

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

**Date**                **30 September 2009**

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## **Introduction and purpose**

Rule 37.3 of the Gas (Downstream Reconciliation) Rules 2008 (the “Reconciliation Rules”) requires that, prior to the beginning of each gas year, Gas Industry Co 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). This accuracy requirement only applies to consumption data for allocation groups 3 to 6.

Consultation is required under rule 37.3 and submissions were sought from allocation participants on the appropriate percentage of error to be determined for the consumption periods in the gas year commencing 1 October 2009. This paper analyses the six submissions received, 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, version 1.2, issued on 30 September 2009.

Submissions were received from Contact Energy, Genesis Energy, Mighty River Power, E-Gas, Energy Direct NZ and Vector. Copies of these submissions are available on Gas Industry Co’s website at [www.gasindustry.co.nz/work-programme/downstream-reconciliation/consultation](http://www.gasindustry.co.nz/work-programme/downstream-reconciliation/consultation).

## **Summary of the issues raised in submissions: error percentage**

In making the determination under rule 37.3, Gas Industry Co must have regard to the following matters set out in rule 37.4:

- 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 two possible options were appropriate for the consumption periods in the gas year commencing on 1 October 2009:

- Retaining the existing measure of 15% (ie  $\pm 15\%$ ) which applied to the consumption periods in the gas year commencing 1 October 2008; or
- Tightening the measure to an accuracy percentage of 10% (ie  $\pm 10\%$ ).

Gas Industry Co notes it is only determining the percentage of permissible error for the gas year commencing 1 October 2009, and that rule 37 requires the percentage to be reconsidered for each subsequent gas year.

Submitters were split on their preference as to the appropriate approach to be taken. Contact Energy, Genesis Energy, E-Gas and Energy Direct NZ supported the retention of the  $\pm 15\%$  error for the 2009/10 gas year. Mighty River Power supported tightening the accuracy percentage to  $\pm 10\%$ , while Vector sought a tightening to at least  $\pm 10\%$  (and preferred  $\pm 5\%$ ). Vector submitted that  $\pm 15\%$  is unacceptable, as the measure provides inadequate incentives for mass-market retailers to improve their performance.

Some additional constraints were also proposed by submitters: ie the percentage of error should also have a GJ threshold exception to recognise circumstances where a retailer has a small number of consumers and low associated volumes at a gas gate (Contact, Energy Direct NZ and Mighty River Power); the measure is only appropriate for the 2009/10 gas year and should be tightened in future gas years (Genesis); and retailer's forward estimate methodologies could be improved if the allocation agent generated future seasonal adjustment daily shape values (SADSVs) (Contact, Mighty River Power and Energy Direct NZ).

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

Upstream considerations	<ul style="list-style-type: none"> <li>• Due to the methodology for pipeline balancing, there are financial impacts on retailers as a result of the accuracy of the initial allocation. Washup data is used to recalculate transmission and distribution charges, however, the Vector Transmission Code prevents washup information being used to reallocate balancing costs. Inaccurate data for initial allocations will give rise to misallocation of balancing costs which is unacceptable. Pressure needs to be put on transmission pipeline operators to follow the wash-up schedule for all processes, including balancing charges (Mighty River Power).</li> <li>• Under the existing margin for error, retailers which manage their balancing position well can be exposed to significant balancing costs because they are apportioned industry-wide variances in the initial allocation. This is unfair and creates the wrong incentives (Vector).</li> </ul>
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The volatility of gas demand	<ul style="list-style-type: none"> <li>Gas demand is difficult to predict due to the volatile nature of gas consumption as a result of weather, natural loss factors and other conditions (E-Gas and Contact). Much of the movement seen in the data produced to date is caused by factors other than the accuracy of retailers' estimation routines (Genesis). The allocation information so far indicates that the industry in general is not able to accurately predict gas consumer usage behaviour when estimating consumption due to seasonal volatility (Contact).</li> <li>Gas Industry Co should explore the possibility of the Allocation Agent providing dynamic forward-looking seasonal shape values (Contact, Mighty River Power and Energy Direct NZ).</li> <li>To achieve a material improvement and lower balancing risk the process to establish Initial allocations needs to change from a bottom up to a top down approach – eg using market share to allocate residual (non-TOU) volumes to retailers (Contact).</li> </ul>
Costs	<ul style="list-style-type: none"> <li>The costs of any changes to improve accuracy are traded off against the scope for those changes to mitigate financial risks. Lower-cost options for improving accuracy generally involve system changes to improve estimations and reduce errors. Higher-cost options would include measures such as increasing meter reading frequencies, or deploying advanced meters (Genesis).</li> <li>It is not practical or physically possible to have more meters read right at the end of the month, or to read more meters (Energy Direct NZ).</li> <li>Significant additional costs are unlikely to be incurred by retailers to achieve a <math>\pm 10\%</math> error tolerance (Mighty River Power). While tightening the error margin will likely lead to compliance costs for retailers (especially mass market retailers), we believe that the size of these costs has been overstated (Vector).</li> <li>Publishing compliance results of individual retailers' rule 37 performance following final allocations will further incentivise retailers to improve estimation processes (Mighty River Power and Contact).</li> </ul>

