3. Downstream Reconciliation – Options Paper

Presentation to Retail Gas Governance Forum

6 December 2011

Outline

- **Background**
- **Issues/options discussed:**
  - **Improving the accuracy of the initial allocation**
  - **Treatment of atypical gas gates**
  - **Allocation of ongoing fees**
  - **Estimated data for TOU sites**
  - **Late trading notifications**
  - **Others**

Outline

- **Background**
- **Issues/options discussed**

Background

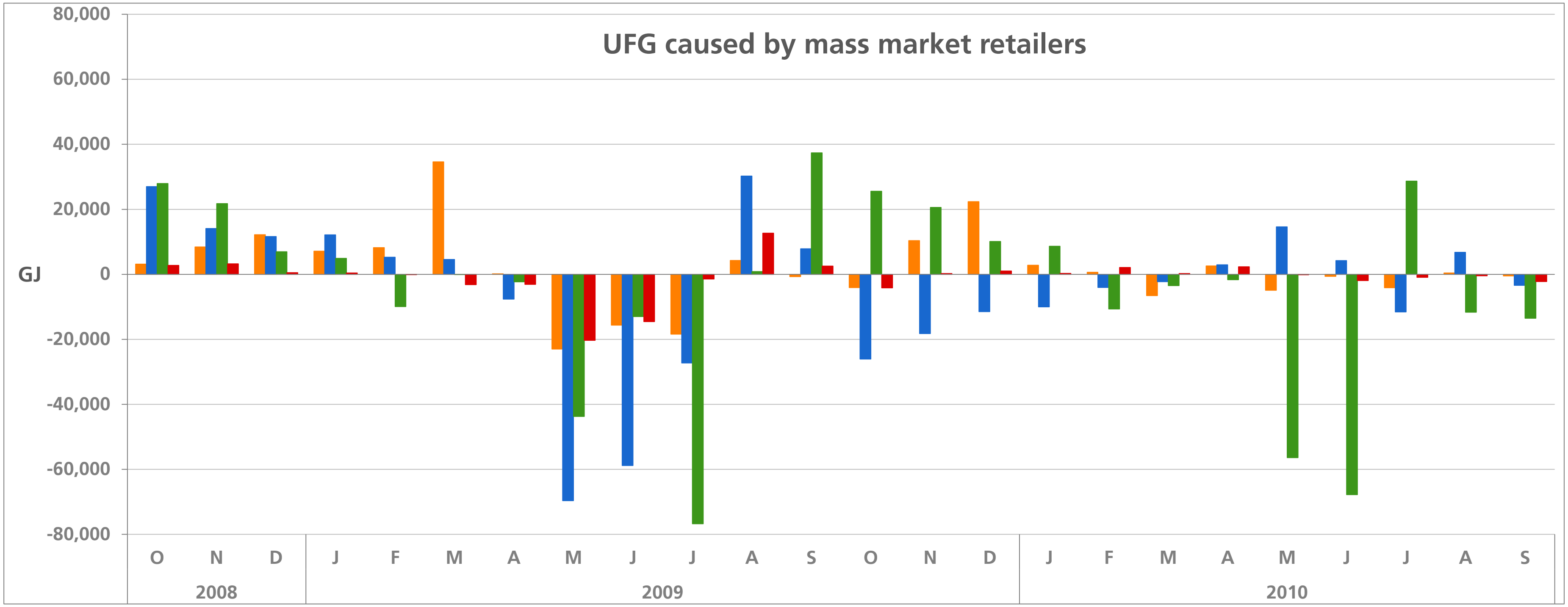
- Review of the Gas (Downstream Reconciliation) Rules 2008
- To address common problems with the Rules identified by industry participants, Gas Industry Co, and the Allocation Agent.
- Gas Industry Co Board considered a draft paper in November 2011 and approved release of the Options Paper once it is finalised.
- Expect release by the end of the week/start of next week

