

Approach to alleged breaches of rule 37.2 of the Gas (Downstream Reconciliation) Rules 2008

1. Introduction and purpose

In 2015 Gas Industry Co introduced a day after allocation, termed “D+1”, as a trial of daily allocation arrangements. D+1 allocates gas to retailers on the day following gas flow and allows the calculation of shippers’ balancing positions under the current transmission codes on a daily basis.

Under the new Gas Transmission Access Code (GTAC), D+1 will continue to be required for shippers to manage their balancing positions. Following the introduction of D+1 and its continuation under the GTAC, we believe that there is a need to reconsider the historical approach to breaches of rule 37.2 of the Gas (Downstream Reconciliation) Rules 2008 (Downstream Rules). The purpose of this paper is to inform reconciliation participants of the Market Administrator’s proposed approach to alleged breaches of rule 37.2 of the Downstream Rules and to invite comment on the proposal.

The paper does not propose changes to the initial allocation under the Downstream Rules. Any changes to the Downstream Rules will be addressed as part of a separate workstream.

Comments on the proposal are invited by **5.00pm on Friday 12 April 2019**.

2. Background

The purpose of rule 37.2 is to incentivise retailers to provide accurate consumption information to the Allocation Agent for the initial allocation by requiring that information to be within a certain percentage of the consumption information for the final allocation.¹ The percentage of error determined by the industry body is $\pm 10\%$. The initial allocation is widely acknowledged to be an inaccurate allocation, as it is based on retailers making forward estimates for the majority of ICPs. However, the initial allocation strikes an appropriate balance between timeliness and accuracy, and is subsequently replaced when better information is available at the interim and final stages. Most retailers regularly breach rule 37.2 by being outside the percentage of error.

The under/over-submission of consumption information by a retailer has the following impact:

1. Positive/negative unaccounted-for-gas (UFG) that affects other retailers at a gas gate. This impact is only temporary as the volumes from the initial allocation are washed-up at subsequent allocations.
2. The allocation of gas to each retailer is used as the basis for wholesale gas, transmission throughput and overrun charges, and can be used for distribution charges. It has also been the basis for the allocation of cash-out, peaking and daily excess imbalance charges (referred to as the Balancing and Peaking Pool or BPP charges). Inaccurate consumption

¹ The relevant provisions of the Downstream Rules are included in Appendix A.1.

information at the initial allocation has an enduring impact on BPP charges as there is no wash-up mechanism under the VTC.

For previous breaches of rule 37.2, industry has agreed to a simple, cost-effective mechanism for compensating participants who are affected by the breaches. The mechanism consists of a spreadsheet-based process developed by Gas Industry Co and is the same as that applied in respect of alleged breaches that were subject to a settlement approved by the Rulings Panel on 22 September 2011. Interest is added to the sums payable or claimable by the parties at the 90 day bank bill rate. We refer to this mechanism as the “Rule 37 Settlements”. The Rule 37 Settlements are normally undertaken in “batches” (i.e. a settlement applies to all breaches within a certain time period, typically 12-18 months) for administrative efficiency and consist of payments between the parties.

3. Gas Industry Co’s proposal

3.1 Discontinue rule 37 settlements

Following the introduction of D+1 (a process that allocates gas to retailers on the day following gas flow), Gas Industry Co has required the Allocation Agent to replace the results of the initial allocation with the D+1 results via a special allocation under the Downstream Rules. This process will continue until the GTAC becomes effective.²

The replacement of the initial allocation results with the D+1 results means that the “harm” that retailers associate with breaches of rule 37.2 no longer exists. That is because a retailer’s exposure to balancing and peaking pool (BPP) charges under the Vector Transmission Code (VTC) is now based on the results of the D+1 allocation rather than the consumption information provided to the Allocation Agent under rule 31 of the Downstream Rules. Exposure to balancing charges under the GTAC will also be based on the results of D+1 (until amended by later wash-ups).

As the D+1 pilot will be extended under the GTAC, Gas Industry Co proposes that the Rule 37.2 Settlements are discontinued. The proposal to discontinue Rule 37.2 Settlements includes breaches from December 2015 that have already been alleged and are subject to assessment in accordance with the usual process in the Gas Governance (Compliance) Regulations 2008.

3.2 Amend Market Administrator guidelines regarding reporting of alleged breaches of rule 37.2

The Market Administrator has previously issued a guideline on the reporting of alleged breaches of rule 37.2.³ (Guideline). The Guideline provides that:

If a retailer’s initial submission for a consumption period at an allocated gas gate does not fall within the required percentage of error when compared with the final submission, but the volume difference between the two submissions is less than or equal to 200 gigajoules, then, in the absence of any other information, there is no likelihood that this will raise a material issue and it need not be alleged as a breach of rule 37 by the Allocation Agent.

