

Consultation on Urgent Exemption under the Gas (Downstream Reconciliation) Rules 2008

Introduction

On 7th April, Gas Industry Co granted an urgent exemption pursuant to rule 20 of the Gas (Downstream Reconciliation) Rules 2008 ('the Rules'). The urgent exemption covers aspects of the Rules impacted during Alert Level 4 of the COVID-19 Alert System. The exemption notice is set out in Appendix A.

Where an urgent exemption is granted, Gas Industry Co must

- publish the exemption¹;
- consult with persons it considers are representative of those classes of persons likely to be substantially affected by the exemption; and
- as soon as practicable after consulting, determine whether to revoke, replace or amend the exemption

This paper seeks feedback from allocation participants so that Gas Industry Co can make its determination on the future of the exemption. Our initial view is that the exemption should continue unchanged, except for:

- removing the expiry date, which was a requirement of issuing an urgent exemption; and
- considering any amendments to include additional alert levels or additional rules, based on feedback from allocation participants.

Consultation Period

We will accept submissions or general comments up to close of business on **Wednesday 13 May 2020**. By this time, we expect New Zealand will have been operating at Alert Level 3 for two weeks, and the Government will have further reviewed the alert status on Monday 11 May.

Background

A few days before the Government-initiated lockdown commenced, Gas Industry Co discussed with some retailers their ability to download metering data from TOU sites that did not have telemetry installed. These ICPs normally require a site visit at the start of the month to download the daily consumption data for the previous month for customer billing and submission to the allocation agent. Retailers confirmed that they would not be able to interrogate such sites under Alert Level 4 and sought relief from this obligation.

The Rules provide for the situation where daily metered sites do not have data available due to a metering error, for example a faulty logger or corrector, and Schedule 1 sets out steps for estimating data in each case. However, the Rules do not cover the scenario where the data has been recorded but cannot be interrogated. Gas Industry Co considered that an urgent exemption was appropriate to deal with this situation and also to cover obligations around metering

¹ The exemption is published on the Gas Industry Co website: <https://www.gasindustry.co.nz/work-programmes/downstream-reconciliation/operations/exemptions/>

interrogation for non TOU sites. In particular, allocation group 4 ICPs are required to have register readings taken monthly which is not likely to be achievable under Alert Level 4.

Recognising that the initial four-week lockdown would only be the first stage of an extended period of uncertainty, we targeted the urgent exemption at the immediate situation and aimed to rely on this consultation process to gather feedback from allocation participants on issues such as whether metering interrogation would recommence at Alert Level 3, whether the right rules had been targeted, and whether the conditions set out in the urgent exemption were sufficient and necessary.

Granting an exemption

Gas Industry Co may only grant an exemption if it is satisfied that the exemption is desirable to better achieve the objectives set out in section 43ZN of the Act and the purpose of the Rules.

The objectives in section 43ZN of the Gas Act are:

- (a) the principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner; and
- (b) the other objectives are—
 - (i) the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements:
 - (ii) barriers to competition in the gas industry are minimised:
 - (iii) incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced:
 - (iv) delivered gas costs and prices are subject to sustained downward pressure:
 - (v) risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties:
 - (vi) consistency with the Government's gas safety regime is maintained.

The purpose of the Rules is:

[...] to establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities

Our assessment of the urgent exemption was that it met these criteria, particularly with regard to safety, fairness, efficiency, and reliability.

We will reassess against these criteria when we determine whether to replace or amend the exemption, so we welcome any feedback from participants on how granting the exemption does (or does not) better achieve the above objectives and purpose statement.

Issues addressed in the exemption

The two issues addressed in the urgent exemption are metering interrogation and submission of daily metered energy quantities to the allocation agent. These are discussed below.

Metering interrogation

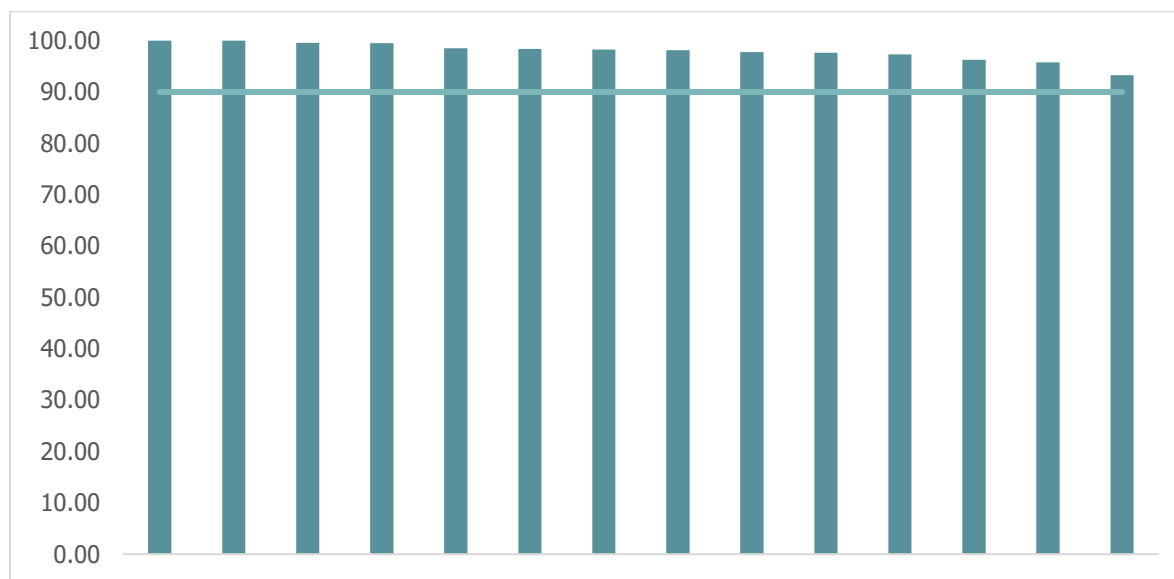
We consider that the lockdown has impacted the ability for retailers to meet their obligations in rules 28.1, 28.3, 29.4 and 29.5 and the exemption exempts retailers from these. The relevant sections of the Rules are:

