

Subject **Analysis of Submissions and Responses –
Notice of Determinations by the Industry Body (Gas Industry Co)
under the Gas (Downstream Reconciliation) Rules 2008**

Date **19 September 2008**

Introduction and purpose

The Gas (Downstream Reconciliation) Rules 2008 (the “Reconciliation Rules”) provide for the appropriate and timely allocation of gas injected at downstream gas gates. A key element in the arrangements is the appointment of an allocation agent to allocate gas quantities, including unaccounted for gas (UFG), to retailers at gas gates.

The Reconciliation Rules provide for the industry body (Gas Industry Co) to make and notify certain determinations in respect of aspects of the allocation and reconciliation process.

Submissions were sought from industry participants on a variety of notifications and determinations in a paper titled “Consultation paper on proposed determination and other matters under the Gas (Downstream Reconciliation) Rules 2008” released for consultation on 13 June 2008. The consultation paper covered two separate groups of matters, with a different closing date for submissions for the two groups, as follows:

- with a closing date of Friday 27 June 2008, proposed information exchange file formats (the “File Formats”); and
- with a closing date of Friday 11 July 2008, proposed percentage of accuracy, proposed groupings of gas gates, proposed information requirements from transmission system owners, additional information exchanges, provision of reports and information by the allocation agent to allocation participants, notifications to the allocation agent, and issues around gas measurement systems and the definition of gas gate.

Gas Industry Co has previously published on its website an analysis of the submissions received as a result of the consultation on the File Formats and issued a notification of the finalised File Formats on 31 July 2008, along with a minor revision to that notice dated 25 August 2008.

This paper analyses the six submissions received on the second set of consultation issues, and explains the rationale behind the determinations made by Gas Industry Co in the "Determinations by the Industry Body (Gas Industry Co) under the Gas (Downstream Reconciliation) Rules 2008" paper issued on 19 September 2008.

Submissions were received from Contact Energy, Genesis Energy, Mighty River Power, Nova Gas, Powerco and Vector. Copies of these submissions are available on Gas Industry Co's website. In addition, Gas Industry Co, industry participants and the allocation agent have exchanged correspondence on some of these issues. Where appropriate, the content of this correspondence is also presented in this document.

Summary of the issues raised in submissions and Gas Industry Co's response

Proposed percentage of error – consumption information

Rule 37.3 of the Reconciliation Rules requires Gas Industry Co to determine and publish a percentage of error for the accuracy of the consumption information provided for initial allocation (when compared against consumption information provided for final allocation).

Rule 37.4 states that:

In making its determination under rule 37.3, the industry body must have regard to the following matters:

- The primary aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation;
- The extent to which retailers are able to comply with the percentage of error for the accuracy of consumption information provided for initial allocation;
- Any expected costs that would be reasonably incurred by retailers to achieve compliance with the percentage of error for the accuracy of consumption information provided for initial allocation; and
- Any other matter it considers relevant to its determination.

The consultation paper set out Gas Industry Co's initial assessment of the matters specified in rule 37.4. This initial assessment was that a measure of 15% (i.e. +/- 15%) for the gas year commencing 1 October 2008 would be appropriate.

Except for Vector, all of the allocation participants who responded (i.e. Contact, Genesis, Mighty River Power, Nova and Powerco) supported a +/- 15% error for the first year of the new regime. Additional

constraints proposed by these submitters were that: the measure is only appropriate for the initial year (Genesis); the measure is the highest level of error that should be allowed (Powerco); and the error should be subject to exceptional circumstances, particularly where a retailer has a small number of consumers and low associated volumes at a gas gate (Nova);

Gas Industry Co notes it is only determining the percentage of permissible error for the gas year commencing 1 October 2008, and that rule 37 requires the percentage to be reconsidered for each subsequent gas year. The Reconciliation Rules do not permit exceptions (i.e. for exceptional circumstances) to be made in respect of the applicable percentage of error. However, under the Gas Governance (Compliance) Regulations 2008, such exceptional circumstances can be taken into account when considering the materiality of a breach of the rules.

Vector submitted that the proposed +/- 15% is unacceptable, as the measure provides inadequate incentives for mass-market retailers to improve their performance. Vector considers listing the allocation participants by the level of accuracy they achieve provides a better incentive. In the alternative, Vector contended that +/- 10% percentage would be more appropriate.