Outline

- **Background**
- **Issues/options discussed**

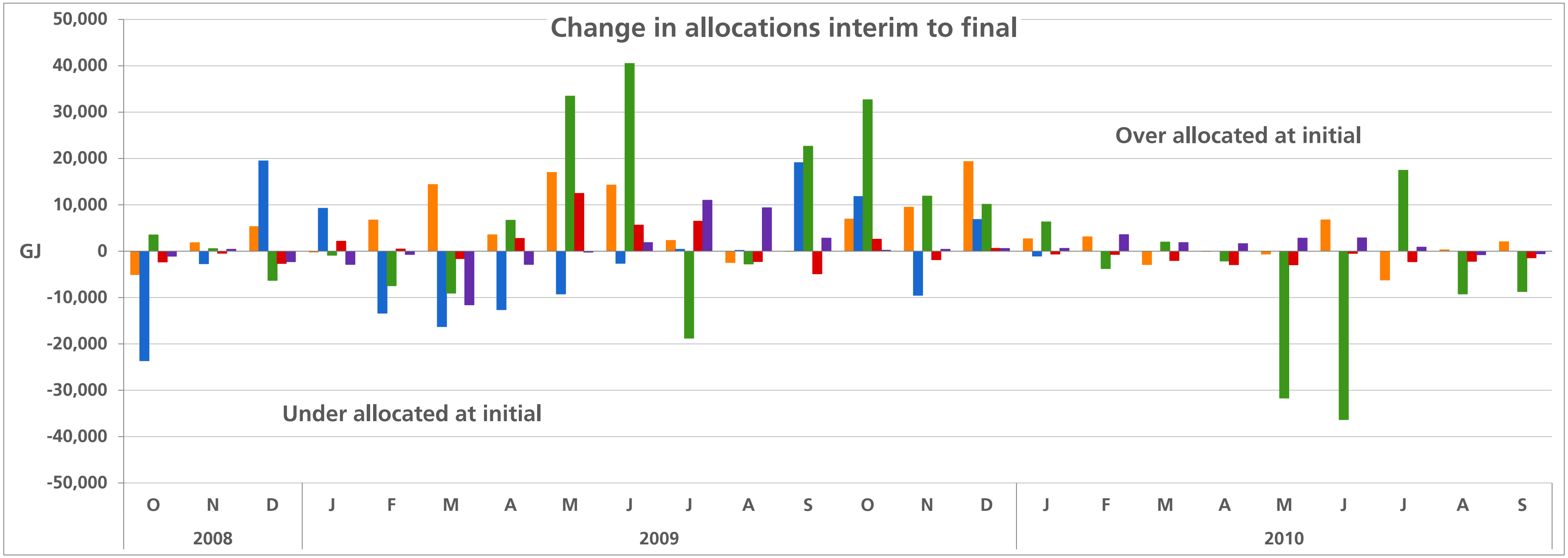
Issue #1: Accuracy of the initial allocation

At the initial allocation, there is UFG caused by forward estimation of mass market retailers…



Under the global allocation methodology, this UFG is allocated pro-rata to mass market retailers