## Gas Industry Co's response: error percentage

The issues raised by submitters are discussed in detail below:

- The Reconciliation Rules were designed to progressively improve the accuracy of allocated quantities as more data is obtained and the reliance on estimates reduced, ie the measures would improve systems and the quality of information provided, and consequently reduce UFG. This downstream reconciliation information feeds into the calculation of upstream transmission and balancing charges – noting that wash-ups under the Reconciliation Rules are not taken into account in the balancing charges (ie balancing charges are determined by the initial allocation quantities). Vector has indicated that it would be extremely complex and costly to re-calculate balancing charges, and that changes would also have to be made to the Vector Transmission Code (which means the outcome is not guaranteed). However, Vector did not offer any data on how costly that would be nor how those costs might compare with costs incurred by retailers in improving their estimation accuracy. While obtaining accurate initial allocation consumption data is desirable for both downstream and upstream sectors, Gas Industry Co does not consider the rule 37 accuracy margin, or the Reconciliation Rules in general, should be used as a mechanism to address problems or flaws in the upstream transmission balancing framework. It would be problematic, within the confines of the Reconciliation Rules, to address a redistribution of

transmission balancing charges. The inclusion of a wash-up process for transmission balancing charges in upstream arrangements is an approach that Gas Industry Co considers should be further explored by transmission system owners and shippers.

- The primary aim of the rule 37 accuracy margin is to ensure consumption information provided for initial allocation is as accurate as possible when compared with consumption information provided for final allocation. Having accurate initial allocation data assists the early identification and reduction of UFG levels at gas gates and reduces any need for subsequent upstream adjustments or resulting unfairness. By restricting the margin of error permitted for initial allocation non-TOU consumption data, Gas Industry Co considers it would increase the incentive on retailers to improve the accuracy of their data. It will also reduce any potential for retailers to try and “game” their submission data to fit within the extremities of the accuracy margin. Gas Industry Co wishes to ensure that there are adequate disincentives so as to discourage a retailer from systematically under-submitting its consumption data in allocation groups 3 to 6 to reduce its initial allocation quantities at a gas gate (perhaps to reduce any exposure to balancing costs).<sup>1</sup> A narrowing of the accuracy percentage would constrain the scope for such behaviour. It is also noted that, by the time that the 2009/2010 accuracy margin applies, retailers will have had 12-months under the downstream reconciliation framework to develop, modify or cement their processes to achieve greater accuracy for initial submission data. They will also have had the benefit of eight months of interim allocations which they can use to further calibrate their processes. These considerations support the adoption of a narrower accuracy percentage for the coming 2009/10 gas year but, as discussed below, other matters Gas Industry Co must have regard to provide a balance to that approach.
- 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. The mass market consumption data received for initial and interim allocations to date clearly shows this to be the case for several retailers – however, at the same time, some retailers are consistently able to fall within the accuracy threshold.<sup>2</sup> This could be due to several reasons including obtaining more month-end meter reads and better forward estimation methodologies – but it could also relate to other external factors such as a retailer’s customer and load makeup at a gas gate, temperature fluctuations or third party metering processes. In light of the requirement on Gas Industry Co under rule 37.4.2 to have regard to the extent to which retailers are able to comply with the percentage of error, the available information indicates that tightening the margin to  $\pm 10\%$  or more will likely significantly increase the instances of non-

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<sup>1</sup> Note that event and performance audits of retailers will also identify such behaviour – and any such alleged breaches will then be addressed through the compliance processes in the Gas Governance (Compliance) Regulations 2008.