Gas Industry Co notes that the reports on accuracy (rule 53.3) will be made available to all retailers and Gas Industry Co but not published on the website. Further publication will need to be considered carefully as it could mislead consumers. This is because the different configurations and loads of each retailer at each gas gate will distort the ease with which the achieved accuracy percentages can be interpreted.¹

Other matters noted by submitters in relation to the matters Gas Industry Co must have regard to when determining an appropriate percentage of error included:

Upstream considerations	<ul style="list-style-type: none"> • The impact of the percentage of error, for the accuracy of consumption information provided for initial allocation, on shippers supplying gas at a gas gate in respect of a consumption period (Contact). • Due to the methodology for pipeline balancing, there are financial impacts on retailers as a result of the accuracy of the initial allocation which operate as an additional incentive to get the initial allocation as accurate as possible (Genesis). • Washup data is used to recalculate transmission and distribution charges. However, the VTC prevents washup information being used to reallocate balancing costs so the 15% error will give rise to misallocation of balancing costs which is unacceptable (Nova).
The volatility of gas demand	<ul style="list-style-type: none"> • Gas demand is difficult to predict due to the volatile nature of gas consumption as a result of weather and other conditions (Genesis). • Gas Industry Co should explore the possibility of the Allocation Agent providing dynamic forward-looking seasonal shape values (Contact)
Costs	<ul style="list-style-type: none"> • Gas Industry Co needs to be cognisant of the addition costs of technology that retailers will

¹ For example, a retailer with a predominantly allocation group 4 load (where meters are required to be read monthly) would be expected to have more accurate initial allocation consumption information when compared with a retailer with predominantly allocation group 6 load.

	<p>need to invest in to be able to more accurately trend forward estimates (Genesis).</p> <ul style="list-style-type: none"> • Costs and achievability needs to be balanced by the overall achievement of all retailers (Mighty River Power).
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In relation to these comments:

- Gas Industry Co acknowledges that downstream reconciliation information feeds into the calculation of upstream transmission and balancing charges and that, if wash ups are not taken into account of in the upstream calculations, this may be a factor which influences the accuracy of retailers' initial sales estimates. Gas Industry Co notes that Vector does permit wash-ups to flow through to transmission charges, but not to balancing charges. It is understood that the different treatments are justified on the basis of the relative simplicity of recalculating transmission charges, against the complexity of recalculating balancing charges. Gas Industry Co further notes that Vector does not argue wash-ups are unnecessary, only that the quantum of any wash-ups should be minimised. Gas Industry Co has recently completed consultation on a number of upstream balancing issues (see discussion paper on Transmission Pipeline Balancing issued 15 August 2008) and plans to consider these matters as part of that process.
- Gas Industry Co appreciates that the volatility of gas demand adds complexity to the process of estimating gas consumption, particularly in relation to the mass market consumers to which the accuracy percentage will apply. Currently there is no objective information available on how accurately retailers are managing to estimate gas consumption. The information generated by the Reconciliation Rules will provide such information, which will in turn allow further refinement of the accuracy measure and help inform whether the costs and benefits of the allocation agent providing dynamic forward-looking seasonal shape values stack up. It is also noted that Tetenburg and Associates have been engaged to provide historical seasonal adjustment daily shape values to retailers for consumption months prior to the go-live date in order to improve initial estimations.
- Gas Industry Co is cognisant that the introduction of an accuracy measure will likely result in compliance costs for retailers. The minimisation of compliance costs is an important consideration in deciding how narrow the accuracy percentage should be for the first gas year. If a stricter accuracy percentage was initially applied (e.g. +/- 5%), Gas Industry Co understands that large and perhaps undue costs would be incurred by retailers to achieve compliance with that percentage.

In light of the matters considered above, and those outlined in the consultation paper in so far as they relate to the matters set out in rule 37.4, Gas Industry Co remains of the view that a +/- 15% measure sufficiently achieves the aim of ensuring consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation. Gas Industry Co acknowledges that this is the primary aim of the accuracy percentage and believes, for the gas year commencing 1 October 2008, a +/- 15% measure will materially achieve that aim and is appropriate.

