the purpose of their reports. The compliance regime under the Rules and in accordance with the Gas Governance (Compliance) Regulations 2008 has been in operation for more than 12 months and has generally proven to be a robust process. Vector believes that it would be timely for the GIC to consider applying the compliance regime to audit processes to reinforce the need for an improvement in retailer behaviour in this context.

13. This submission does not contain any commercially sensitive information. Vector has no objection to this submission (including the attachment which is also available on the GIC website³) being attached to the Reports.

14. Vector would welcome the opportunity to speak to the GIC further on this matter once your final recommendations have been made and considered.

15. If you wish to discuss any aspect of this submission please contact Bob Sheppard, (04) 803 9013, bob.sheppard@vector.co.nz.

Yours sincerely



Bob Sheppard
Commercial Advisor – Gas Transportation

³ <http://www.gasindustry.co.nz/work-programme/consultation-proposed-accuracy-determination-under-gas-downstream-reconciliation-rul-1>
http://www.gasindustry.co.nz/sites/default/files/submissions/11/Vectors_submission_on_downstream_error_appendix_a_-_hard_copy.pdf