<sup>2</sup> Retailers’ compliance with the threshold across the months from October 2008 until April 2009 varies from 2.5% of submissions outside of the target band, for the best performing retailer, to 64.5% of submissions outside the target band for the worst performing retailer. The number of instances where the percentage of error exceeded  $\pm 15\%$  for the interim comparison was 876 across all retailers and months, out of 2670 submissions (an average of around 125 per consumption period). Of these instances, 380 related to consumption data which were smaller for the initial allocation than the interim allocation (ie under-estimates) and 476 related to consumption data which were larger for the initial than the interim (ie over-estimates).

compliance with the accuracy requirement. However, it might equally be expected that narrowing the tolerance would better incentivise retailers to improve their forward estimation processes wherever feasible. On this point, Gas Industry Co notes that some submitters indicated there was a range of options for retailers to consider to improve initial allocation submissions – from more costly approaches (such as more frequent month end meter reads and/or the installation of smart meters) to less costly options (such as modifying estimation algorithms). However, no information was provided by submitters as to the likely or potential quantum of such costs. Given several retailers appear to be able to more than meet the existing accuracy tolerance, with some modifications to retailers processes and a full gas year of quality allocation data, there would appear no obvious reason why it is also not achievable for other retailers to do so. For these reasons, Gas Industry Co considers a narrowing of the accuracy percentage for the coming 2009/10 gas year is appropriate.

- Submitters have indicated that, to achieve a greater level of accuracy for initial allocation consumption data, retailers will have to incur additional costs. Some retailers are considering applying system changes – such as improved seasonal estimation methodologies – or obtaining more frequent and more month-end meter reads (including greater use of smart meters). Some submitters have indicated that these additional costs may be greater than the benefits achieved, while others have indicated the costs are being overstated. Gas Industry Co is also cognisant that tightening the accuracy measure will likely result in additional compliance costs for retailers – albeit the compliance framework will provide a forum for some retailers affected by inaccurate submissions to try and recoup “misallocated” balancing charges. If a stricter accuracy percentage is applied, and retailers’ processes do not change, the existing allocation information indicates that additional alleged breaches and compliance costs would be incurred by retailers. If an accuracy percentage of  $\pm 10\%$  or lower was applied, Gas Industry Co considers at this stage large and undue costs to achieve compliance would likely also be incurred. With these additional internal and compliance costs in mind, Gas Industry Co considers that tightening the accuracy margin to  $\pm 10\%$  or lower is not desirable at this stage.
- Gas Industry Co notes that rule 37 does not permit additional mechanisms to address exceptions (ie a minimum gigajoule threshold) to be determined for assessing the accuracy of initial allocation data – the sole mechanism available under rule 37 is to determine the *percentage of error* for the accuracy allocation group 3 to 6 consumption data for the initial allocation. However, under the Gas Governance (Compliance) Regulations 2008, any alleged breaches of this rule reported by the allocation agent will first be considered by the market administrator as to whether a material issue is raised. In cases where both initial and final consumption figures are small and any difference is therefore also small (in terms of gigajoules), but there is a resulting large percentage difference, these cases are unlikely to be considered significantly inaccurate and raise a material issue.<sup>3</sup> In the medium term, this issue is able to be considered as a potential rule change in the policy review of

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<sup>3</sup> The obvious exception is where another participant joins an alleged breach and claims it has suffered loss, in which case the market administrator may consider there has been some form of market impact and conclude that it raised a material issue.

the Reconciliation Rules intended to commence in mid-2010 – as can the suggestion for an accuracy threshold to apply to consumption data for the interim allocation.