Proposed groupings of gas gates

Notional delivery points

The consultation paper proposed four groups of gas gates to be treated as single gas gates for the purposes of the Reconciliation Rules (often termed “notional delivery points”). The proposed grouped gas gates were as follows:

Grouped gas gate (i.e. Notional Delivery Point)	Code	Notes
Greater Auckland	GTA03610	Comprises the following Gas Gates: Bruce McClaren (BMC17901), Henderson (HEN74101), Papakura (PAP06610) and Westfield (WST03610).
Greater Hamilton	GTH11301	Comprises the following Gas Gates: Hamilton Te Kowhai (HTK08301) and Hamilton Temple View (HTV11301)
Greater Mt Maunganui	GMM08001	Comprises the following Gas Gates: Mt Maunganui (MMU08001) and Papamoa (PPA33201)
Greater Tauranga	GTT07701	Comprises the following Gas Gates: Pyes Pa (PYE36601) and Tauranga (TRG07701)

Mighty River Power disagreed with the proposal to group gas gates noting that, in the absence of a consistent approach by the transmission operators and distribution network operators, it saw no benefit from “zoning” and that allocations should be by the actual gate rather than by a notional gate.

Most other submitters were supportive of the proposal to create notional delivery points, particularly where numerous gas gates feed into a single distribution network. Submitters largely agreed with the proposed groups of gas gate (e.g. Contact, Nova and Powerco). However, Genesis submitted that additional grouped gas gates should be included as in each case both of the gates are delivered on the same network and back fed from the other gate:

- Greater Kihikihi (Te Awamutu) GTK19101: comprises Kihikihi (19101) & Te Awamutu North (9931004)
- Greater Waitangirua, GTW06910: comprises Waitangirua (WTG06910) & Pauatahanui No 1. (PAH23201)

In addition, industry feedback at the Gas Registry and Reconciliation Establishment Committee (“GRREC”) meeting held on 25 July 2008 suggested that an additional notional delivery point should be created at Waitoki. The minutes from that meeting state:

“It was noted that the likelihood of embedded networks was lower in the gas industry than in the electricity industry. It was suggested and agreed by the GRREC that the one embedded network, Waitoki B, be combined with Waitoki as a notional delivery point.”

Vector noted at the GRREC meeting that Commerce Act restrictions required it to treat the Waitoki and Waitoki B distribution networks separately.

Gas Industry Co subsequently consulted with allocation participants by email regarding these three proposed additional groups of gates (Greater Kihikihi (Te Awamutu), Greater Waitangirua and Greater Waitoki). In relation to Greater Waitoki, that email specifically noted, in response to Vector’s comments at the GRREC meeting, that:

“Greater Waitoki GTW33901: This notional delivery point/gas gate would comprise of the gas gate at Waitoki WTK33901 and at Waitoki B WTK33902. To avoid doubt, this approach is only intended to facilitate the operation of the Rules (and allocation system) at these gas gates, and is not intended to have any commercial or billing implications between the two distribution networks in question.”

In the consultation on these three additional groups of gas gates, the following views were expressed:

Contact	<ul style="list-style-type: none"> Contact agreed with the proposals, noting that any interconnected network supplied by multiple gas gates should be reconciled as a notional delivery point. Contact also reiterated its concerns that in these situations ICPs should be allocated to the notional gas gate in the registry (<i>discussed below</i>).
Powerco	<ul style="list-style-type: none"> For Greater Waitangirua, Powerco agreed that both WTG06910 and PAH23201 feed into the same Powerco network. Further, as the network is supplied by both gas gates, it is not possible to determine where the gas of each ICP is supplied from so the gas gates should be treated as a notional delivery point. Powerco has no activity at the other gas gates.
Energy Direct NZ	<ul style="list-style-type: none"> Energy Direct NZ had no concerns with the proposal, but thought Vector should have the final say on the matter.
Vector	<ul style="list-style-type: none"> Vector didn’t agree with the names “Greater Waitangirua” and “Greater Kihikihi”. For Greater Waitangirua (GTW06910), Vector agreed that the off-take should be aggregated by the allocation agent prior to allocation. However, Vector noted that as both of the relevant transmission delivery points are part of the Wellington transmission zone (from 1 October 2008), creating a further notional delivery point will be of no financial benefit to the shippers (i.e. retailers) at the relevant gas gates. Vector considered the Greater Kihikihi (Te Awamutu) suggestion to be problematic. The Te Awamutu North delivery point is used to top up the distribution network from time to time but no shipper may reserve capacity there. While both delivery points feed the same network, the two delivery points are located on different transmission pipelines. Vector manages the operational imbalance that results from this. Although the two delivery points are currently reconciled together by the present allocation agent, the future of the Te Awamutu North delivery point is uncertain. Therefore there is no advantage in formalising the current practice, given this uncertain future. For the proposed Greater Waitoki notional delivery point, Vector incorrectly assumed that Gas Industry Co was treating the Waitoki B gas gate as a transmission delivery point. Vector notes that there is no point in creating the notional delivery point as there is only one transmission delivery point, namely Waitoki (WTK33901). All gas that passes through