… and this UFG leads to large swings in allocation results from initial to final

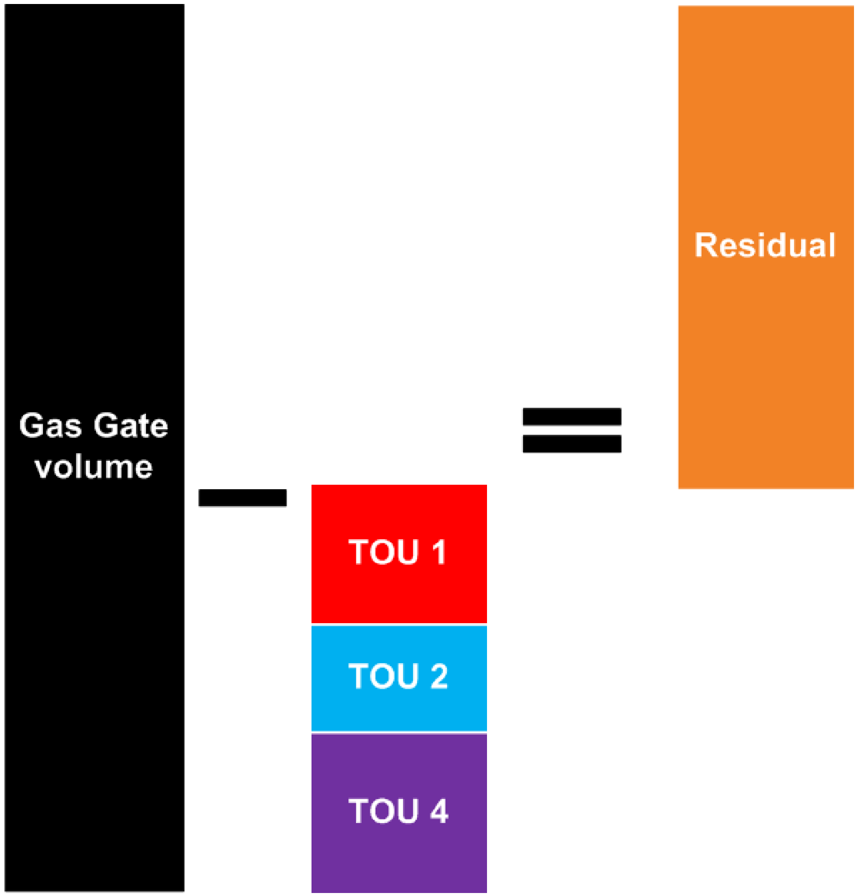


Swings in allocation results demonstrate that underlying assumption is not true: mass market retailers are not equal in their initial submission accuracy. Accurate retailers are affected by UFG caused by less accurate retailers.

Options paper canvasses four avenues for addressing accuracy of initial allocations

1. Provide data that will help mass market retailers make better estimations (will require change to timing of initial allocation)
2. Allocate UFG preferentially to retailers who cause it
3. Develop and implement daily allocation protocol, so that volumes are allocated the day after consumption
4. Change the initial allocation algorithm to a “top down” approach

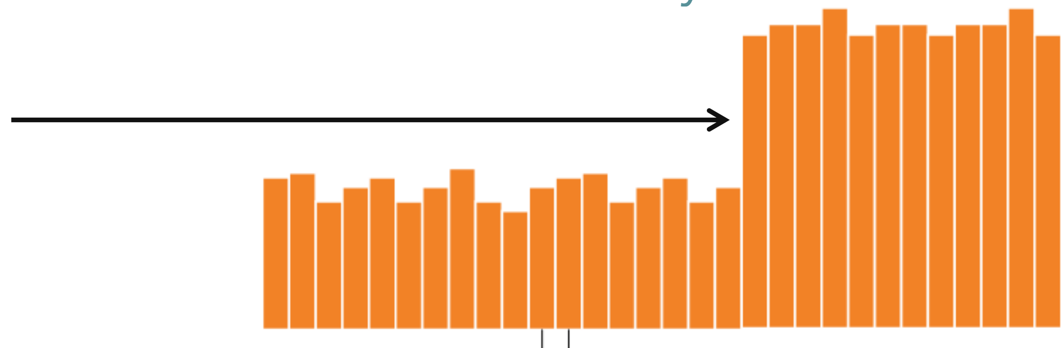
Option 1: Provide data to assist mass market retailers with their consumption estimations



- In allocation process, allocation agent calculates residual consumption at each gas gate for each consumption day
- Residual = sum of mass market consumption + UFG

Knowing residual volumes in advance could make mass market volume estimations more accurate – but would delay initial allocation

- Step change can alert retailers to change in mass market patterns –e.g., a change in weather