- Some submitters suggested Gas Industry Co consider engaging the allocation agent to provide dynamic forward-looking seasonal shape values. Gas Industry Co notes that, in the consultation process for the development of the Reconciliation Rules, it was proposed that the allocation agent generate SADSVs (based on the two previous equivalent consumption periods) prior to the initial allocation. Submitters at the time preferred to rely on their own seasonal estimation methodologies for forward estimates to achieve the accuracy requirements required by the Reconciliation Rules. Given the existing SADSVs published by the allocation agent will include those two consumption periods, the information to derive such forward looking SADSVs is to some extent already available to retailers. The previous allocation agent, Tetenburg and Associates, has also previously provided historical SADSVs to retailers for consumption months prior to the go-live date in order to improve initial estimations. Gas Industry Co, however, does intend to investigate further the scope and potential benefits for providing objective forward looking SADSVs to assist retailers in achieving greater accuracy for their forward estimates.
- In relation to submitters' comments regarding the publication of retailers' rule 37 performance, 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 is not required by the Reconciliation Rules and there is arguably the potential for such information to be misleading to consumers. This is because the different configurations and loads of each retailer at each gas gate will distort the ease with which the reported accuracy percentages can be interpreted.<sup>4</sup>

In light of the matters considered above, and those outlined in the consultation paper insofar as they relate to the matters set out in rule 37.4, Gas Industry Co considers it is appropriate to move to a stricter  $\pm 12.5\%$  measure. This change should give greater effect to the aim of ensuring consumption information provided for the initial allocation is as accurate as possible when compared with consumption information provided for the 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 2009, a  $\pm 12.5\%$  measure will materially achieve that aim and is appropriate.

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<sup>4</sup> 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.

## Summary of Submissions

**Q1: Do submitters support the determination of a  $\pm 10\%$  or  $\pm 15\%$  percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3?**

Submitter	Submission comments
Contact Energy	<p>Contact considers the current determination of <math>\pm 15\%</math> accuracy threshold for rule 37.3 should be retained for the 2009/2010 gas year. It is noted that the threshold set for Electricity Initial vs Final submission accuracy is <math>\pm 15\%</math>, and subject also to inclusion of a balancing area in the accuracy calculation where the submission volume for each balancing area exceeds 100,000 kWh for the month.</p> <p>Contact's 2009 electricity reconciliation participant audit found that for a single consumption month selected by the auditor Contact was more than 99% compliant with the accuracy threshold. Contact's estimation processes for electricity and gas submissions are identical, yet analysis for the May 2009 consumption month indicates only 26% of gas gates meet the <math>\pm 15\%</math> threshold, or 77% if gas gates with submitted volumes less than 500GJ for the month are excluded. While this analysis is for submission volumes for the Initial vs Interim allocations, it is not expected to change materially with the submission volumes for the Final allocation.</p> <p>What this indicates to Contact is that:</p> <ul style="list-style-type: none"> <li>the gas accuracy threshold needs to include both a percentage threshold and a submission volume threshold, and a volume threshold of 500GJ is suggested given it is consistent with the materiality threshold in the guideline note for special allocations (note the electricity threshold of 100,000 kWh is equivalent to 360GJ);</li> <li>it is more problematic to achieve the <math>\pm 15\%</math> threshold for gas given seasonal consumption is significantly more volatile and there is no point in lowering the threshold for gas to <math>\pm 10\%</math></li> <li>publishing results by retailer will incentivise outlier retailers to address their estimation processes, and retaining the <math>\pm 15\%</math> threshold while adding a volume threshold will ensure greater visibility is meaningful;</li> <li>complex enhancements which come at additional cost are required to Contact's gas estimation processes to improve the accuracy of submissions for Initial allocations to acceptable levels.</li> </ul> <p>Contact notes that all retailers with non-TOU mass market customers appear to be struggling to achieve the <math>\pm 15\%</math> accuracy threshold, and therefore in the absence of more regular reads available through future smart metering deployments it is time for the industry to consider other options to achieve acceptable accuracy and fairness with Initial allocations.</p>
Genesis Energy	<p>Genesis Energy supports retaining the accuracy standard at 15% for the next gas year, but expects that a revision down to 10% should be achievable for the following year.</p> <p>The new registry and reconciliation systems are improving participant's ability to submit accurate consumption data, but this process takes time. For now, the allocation agent shape file spreads read-to-read volumes to the appropriate months, and is generated from all retailers' submissions at a gate. This means that each retailer's accuracy is influenced by other retailers' submissions. This influence will effectively be nullified once the system has produced thirteen months of washed-up profiles.</p>

**Q1: Do submitters support the determination of a  $\pm 10\%$  or  $\pm 15\%$  percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3?**