	<p>Waitoki B has already passed through the Waitoki transmission delivery point. The only reason Waitoki and Waitoki B are treated separately is that one is under price control and the other isn't. Vector doesn't wish to put in place a measure that would further entrench the distinction between the two networks when the aim is really to remove that distinction. Rather than represent Waitoki B as a transmission delivery point, it would be more sensible if the allocation agent reconciled users' network quantities relating to Waitoki B to the meter that measures flow between Waitoki and Waitoki B.</p>
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Following receipt of the comments above in relation to the Te Awamutu North gas gate, Gas Industry Co contacted the current industry appointed allocation agent. Tetenburg and Associates confirmed that the injection quantities in the daily delivery report for the Te Awamutu North gas gate are added to the injection quantities in the daily delivery report for the Kihikihi gas gate. Failure to do so results in non-sensical residual profiles being created in the allocation process.

As a result of further discussions with Vector, Gas Industry Co identified that the injection quantities in the Te Awamutu North and Kihikihi daily delivery reports are aggregated together on OATIS to give the injection quantities for the Kihikihi 'welded point' (KIH19101). Accordingly, to accommodate a Greater Kihikihi notional delivery point the allocation system only needs to receive injection quantities for the Kihikihi welded point. Vector also noted that there are other gas gates where multiple meters are present and the quantities from these meters are aggregated and expressed as the welded point injection quantity. However, Gas Industry Co understands that in most cases where there are numerous meters, there is usually only one physical point of connection between the transmission system and distribution system/consumer installation.

Gas Industry Co agrees that where a distribution network is fed from multiple gas gates, those gas gates should generally be grouped for the purposes of reconciliation. This is the only practical method for allocating delivery quantities between retailers and determining the unaccounted for gas at that group of gas gates.

In relation to the comments regarding the Kihikihi gas gate, Gas Industry Co notes that the Reconciliation Rules define gas gates more broadly than just transmission delivery point. In particular, a "gas gate" is defined in rule 5 as:

gas gate means the point of connection between –

- (a) a transmission system and a distribution system; or
- (b) a transmission system and a consumer installation; or
- (c) two gas distribution systems; or
- (d) a group of gas gates, as determined and published by the industry body, treated as a single gas gate for the purposes of the these rules

Accordingly, where there are two physical points of connection between the transmission system and a distribution system (such as at Kihikihi – where both Kihikihi and Te Awamutu North delivery points connect to the same distribution network), under the Reconciliation Rules these are treated as two

separate gas gates unless determined to be a group of gas gates by Gas Industry Co. To this end Gas Industry Co considers that Greater Kihikihi should be determined as a grouped gas gate.

Gas Industry Co agrees that, in principle, any single 'welded point' recognised on OATIS should be generally treated as a single gas gate for the purpose of the Reconciliation Rules, including the Kihikihi scenario discussed above and any other situation where, from a physical point of view, multiple injection sites exist at one Vector Transmission 'welded point'.

Embedded networks

Gas Industry Co considers, based on industry feedback, that Greater Waitoki should be determined as a grouped gas gate. The rationale for this Greater Waitoki gas gate differs from the other notional delivery points. The Waitoki scenario is essentially an embedded network scenario. However, to give effect to a true embedded network arrangement would require the 'injection' quantity at the secondary network (in this case the Waitoki B distribution network) to be scaled by the appropriate UFG factor calculated at the parent network. Implementing this arrangement for a sole gas gate would have required additional investment in the allocation system and the granting of an exemption to the allocation agent. Allocation participants consulted on this issue at the July GRREC meeting instead expressed a strong preference for the creation of a notional delivery point in the instance of embedded networks.

A consequence of this is that the arrangements Gas Industry Co has agreed with the allocation agent envisage that an embedded network will always form part of a notional delivery point and be treated in a similar fashion to Waitoki. Namely, any embedded network will be part of a 'notional delivery point' of the primary and secondary distribution networks, and will be reconciled to the transmission delivery point injecting gas into the parent gas gate. There may be other currently unidentified embedded networks that exist. If any additional 'embedded networks' are identified, they will be addressed on a case by case basis – but, as noted above, any decision to treat such embedded networks differently in future will need to be carefully considered, and amendment to the allocation system functional specification may be necessary.