	Business Day				
	4	5	6	7	8
Current approach	**12.00** Data submission: **Tx**, **ToU,** **Mass mkt**	**12.00** **Initial allocation**			
Alternative A	**12.00** Data submission: **Tx**, **ToU**	**12.00** **Residual profile**		**12.00** Data submission: **Mass mkt**	**12.00** **Initial allocation**
Alternative B	**8.00** Data submission: **Tx**, **ToU** **12.00** **Residual profile**	**12.00** Data submission: **Mass mkt**	**12.00** **Initial allocation**		

- Option would need to allow time for allocation agent to calculate residual profile and retailers to factor that into mass market submissions
- Two potential timeframes: move initial allocation from BD 5 to BD 6 or 8

Option 2: Change initial allocation algorithm to allocate UFG to causers

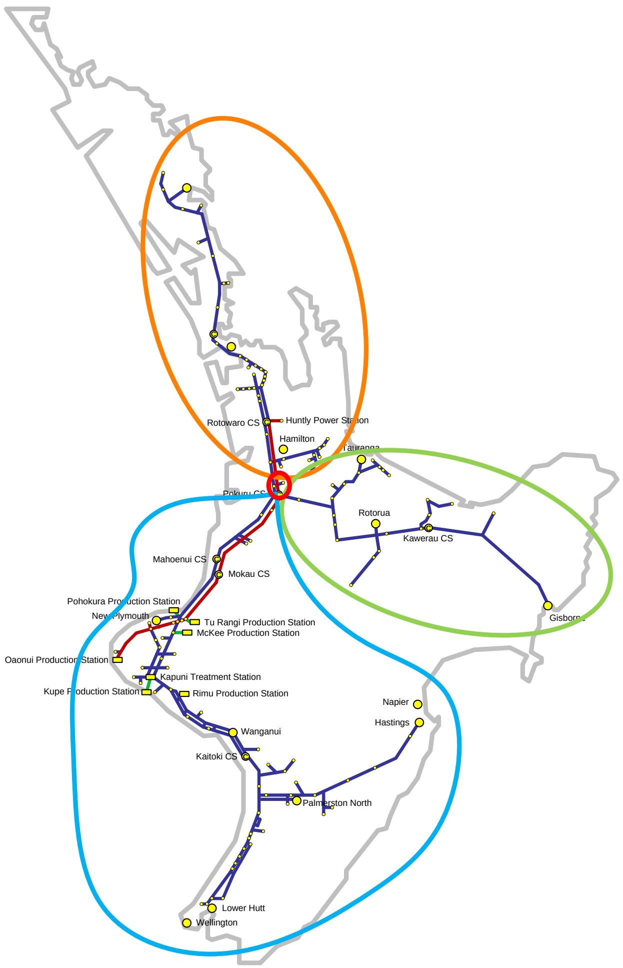
- Goal is to make initial allocation more closely resemble the final allocation by encouraging less accurate retailers to improve their estimation methodologies

- Would reduce the unfairness in the current system whereby those who are not the principal causers of UFG receive a pro rate share of that UFG

How might allocating UFG to causers work?