Submitter	Submission comments
Mighty River Power	<p>MRP propose an altered structure in the determination of material consumption errors and differences. MRP supports the narrowing of the percentage tolerance target to <math>\pm 10\%</math> but with an absolute value set for measurement to ensure that the differences exceeding the <math>\pm 10\%</math> tolerance are considered material. At all gas gates, this absolute value should be set at <math>\pm 50</math> GJ so as to remove large percentage yet immaterial changes from consideration. This approach has been used previously for error determinations in the Electricity industry with a fair degree of success.</p> <p>While MRP supports the narrowing of the tolerance target, they feel that this value should be applied to the difference in Initial and Interim allocations, with a further narrow tolerance of <math>\pm 5\%</math> set for differences between Interim and Final. The absolute value of 50 GJ should still apply to this <math>\pm 5\%</math> tolerance for the same reason stated above. The majority of the differences in allocation submissions will occur between the Initial and Interim allocations, and earlier identification of large variances will allow retailers better opportunity to improve the estimation processes they use in order to reduce amount of breaches of this tolerance.</p>
Energy Direct NZ	<p>Energy Direct NZ believe that a 15% limit is more appropriate than <math>\pm 10\%</math>. However, we also think that materiality should be considered, either in the form of a minimum GJ difference and/or a minimum percentage of injected quantity at the gate.</p> <p>In some cases there may be a huge percentage difference between initial and interim allocations, but the difference may be only 2GJ or less than 0.00% of the total quantity injected at the gas gate. Retailers with a small number of customers on a gate are more likely to breach the accuracy requirements because:</p> <ul style="list-style-type: none"> <li>• they have little influence on the total allocations at the gate. The SADSVs at the gate applied for the interim allocation are likely to be strongly influenced by the consumption pattern of the dominant retailer. Application of different SADSVs to those applied in a retailer's initial allocation submission can make a significant difference.</li> <li>• even a small error in the reading on one meter can make a large percentage difference if a retailer only has one or two small customers on a gas gate.</li> </ul>
E-Gas	<p>E-Gas believes a tolerance of 15% is more appropriate given that the majority of consumers in the gas industry are non-TOU users. However, with this in mind it's imperative that accuracy of information provisioning remains the central focus. A 10% tolerance is too low because gas by its natural characteristics already has a natural loss factor even before allocation can be conducted. Therefore one can argue 15% is too low also, given that in the winter peak months the percentage error could well be outside of this.</p>
Vector	<p>Vector supports a reduction in the error margin to <math>\pm 10\%</math>, but believe the margin should be reduced to <math>\pm 5\%</math>. A reduction to this level has the following advantages:</p> <ul style="list-style-type: none"> <li>• It is more consistent with the policy/regulatory outcome sought by the Reconciliation Rules and the GPS. The accuracy component of this outcome is paramount and will be better met by <math>\pm 5\%</math>. As move to <math>\pm 5\%</math> would send a clear signal that the industry is committed to delivering the government's objectives.</li> </ul>



**Q1: Do submitters support the determination of a  $\pm 10\%$  or  $\pm 15\%$  percentage of error for consumption periods in the 2009/2010 gas year under rule 37.3?**

Submitter	Submission comments
	<ul style="list-style-type: none"> <li>• It would significantly enhance the incentive placed on retailers to improve the accuracy of their nominations. The current margin provides too much leeway. Conversely, retailers that have made investments to improve accuracy are not rewarded sufficiently. <math>\pm 15\%</math> is not consistent with the purpose of the Reconciliation Rules or the objectives in the Act and the GPS.</li> <li>• Downstream reconciliation feeds into upstream transmission and balancing charges. Balancing costs are based on retailers' initial allocations (ie no wash up). Retailers which manage their position well can be exposed to significant balancing costs because there are apportioned industry-wide variances in the initial allocation, which is unfair and creates the wrong incentives.</li> <li>• There is a suggestion that the best way to remedy this is to allow upstream wash-ups. However, there are number of problems with this approach. Downstream variances are best dealt with in the downstream segment of the market. It would also be extremely complex and costly to re-calculate balancing charges. Changes would also have to be made to the TSO's codes, which means the outcome is not guaranteed. In the meantime, accurate retailers will continue to suffer, being charged penalties they have little control over.</li> <li>• The current <math>\pm 15\%</math> leaves open the potential for gaming by participants to arrange their positions in a manner which minimises their upstream balancing exposure while complying with the generous downstream margins. Extreme level of gaming may be picked up by audits, but gaming within the <math>\pm 15\%</math> is unlikely to be identified.</li> </ul> <p>As an alternative, Vector suggests a <math>\pm 10\%</math> margin be adopted, with a commitment to drop to <math>\pm 5\%</math> in the 2010/11 gas year.</p>