The 'grouped gas gate' arrangements at Waitoki differ to those at the other notional delivery points detailed above. At the other notional delivery points, the injection quantities are calculated by adding the injection quantities for each of the gas gates that are grouped to form the notional delivery point. However, in relation to the notional delivery point at Greater Waitoki, the injection quantity is the quantity injected at the Waitoki gas gate (WTK33901). No injection information is required for the Waitoki B gas gate (WTK33902).

Interface with OATIS

An issue that arises in treating Greater Waitangirua, Greater Kihikihi and Greater Waitoki as notional delivery points is the interface between the allocation system and OATIS. In the allocation system functional specification, GAR130 (the file format for allocation information to be provided to

Transmission System Owners) requires 'gas gate' information to be submitted to OATIS against a welded point ID. The allocation agent identifies the welded point ID from its gas gate translation table and there can only be one welded point ID in each file. In relation to the notional delivery points to be determined by Gas Industry Co:

- Greater Auckland, Greater Hamilton, Greater Mt Maunganui and Greater Tauranga all have welded point IDs on OATIS.
- Given Vector's comments in relation to Greater Waitangirua, Gas Industry Co assumes Vector will create a Greater Waitangirua welded point ID on OATIS. Until such time as this point is created, the allocation agent's upload of the GAR130 file into OATIS at this gas gate will be rejected, the system will advise Vector of this rejection, and the information will be available from the allocation agent's system for Vector to download and input into OATIS.
- In respect of Greater Kihikihi, there is no need for the allocation system to combine gas gate injection/consumption information (as the two sets of injection quantities are combined under the Kihikihi welded point on OATIS, and retailers will only be submitting consumption information at the Kihikihi welded point).
- The allocation system functional specification notes that allocation results for Greater Waitoki (GTW33901) will be submitted to OATIS at the parent gas gate level i.e. for Waitoki WTK33901.

Conclusion

Accordingly, Gas Industry Co considers the following groups of gas gates should be determined as single gas gates for the purpose of the Reconciliation Rules:

- *Greater Auckland (GTA03610)*: comprising Bruce McClaren (BMC17901), Henderson (HEN74101), Papakura (PAP06610) and Westfield (WST03610);
- *Greater Hamilton (GTH11301)*: comprising Hamilton Te Kowhai (HTK08301) and Hamilton Temple View (HTV11301);
- *Greater Kihikihi (GTK19101)*: comprising Kihikihi (KIH19101) and Te Awamutu North TAW31004;
- *Greater Maunganui (GMM08001)*: comprising Mt Maunganui (MMU08001) and Papamoa (PPA33201);
- *Greater Tauranga (GTT07701)*: comprising Pyes Pa (PYE36601) and Tauranga (TRG07701);
- *Greater Waitangirua (GTW06910)*: comprising Waitangirua (WTG06910) & Pauatahanui No 1. (PAH23201); and
- *Greater Waitoki (GTW33901)*: comprising Waitoki (WTK33901) and Waitoki B (WTK33902).

Differing treatment of grouped gas gates in relation to reconciliation and the registry

Submissions on the consultation paper also commented on the interrelationship between notional delivery points under the Reconciliation Rules and the provisions regarding gas gates in the gas registry. Contact, for example, submitted that a distributor should not allocate ICPs to a gas gate other than the notional gas gate. Genesis conversely requested to be able to submit consumption at the gas gate level (as per the gas registry gas gates) and have the amalgamation of consumption to be completed by the allocation agent before completing reconciliation (as their customers will be recorded in their internal systems at the individual gas gate level). Vector requested further confirmation from Gas Industry Co on this matter and preferred that there was a consistent approach for both the gas registry and Reconciliation Rules. Vector noted that it was planning to update its database so that all Greater Auckland ICPs are assigned to GTA03610 (rather than BMC17901 etc).

In relation to reconciliation processes, the allocation system functional specification addresses many of the questions posed in submissions:

- in section 5.4:

...Submissions by retailers at [notional delivery points] may be aggregated and submitted at the notional delivery point – or at the individual gas gates that make up the notional delivery point. The allocation agent’s system will aggregate any submissions provided at the individual gas gates or notional delivery points. Allocation results will only be provided at the notional delivery point.

With respect to injection volumes, TSOs will provide quantities at the individual gas gates and/or at the notional delivery point and the system will aggregate to the notional delivery point level.

Interconnection points

Submissions for consumer installations in embedded networks will be made at the EN gas gate that represents the connection between a parent distribution system and an embedded network (EN gas gate). However, an EN gas gate is to be included within a notional delivery point. Even though the parent distribution system gas gate and the embedded network gas gate may have different network codes, this notional delivery point will be assigned to only one network code – the parent distribution system network code.