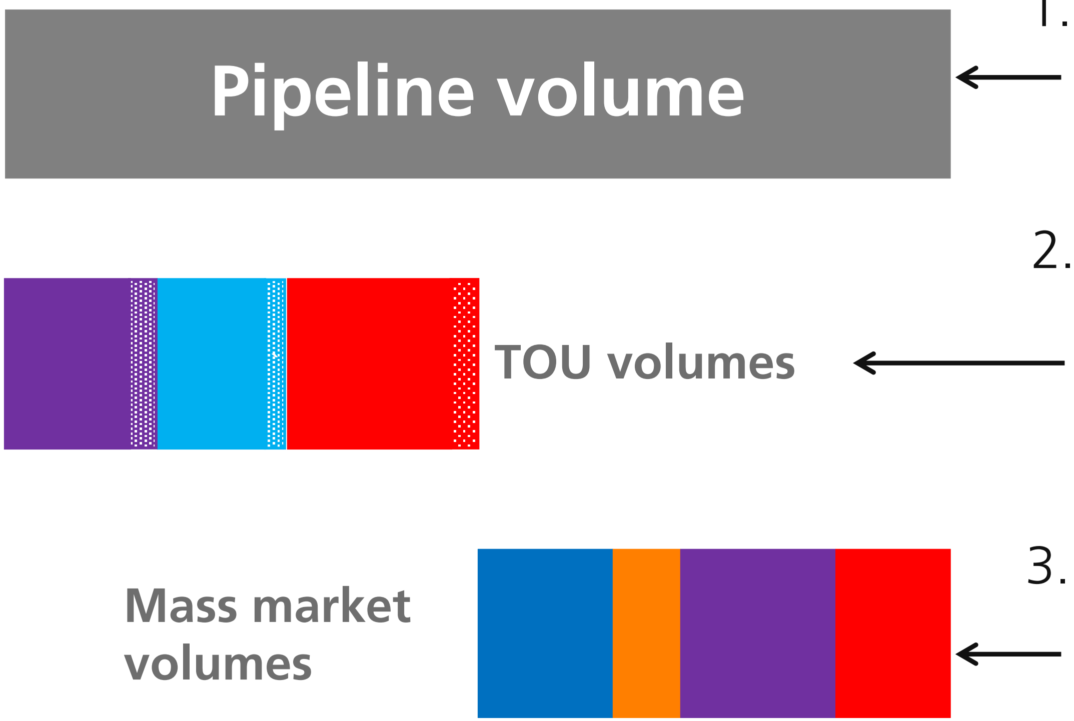
- Allocation groups 1 & 2 continue current allocation process
- Consumption submissions for AG 4 & 6 would be scaled up by the AUFG factor
- Any remaining UFG would be allocated to mass market retailers in proportion to the size of their submissions and their historical accuracy

Option 3: Daily allocations (D+1) – volumes allocated day after consumption so shippers have data on their positions



- Previous work on D+1 focussed on daily allocations at individual gas gates but was considered too costly
- Alternative is "D+1 light" – daily allocations at pipeline level
  - Would provide information required for shippers to balance
  - Expected to be less costly to develop and run

D+1 would use a simplified version of the allocation process, calculated by pipeline



1. Estimated from pipeline receipts minus deliveries to direct connect gas gates
2. Telemetry data for allocation group 1; estimates based on history for AG 2, scaled up by AUFG factor
3. Residual (pipeline volume – TOU allocations) allocated pro rata to shippers based on previous allocation results

Option 4: A different "top down" initial allocation algorithm

- Get around data quality issue by allocating mass market based on historical, volume-based market shares
- Current suggestion is to use market shares from most recent interim algorithm
- Only requires injection and ToU data submissions for initial, allocation agent does the rest

Welcome suggestions from industry participants on other "top down" algorithms

Issue #2: Treatment of atypical gas gates

Atypical gas gates

- Shortly after “go live” a number of scenarios became apparent where the global allocation methodology would create problems:

  - Direct connect gas gates
  - Global 1-month gas gates (with high proportion of TOU)
  - Unmetered gas gates
  - Oversized meters

Atypical gas gates

- These were all addressed using the exemption provisions in the Rules.

- The review discusses creating explicit rules for direct connect gas gates and global 1-month gates such that exemptions will no longer be required in these circumstances.

Atypical gas gates

- But no specific rules for unmetered gas gates or oversized meters.

- Options:

  - Status quo – continue exemption process
  - Strict compliance – require meters to be installed/updated at remaining unmetered gas gates/oversized meter gates
  - Materiality threshold – remove requirement for metered gas gates below some figure of total volume flowed

Issue #3: Allocation of ongoing fees

How should the costs of allocation be recovered?