**Q2: Do submitters consider the information available since go-live indicates that a change to the existing  $\pm 15\%$  percentage of error is appropriate or not?**

Submitter	Submission comments
Contact Energy	<p>Information provided to date indicates that no participant with non-TOU mass market customers is likely to be able to comply with the <math>\pm 15\%</math> accuracy determination. This is not expected to change materially with month 13 submissions for Final allocations. This indicates that the industry in general is not able to accurately predict gas consumer usage behaviour when estimating consumption due to seasonal volatility. Nothing provided to date indicates a change to the <math>\pm 15\%</math> threshold is appropriate, apart from a need to add a volume threshold.</p> <p>The results to date indicate to Contact that to achieve a material improvement and lower balancing risk the process to establish Initial allocations needs to change from a bottom up to a top down approach – eg using market share to allocate residual (non-TOU) volumes to retailers.</p>
Genesis Energy	<p>No. Genesis Energy expects that much of the movement seen in the data produced to date is caused by factors other than the accuracy of retailers' estimation routines.</p>

**Q2: Do submitters consider the information available since go-live indicates that a change to the existing  $\pm 15\%$  percentage of error is appropriate or not?**

Submitter	Submission comments
Mighty River Power	MRP agrees that the information currently available in the allocation system is sufficient to warrant a change. Actual data is available since go-live that covers the summer and winter months for analysis. Retailers have had a significant period of time in which to cement and develop their processes to the point that a narrower accuracy tolerance can be achieved. If retailers are meeting their obligations under rule 29.4.3 and 29.5, there should be no reason that difference between interim and final allocations should be negligible at best.
Energy Direct NZ	We believe that 15% is appropriate as a base limit, but as stated above we believe additional factors should be taken into consideration to determine materiality.
E-Gas	One needs to consider the wider circumstantial events that could play a significant factor in causing unforeseen errors to occur. For example temperature (unusually colder periods) does have a significant bearing on load determination, UFG, allocation etc. A tolerance level is only as good as the conditions that the tolerance level has been designed for. It currently assumes that all factors remain constant which is not the case.
Vector	<p>Vector acknowledges that many retailers will struggle to meet the <math>\pm 15\%</math> error margin. Individual retailers will have a number of instances where the error margin is exceeded and the situations for finals will not change dramatically given consumption data for interims includes 90% meter reads.</p> <p>However, this is not in itself a sound basis for retaining the existing error margin. Adopting this approach creates a real risk of perverse incentives on parties not to perform better. The test against the objectives of the reconciliation process, not a test against current performance.</p> <p>While tightening the error margin will likely lead to compliance costs for retailers (especially mass market retailers), we believe that the size of these costs has been overstated. Many retailers also appear to be able to meet the accuracy requirement – with no evidence that their performance has come at the expense of higher costs incurred.</p>

**Q3: In respect of the proposed  $\pm 10\%$  or  $\pm 15\%$  options for the percentage of error, do submitters have any comments or information in relation to matters set out in rule 37.4?**

Submitter	Submission comments
Contact Energy	<p>Results from this current gas year indicate that due to the volatility in gas seasonal use retailers are not able to consistently ensure their submissions meet this accuracy requirement.</p> <p>Contact's analysis has prompted us to consider introducing more complexity into the gas estimation processes, however while we have identified and prioritised several enhancements that will improve accuracy, we do not yet know the costs involved or whether the changes will achieve 100% compliance.</p> <p>Ultimately publishing compliance results of individual retailers following Final allocations will further incentivise retailers to improve estimation processes, however this may not be the lowest cost option to achieve materially more accurate and equitable Initial allocations.</p> <p>It is noted that submission quality alone is not going to result in materially</p>