For both embedded network connection points² (EN gas gates) and other interconnection points, the two distribution systems will be merged under a single notional delivery point. In consultation with Gas Industry Co this notional delivery point will be assigned to only one network code even though the individual gas gates may have different network codes. Submissions for consumer installations in embedded networks will be made at the EN gas gate.

- in GAS020 i.e. the trading notification file format:

Retailer trader information

Retailer/Gas Gate

² Representing the connection between a parent distribution system and an embedded network.

...Where a retailer commences supply at a gas gate, that retailer must advise the allocation agent as to whether the consumption information will be submitted at the individual gas gate level or at the notional delivery point level. The retailer must supply its as-billed information (refer GAS070) at the same level as its consumption information (i.e. if a retailer provides its consumption information submissions at the notional delivery point level, then that retailer is to provide its as-billed information at the notional delivery point level). This retailer information is to be used by the allocation agent to validate retailer submissions and to estimate missing submissions.

...

Distributor trader information

Distributors are required to notify the allocation agent when gas gates (including interconnection gas gates) are established or decommissioned, together with the gas gate code. When an embedded network is established or decommissioned, distributors are also required to identify the associated *notional delivery point*.

In relation to the submissions querying the treatment of grouped gas gates/notional delivery points in the gas registry, it is important to note the different definitions of gas gate in the Gas (Switching Arrangements) Rules 2008 (“Switching Rules”) and the Reconciliation Rules, as follows:

Gas (Downstream Reconciliation) Rules 2008	Gas (Switching Arrangements) Rules 2008
<p>gas gate means the point of connection between –</p> <ul style="list-style-type: none"> (a) a transmission system and a distribution system; or (b) a transmission system and a consumer installation; or (c) two gas distribution systems; or (d) a group of gas gates, as determined and published by the industry body, treated as a single gas gate for the purposes of these rules 	<p>gas gate means the point of connection between –</p> <ul style="list-style-type: none"> (a) a transmission system and a distribution system; or (b) a transmission system and a consumer installation; or (c) two gas distribution systems

Because the definition of gas gate for the purposes of the gas registry does not include a group of gas gates treated as a single gas gate, all ICPs in the gas registry must be assigned to physical gas gates rather than notional delivery points. At present, all ICP list reports will be provided on an individual gas gate basis. However, a downloadable table and gas gate report of gas gates, parent gas gates and notional delivery points is maintained within the gas registry for participant reference and mapping.

Non-shared gas gates (direct connect and single retailer)

The consultation paper noted that the application of the Reconciliation Rules is not limited to shared gas gates and asked participants if any gas gates should validly be exempt from the rules. Gas Industry Co has subsequently received various exemption applications requesting exemptions for certain gas gates from the Reconciliation Rules. These are discussed separately in a document titled “Initial exemptions under the Gas (Downstream Reconciliation) Rules 2008” dated 21 August 2008. Decisions on the initial exemption applications received are expected to be made by Gas Industry Co by 19 September 2008.

Proposed information requirements from transmission system owners

The consultation paper sought feedback from transmission system owners regarding how they intended to provide the information specified in rules 41 and 42. In relation to rule 42, Gas Industry Co further proposed that the second provision of information under rule 42 occur at 1600 hours.

Comments provided in submissions noted issues providing information with unmetered gas gates, where gas injection information is not available or published until after month end. Contact noted that the Vector Transmission Code requires unvalidated metering for gas gates equipped with SCADA or Telemetry by 10:00 hours on the following Business Day and validated metering information by 14:00 hours on the following Business Day. Contact submitted this information should be strengthened to be the day following the day of delivery rather than the next Business Day and that the Reconciliation Rules should specify the maximum design flow rate of a gas gate that doesn't require SCADA or Telemetry (that acknowledged the cost benefit trade off at some gas gates). Contact noted that if systems were automated gas gate data could be made available to retailers (for SCADA and Telemetry gas gates) on an aggregate daily basis shortly after midnight for the previous day.

Vector noted that the Reconciliation Rules do not recognise that the allocation agent has no reconciliation tasks to perform in relation to Transmission Delivery Points used by only a single shipper. It considered it would need an exemption from the proposed requirements as they go beyond what it is required to do under its Transmission Services Agreements with shippers and would particularly struggle to provide validated energy quantities at month-end for each Delivery Point prior to 12noon on the 4th business day. Vector did not accept, and had never accepted, that provision of daily (or hourly) information on the day or the day after is a pre-requisite for Shippers to estimate their gas offtake accurately. Any imposed requirement to do so would require costs for services to be recouped.