- At present, costs are apportioned by share of allocated volumes:

$$\frac{\$700{,}000\ annual\ cost\ of\ alloction}{30{,}000{,}000\ GJ\ gas\ allocated\ annually} \cong 2.3\frac{¢}{GJ}$$

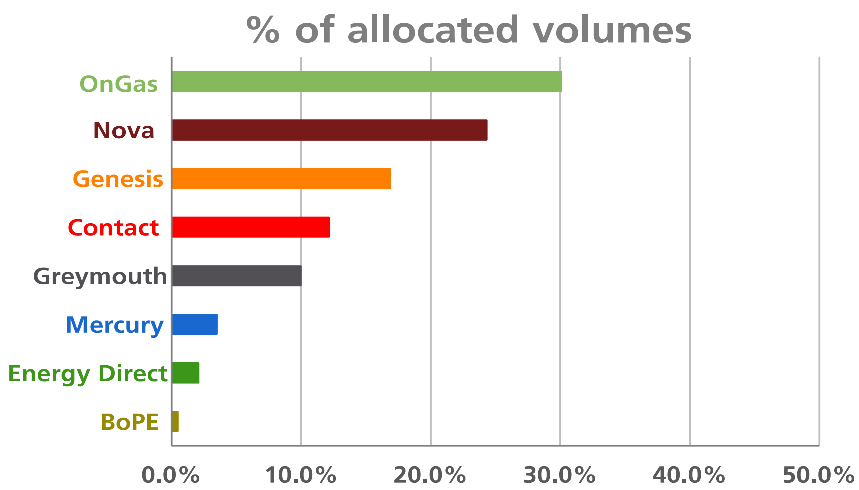
- During the development of the Rules, costs by volume was compared with costs by ICP.
- The two were assessed as broadly similar; on-going costs by volume was chosen

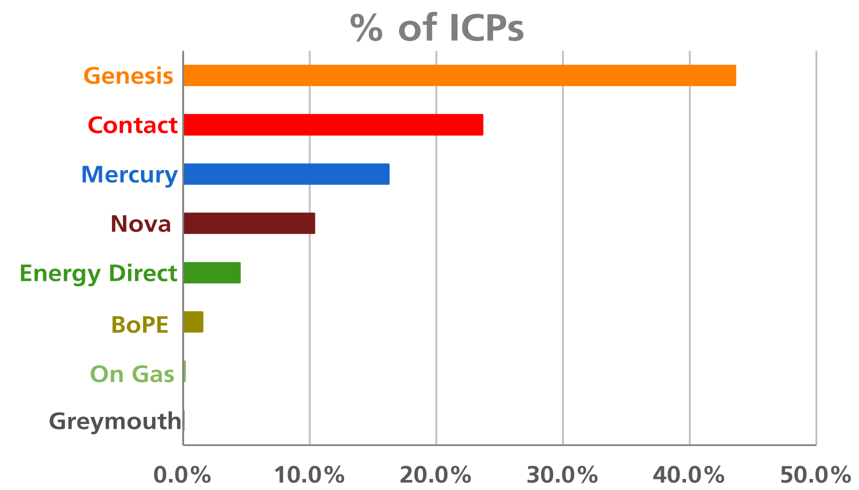
Is apportionment by volume equitable?