The effect of the Guideline is that the Allocation Agent is not required to report alleged breaches of rule 37.2 if the difference between the consumption information submitted for the initial

² Once the GTAC becomes effective a special allocation may not be required as, under the GTAC, the D+1 results will be provided to First Gas directly rather than being incorporated into First Gas’s processes via the Downstream Rules. See section 6.10 of the GTAC

³ <https://gasindustry.co.nz/dmsdocument/5031>

allocation and the consumption information submitted for the final allocation is less than or equal to 200 gigajoules.⁴

As there is no impact arising from breaches of rule 37.2, we propose that the Guideline is revised to remove the requirement for mandatory reporting of any alleged breach of rule 37.2. Instead:

1. Gas Industry Co will monitor retailers' compliance with rule 37.2 through the GAR050 report provided by the Allocation Agent on a monthly basis. That report compares consumption information submitted by retailers to the Allocation Agent for the initial allocation with consumption information submitted by retailers for the final allocation. Gas Industry Co may allege breaches after assessing a retailer's performance.
2. Industry participants may elect to allege breaches of rule 37.2 on a case-by-case basis.

We consider that continued monitoring of the difference between initial and final submissions is of value given that the consumption information submitted by retailers for the initial allocation is used as an input for the D+1 model. We also want to avoid removal of the mandatory breach reporting requirement being treated as a de facto removal of rule 37.2 itself. We would expect retailers to achieve at least the same levels of accuracy of information that they provide under rule 31 as they do today.

We believe that the proposed approach will reduce the administrative burden on the industry of processing large numbers of alleged breaches of rule 37.2.

An updated version of the Guideline is attached as Appendix A.2

4. Comments on the proposal

Comments on the proposal outlined in this paper are invited by **Friday 12 April 2019**. Comments can be uploaded via Gas Industry Co's website [here](#).

Any questions can be directed to Tim Kerr tim.kerr@gasindustry.co.nz or 04 494 6589.

⁴ Regulations 11A and 19A of the Gas Governance (Compliance) Regulations 2008 provide an exception from the mandatory reporting of breaches under regulation 11 of the Compliance Regulations if the Market Administrator has published such guidelines

A.1 Relevant provisions of the Gas (Downstream Reconciliation) Rules 2008

Rule 37.2 of the Downstream Rules:

For a consumption period, the accuracy of the consumption information provided by a retailer under rule 31 for initial allocation must, when compared with the consumption information provided by that retailer under rule 33 for final allocation, fall within the percentage of error determined and published by the industry body under rule 37.3.

Rule 31 of the Downstream Rules:

To enable the allocation agent to perform an initial allocation for each consumption period at each allocated gas gate, every retailer must provide, in respect of the consumer installations at an allocated gas gate for which it is the responsible retailer, the following consumption information to the allocation agent by 1200 hours on the 4th business day of the month that immediately follows the consumption period to which the information relates:

31.1 Daily metered energy quantities for each consumer installation in allocation groups 1 and 2:

31.2 Daily profiled energy quantities for each consumer installation in allocation group 3:

31.3 The aggregate daily profiled energy quantities by allocated gas gate by profile for consumer installations in allocation group 5 and the number of consumer installations included:

31.4 The aggregate monthly profiled energy quantities by allocated gas gate for all consumer installations in allocation groups 4 and 6.

Rule 33 of the Downstream Reconciliation Rules:

To enable the allocation agent to perform a final allocation for each consumption period at each allocated gas gate, every retailer must provide, in respect of the consumer installations at an allocated gas gate for which it is the responsible retailer, the following consumption information to the allocation agent by 0800 hours on the 14th business day of the 13th month that follows the consumption period to which the information relates:

33.1 Daily metered energy quantities for each consumer installation in allocation groups 1 and 2:

33.2 Daily profiled energy quantities for each consumer installation in allocation group 3:

33.3 The aggregate daily profiled energy quantities by allocated gas gate by profile for consumer installations in allocation group 5 and the number of consumer installations included:

33.4 The aggregate monthly profiled energy quantities by allocated gas gate for all consumer installations in allocation groups 4 and 6.

A.2 Market Administrator Guidelines on the Materiality of the Gas (Switching Arrangements) Rules 2008 and the Gas (Downstream Reconciliation) Rules 2008

[Refer to separate document titled “Market Administrator Guidelines on the Materiality of Breaches of the Gas (Switching Arrangements) Rules 2008 and the Gas (Downstream Reconciliation) Rules 2008”]

ABOUT GAS INDUSTRY CO.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.