Subsequent to receiving these submissions, Gas Industry Co has engaged at length with Vector Transmission regarding the requirements in rules 41 and 42 and other information exchanges between Vector and the allocation agent. For example, the allocation system functional specification provides that the allocation agent will obtain certain information direct from OATIS.

Gas Industry Co has also received formal exemption applications from Vector and MDL in relation to the requirements of rules 41 and 42. These applications are currently being considered and, as noted above, decisions on the initial exemption applications are expected to be made by Gas Industry Co by 19 September 2008.

Considering the lack of support from allocation participants, Gas Industry Co does not intend to notify an additional time for publication of estimated day-end volume injection quantities under rule 42 at this time.

Additional information exchanges – including provision of reports and information by the allocation agent to allocation participants

The consultation paper detailed a number of other reports and information exchanges associated with downstream allocation and reconciliation, including:

- exchanges between the allocation agent and the allocation participants;
- information exchanges between the allocation agent and the transmission system owner (in particular as required for upstream balancing); and
- the mechanism for an allocation participant to notify the allocation agent of changes.

Provision of special reports

Allocation participants were generally supportive of the proposal that the allocation agent should be able to produce special reports on request from a participant provided the party requesting the report pays the cost and the allocation agent does not breach confidentiality. Some allocation participants suggested Gas Industry Co should monitor each requested report to help ensure confidentiality was maintained and consider whether, where numerous similar reports are requested, a rule change or change to the allocation agent's service provider agreement is desirable.

In response to submissions, Gas Industry Co has specified in the allocation agent service provider agreement a number of additional services which the allocation agent may agree with individual allocation participants to provide to ensure that the allocation system continues to support the needs of the gas industry. The fees that will apply for these services shall be paid directly by the allocation participant for whom the services are provided and shall be based on the hourly rates specified in the Gas Industry Co contract and any external costs in providing the services.

Provision of information to OATIS

Allocation participants were supportive of the allocation agent loading allocation results directly into OATIS, including complying with the format requirements accepted by OATIS.

Vector noted that the provision of information to Vector Transmission is a key requirement and that Vector alone should specify the format. Each Vector TSA requires that shippers must ensure that:

any Allocation Agreement includes a commitment that, within two Business Days of the Allocation Agent receiving the input information from Vector for the Delivery Point to which the Allocation Agreement relates, that Allocation Agent will notify Vector in writing of each Shipper's Gas Delivery Quantities at that Delivery Point, but in any event shall not be obliged to provide those Delivery Quantities earlier than the timeframe required under the Reconciliation Code. (Vector Transmission Code, pg. 41, Section 6.6: Determination of Gas Quantities)

The consultation paper proposed a process by which the allocation agent could obtain and confirm the contract code information required by OATIS. Retailers and distributors generally supported the

process. Vector however was concerned that retailers, rather than Vector, were advising the allocation agent of the relevant codes.

Following receipt of submissions, Gas Industry Co and Vector have had lengthy discussions regarding the contract code process and interface between the allocation system and OATIS. The finalised arrangements are reflected in the allocation agent service provider agreement and allocation system functional specification.

As part of the discussions on contract codes, it was discussed that only retailers have the necessary information regarding the ICP numbers to which each contract code is assigned. Gas Industry Co has agreed a process with the allocation agent in the allocation system functional specification, which now makes plain that:

The contract identifier (contract ID) is assigned by TSOs to their gas transmission contracts with retailers. Although currently a length of 4 characters is used for contract IDs, the contract ID in the allocation system will have a maximum length of 8 characters for allow for future expansion.

The interface (via OATIS) requires that the allocation information provided by the allocation system includes a contract ID. The allocation system will assign a contract ID from the contract information provided to the allocation agent as part of the trader information provision (in GAS020).³

Vector was involved in formulating the process in GAS020 to ensure its workability.

Notifications to the allocation agent

The consultation paper proposed that a notification form should be made available by the allocation agent for static notifications. The consultation paper suggested that Gas Industry Co will seek to negotiate in the allocation agent service provider agreement that the receipt of notifications will be acknowledged by the allocation agent within two business days and at that time the allocation agent will advise if and when the appropriate requests have been or will be processed and next steps.

Submissions were generally supportive of such a form, provided it was user friendly and its format was not too restrictive.