**Q3: In respect of the proposed  $\pm 10\%$  or  $\pm 15\%$  options for the percentage of error, do submitters have any comments or information in relation to matters set out in rule 37.4?**

Submitter	Submission comments
Genesis Energy	<p>accurate Initial allocations due to long term excess UFG and distortions created due to the UFG allocation methodology differentiating TOU and non-TOU allocations. Furthermore it appears to Contact that many of the gas gates with allocation issues are those with a significant percentage of TOU load, however lack of transparency in the allocation results (i.e. bundling of TOU and non-TOU allocations) means that it is impossible for a retailer to analyse whether improvements in estimation processes will materially improve the fairness of Initial allocations.</p> <p>Contact recommends serious consideration be given to a different approach to initial allocations using market share to determine the initial allocation of non-TOU residual gas gate volumes. It is apparent to Contact that the top down approach for non-TOU estimates gives materially more accurate estimates than the bottom up approach using dynamic seasonal shapes and variables.</p> <p>Submissions can only be based on the information that retailers have available at the time of submission. As such, they will always be less accurate than assessments made at a later date with the benefit of additional read information, processing, and error correction.</p> <p>Genesis Energy continually looks to improve the accuracy of its initial submissions to mitigate the financial implications of fluctuating volumes. In the normal course of events, the costs of any changes to improve accuracy are traded off against the scope for those changes to mitigate financial risks. Event audits (such as those underway at present) provide an additional opportunity to identify sources of inaccuracy and associated improvements.</p> <p>Lower-cost options for improving accuracy generally involve system changes to improve estimations and reduce errors. Higher-cost options would include measures such as increasing meter reading frequencies, or deploying advanced meters. Retailers make their individual decisions on meter reading frequencies based on their understanding of customer preferences and their overall retail strategy (for example, low-cost versus full-service).</p> <p>Genesis Energy expects that lower cost improvements should be sufficient to enable retailers to achieve a 10% accuracy standard (once 13 months of wash-ups have been processed at each gas gate, and event audits have shed light on problems at gates with particularly high errors). In subsequent years, a closer analysis of the costs and benefits may be needed to justify setting a tighter accuracy standard.</p>
Mighty River Power	<p>MRP agrees that the primary aim is to ensure accuracy of initial data submissions and this can be enhanced if the 2 tiered approach as suggested earlier is applied. This will encourage higher accuracy of data submissions at the initial and interim stage rather than at the final stage. The change to accuracy tolerance means that retailers become more dedicated in ensuring a high accuracy of initial allocation submission. On the other hand, the wash-ups are in place as it is well known that the initial allocations are unlikely to be 100% accurate.</p> <p>Every participant complies with the wash-up process, except TSO's in respect of balancing charges. The TSO knows the purpose of wash-ups however still invoices balancing charges based solely on the initial allocation. It is unclear why this is so especially given the TSO already uses the washed-up volumes to adjust running imbalance position of each retailer. The TSO not following all the wash-up processes removes a point of financial/commercial incentive from the process</p>

**Q3: In respect of the proposed  $\pm 10\%$  or  $\pm 15\%$  options for the percentage of error, do submitters have any comments or information in relation to matters set out in rule 37.4?**

**Submitter**

**Submission comments**

as retailers may be inclined to not necessarily markedly improve accuracy between Initial and Interim allocations, as no readjustment of balancing charges for more accurate Interim volume occurs. Pressure needs to be put on transmission operators to follow the wash-up schedule for all processes, including balancing charges.

MRP is of the opinion that retailers should be able to comply with the  $\pm 10\%$  error level between initial and interim and interim – final allocations as proposed. Where compliance is not achieved, retailers should be working towards improving the accuracy of data submissions. With a narrower reporting tolerance and transparent reporting of instances where these tolerances exceed, the Industry will be in a better position to determine improvements to systems and process to ensure the narrower targets are being met.

MRP does not believe that it will incur any significant costs to achieve the proposed  $\pm 10\%$  error tolerance. There are improvements already in the process of being implemented to ensure the allocations are more accurate. Where costs are incurred as a result of achieving the narrower targets, these should be viewed as necessary. The paramount purpose of the global allocation process is to ensure improving the accuracy, at all stages.