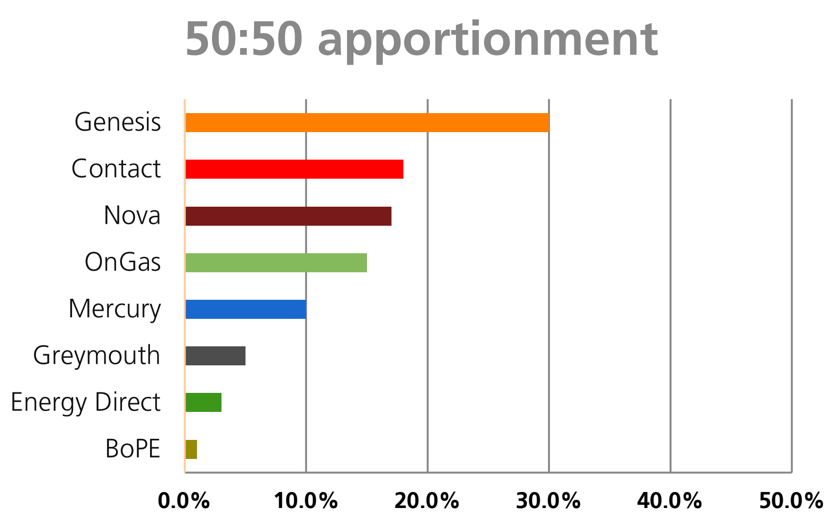
- Volume method arguably unfair to volume retailers
- A disproportionate amount of the on-going costs are caused by mass-market issues rather than TOU issues
- Four possible options for assignment of on-going costs:

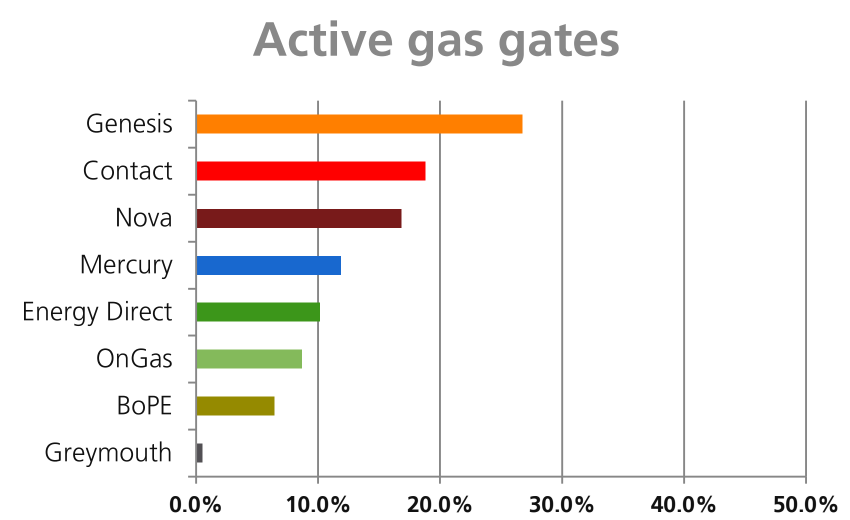
1. By volume (status quo)
2. By ICPs
3. 50% by volume and 50% by ICPs
4. By number of gas gates actively trading at

Apportionment by different methods









Issue #4: Estimated data for TOU sites

“Missing” TOU data

- When actual TOU data cannot be provided to the Allocation Agent, <u>three</u> breaches are alleged
    - One for each of the initial, interim, and final allocations

- Causes unnecessary compliance costs for retailers and the Market Administrator.

- Whenever actual data is not provided for TOUs, the “favoured nation” status for AG 1 & 2 data is not justified.

Options – need to strike balance between reduced compliance burden and the strong incentive to provide actual TOU data

- Option #1: Eliminate the “triple jeopardy”
- Option #2: Provide a floor for estimated data
- Option #3: Apply monthly UFG factor to estimated data
- Option #4: Permit TOU estimates in defined circumstances provided an acceptable methodology is used

Issues/Options discussed

Other issues/options discussed:

- **Breach notifications to meter owners**
- **Late trading notifications**
- **Process for granting exemptions**

Consultation

- Expect to release Options Paper for consultation by the end of the week/start of next week
- Submissions close 3 February 2012
- Feedback used to prepare Statement of Proposal
  - SoP expected to be released for consultation June 2012
- Welcome feedback now (or in submissions) on whether there is interest in creating an industry group to provide advice and assistance with drafting rule changes and implementation processes