In response to submissions, and following negotiations with the allocation agent, the allocation system functional specification includes a process for receiving trader notifications from allocation participants ("GAS020 Receive allocation participant notifications"). Using this process allocation participants notify the allocation agent of the following information:

- retailers must give notice to the allocation agent when they commence supplying gas to a consumer installation at a gas gate at which they have not previously supplied gas or cease to supply gas at a gas gate;

³ Section 5.6 of the allocation system functional specification.

- in order for the allocation agent to accurately assign, for the TSO, gas transmission contract IDs to specific submission quantities, retailers are required to provide the contract ID of their relevant transmission service agreement (TSA) and the commencement and expiry dates;
- retailers are also required to provide any translations between their retailer allocation participant codes and their Shipper IDs, if they are different;
- each retailer is to notify the allocation agent as to whether distributors are to receive that retailer's allocation reports – GAR010, GAR020, GAR030, GAR040 and GAR050;
- TSOs are required to provide the allocation agent with details of the gas gates for which they will be providing injection information and for which they will be requiring allocation information;
- TSOs are required to provide a list of valid contract IDs and their associated retailer codes and contract names with commencement and termination dates (for cross-checking purposes with retailer's contract ID trader information – an optional procedure); and
- distributors are required to notify the allocation agent when gas gates (including interconnection gas gates) are established or decommissioned, together with the gas gate code. When an embedded network is established or decommissioned, distributors are also required to identify the associated notional delivery point.

For retailer and TSO trader notifications, the allocation agent has prepared forms to be completed. Distributors do not need to complete a form when advising the allocation agent of their trader information, but instead can simply send an email.

For other notifications to the allocation agent under the Rules, the allocation agent will determine, as required, whether a form is necessary or whether an email will suffice.

Issues around gas measurement systems and the definition of gas gate

The consultation paper noted that one industry participant (Powerco) has raised a concern regarding the definition of gas gate in the Reconciliation Rules, in particular related to the inclusion of a point of connection between two gas distribution systems. Powerco is concerned that this could be interpreted as a connection between a distribution system (owned by one person) and a gas measurement system (owned by a different person). Powerco provided an extensive submission on the paper including its analysis of the definitions in the Gas Act 1992 that give rise to the concern that a gas measurement system may be a distribution system in its own right.

Gas Industry Co also sought information on the number of instances where third parties own meters or the whole gas measurement system. Submissions indicated that in the overwhelming majority of cases the third party owned the whole gas measurement system and there were only a few examples where the third party just owned the meter.

The inclusion in the definition of gas gate of “the point of connection between two gas distribution systems” was originally intended to cover embedded networks, for example Waitoki B. Although embedded networks are not as common for gas as with embedded electricity networks, it was

considered necessary for embedded networks to be captured in the switching and downstream reconciliation regulatory regimes. Gas Industry Co notes that the approach adopted in respect of points of connections between distribution systems in the definition of gas gate in the Reconciliation Rules is also adopted in the Switching Rules.

As the consultation paper states, it was not Gas Industry Co's intention for the point of connection between a distribution system owned by one person and a gas measurement system owned by a different person to be considered a gas gate. An extreme example is helpful to illustrate Gas Industry Co's concern – in that, if the gas measurement system for a single mass market consumer was owned by a person other than the distributor, there is the potential to argue that point of connection constitutes a separate gas gate.

After considering submissions and its own analysis, Gas Industry Co acknowledges that there is a risk that a technical legal argument for the inclusion of third party gas measurement system connections as gas gates could be mounted. However, in practice, it considers that risk to be low and contrary to the context and purposes of the Reconciliation Rules and Switching Rules.

To address any existing risk in the short term, Gas Industry Co proposes to issue a clarification note/guideline stating how the definition of gas gate is to be applied in the context of the Reconciliation Rules. In particular, that clarification note/guideline will reiterate that a gas gate does not include a point of connection between a distribution system and a gas measurement system for the purposes of the Reconciliation Rules and the Switching Rules. Should, during the implementation, the risks surrounding this approach become greater than expected, Gas Industry Co notes it is able to consider exercising its transitional exemption powers under both the Reconciliation Rules (rule 81) and the Switching Rules (rule 90).

In the longer term, Gas Industry Co will consider whether a rule change is appropriate to remove any technical legal risk. It may be appropriate to consider a rule change that would insert wording into the definition of gas gate similar to that in the proposed Gas Governance (Critical Contingency Management) Regulations, i.e. to avoid doubt, a gas gate does not include a point of connection between a distribution system and a gas measurement system.