As the forward estimation process used by retailers is the key process in ensuring accuracy, especially for initial allocations, has the Gas Industry Co considered developing an industry standard approach and/or algorithm for retailers to use? By removing the variability of retailers' interpretation of how forward estimation should work, the onus then returns to retailers' to ensure they have the most accurate data possible at the time of reporting.

Energy Direct NZ

We agree that the primary aim should be to ensure that information provided in the initial allocation is as accurate as possible. EDNZ endeavours to provide the best information as possible by:

- attempting to read all group 4 gas meters every month and reading all commercial customers' gas meters as close to the end of the month as possible.
- applying seasonal profiling based on the past two years of allocation information provided by the Allocation Agent.

Despite our efforts, it is difficult to consistently comply with the accuracy requirements for gates where we have a very small number of customers and make up a small percentage of total gate consumption. This is because we have little influence on the SADSVs resulting from the initial allocation, which can be very different to the allocation results that we have based our own initial profiles on, and a misread on even one domestic meter can result in a difference of more than  $\pm 15\%$  for our submissions for the gate.

In addition, events beyond the retailers control can occur which may cause inaccuracies, for example: meter changes which have not been advised, meter operator information errors, lack of information for new customers.

Unfortunately it is not practical or physically possible for us to have more meters read right at the end of the month, or to read more meters. We already base our initial profiles on actual historic information from the Allocation Agent for the gas gate. It is likely that increased costs to EDNZ relating to reducing the threshold would relate to penalties for breaches, rather than costs to improve the accuracy

**Q3: In respect of the proposed  $\pm 10\%$  or  $\pm 15\%$  options for the percentage of error, do submitters have any comments or information in relation to matters set out in rule 37.4?**

Submitter	Submission comments
E-Gas	<p>of our submissions.</p> <p>We believe that the difference between initial and interim allocations would be reduced if all retailers applied the same SADSVs for the initial allocations, provided in advance by the Allocation Agent. Otherwise in effect, we all apply our own profiles for the initial allocation, and then apply the SADSVs relating to the incumbent retailer's submitted data at the interim.</p> <p>Downstream suppliers, particularly non-TOU orientated suppliers like E-Gas are at the mercy of consumer reaction to wider economic and social factors – in particular residential and small business consumers where in the current economical recession there have been higher than normal liquidations and receiverships. Another factor that has not been discussed is the role of meter-reading organisations and whether they are also to be made accountable for the information they provide. Non-TOU suppliers rely on these companies ability to conduct competent metering services and perhaps the GIC may want to consider examining the role these parties play in the provisioning of raw information prior to allocation.</p> <p>There are many instances where meter reads do not seem correct and we are forced to undertake checking to ascertain whether they are correct or not. Obviously it is not possible to capture them all and this could have inevitable consequences. E-Gas is of the opinion that between the initial and final determination the 15% factor may not adequately cater for the non-TOU sector of consumers bearing in mind that some individual corrections by ICP could well be over 20%. Perhaps, for consideration is that where ICP's are over the 15% threshold, they are declared separately to the Allocation Agent.</p> <p>E-Gas is comfortable to work towards achieving the objectives set out to meeting tolerance level targets. However, we must again reinforce the fact that non-TOU orientated databases are subject to more variances and by that fact that the tolerance level needs to be flexible rather than restrictive.</p> <p>The perfect solution obviously is to put a TOU unit on every gas connection. This would resolve most of the problems facing the industry as far as information accuracy is concerned and other associated costs both upstream and downstream. However, the capital outlay and the running costs would make this option totally uneconomical unless the Government is prepared to fund it as otherwise it would be an unreasonable cost to the end consumer. The new system has come at a cost to all suppliers particularly those with significant databases. Any new additional works and development needs to be valued accordingly to ensure that the consumer receives a cost effective product.</p> <p>When you consider that the non-TOU sector makes up 90% of the total ICPs in the gas industry, we believe the suppliers prepared to manage this high risk low user market need flexibility and the tolerance factor of 15% is a start in the right direction.</p>
Vector	<p>While Vector was a lone voice previously in calling for tighter error limits, other submitters thought that the generous <math>\pm 15\%</math> error was appropriate for an initial transitioning period, after which it would be tightened. Vector considers the time has now come to do so to realise the accuracy objectives of the Reconciliation Rules and the GPS.</p>