- 28.1 Every retailer must ensure that metering equipment is installed and interrogated at each consumer installation to which that retailer is the responsible retailer in accordance with the requirements of the allocation group to which the consumer installation has been assigned.
- 28.3 Every retailer must supply consumption information in accordance with rules 29 to 40 for all consumer installations for which it was the responsible retailer to the allocation agent.
- 29.4 Every retailer that supplies a consumer installation at an allocated gas gate must ensure that the metering equipment installed at that consumer installation is interrogated as follows:
 - 29.4.1 All consumer installations with TOU meters assigned to allocation groups 1 or 2 must have register readings or consumption recorded for each day commencing at 0000 hours and ending at 2400 hours (New Zealand standard time).
 - 29.4.2 All consumer installations with non-TOU meters and an expected annual consumption of between 250 GJ and 10 TJ must have register readings recorded monthly.
 - 29.4.3 All consumer installations with non-TOU meters to which the retailer has continuously supplied gas for the previous 12-month period must have register readings recorded at least once every 12-months unless exceptional circumstances prevent such an interrogation.
- 29.5 Every retailer must ensure that a validated register reading is obtained at least once every 4 months for 90% of the consumer installations with non-TOU meters to which the retailer has continuously supplied gas for the previous 4 months.

The only part of rule 29.4 which we consider is not impacted by the lockdown is 29.4.3, since it provides for exceptional circumstances for not obtaining a register read at least once in a 12-month period. The lockdown would qualify as exceptional circumstances in our view.

Retailers' compliance with rule 29.5 is normally high, as illustrated in Chart 1, which shows the average over the last year of retailers' rolling 4-month read proportions. All retailers have an average over 90% and the majority exceed an average 98% of customers read at least once every four months.

Chart 1 Average of rolling 4-month meter reading percentages for 14 (anonymised) retailers



The ability for retailers to continue to meet the 90% threshold depends on how quickly meter reading can resume once the lockdown is lifted. It also depends on *when* retailers can resume meter reading. It may not be possible at Alert Level 3, due to either a government direction or health and safety concerns of retailer. Furthermore, it is not clear whether retailers intend to resume meter reading at a normal rate or whether they will attempt to get a catch-up reading from as many customers as possible and as soon as possible.

Going forwards, we consider that it is prudent to maintain the exemption for Alert Level 4 and potentially include Alert Level 3. We will also consider whether the exemption should be conditional on there being an increasing level of compliance coming out of lockdown, i.e. a steady climb back up to 90%.

Q1: Do you support the exemption from the rules impacting meter interrogation?

Q2: Do you expect the exemption will also be required under Alert Level 3 or lower levels? Do you have a view on the timeframe required to return to a rules-compliant level of meter reading frequency?

Q3: Have the right rules been identified to mitigate the impact of the lockdown on meter reading?

Submission of daily energy quantities

Submission of consumption information to the allocation agent for the initial allocation is set out in rule 31.

Non TOU (allocation group 4 & 6) data submitted to the allocation agent can include estimates and the Rules provide a process to derive these estimates where an ICP doesn't have register reads spanning the consumption period. Aside from the metering interrogation requirements above, we therefore do not see a compliance issue with the submission of non TOU data to the allocation agent.

The exemption addresses an issue with the submission of TOU data to the allocation agent. This is the part of rule 31 which relates to TOU data:

31. Provision of consumption information for initial allocation

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

The term 'daily metered energy quantities' is defined as:

daily metered energy quantities are quantities taken from metering equipment with a datalogger fitted that records daily information or if the data from metering equipment is unavailable or unreliable, are quantities determined in accordance with the responsible allocation participant's best estimate consistent with Schedule 1 or Schedule 1A as applicable

The definition allows for the situation where data is unavailable, but Schedule 1 does not provide an approach for estimation where data is unavailable but there hasn't been a metering error. This appears to be an oversight in the Rules, which we will aim to address the next time the Rules are reviewed.

The exemption exempts a retailer from rule 31.1 (and by association from using Schedule 1), where it is unable to comply due to the lockdown, but it requires the retailer to use an alternative method for providing estimated data to the allocation agent:

Retailers must ensure that the consumption information provided to the allocation agent [...] uses the best information available to the retailer at the time that the consumption information is provided from

- (i) historical consumption data;
- (ii) downstream consumer production figures;
- (iii) downstream consumer observed demand;
- (iv) downstream consumer forecasted demand.

There was a possible alternative to the exemption, in that the Rules provide for the allocation agent to estimate missing consumption information (rule 43.1). The allocation system does this based on historical averages, but we considered that during Alert Level 4 (and quite possibly Alert Level 3), actual consumption is unlikely to resemble historical consumption for a lot of consumers. Therefore, we proposed the requirement for the retailer to provide estimated data and to use the best information available to it, recognising that this would likely be a better-quality estimate than the allocation agent, since retailers have had the opportunity to communicate with their TOU customers about gas consumption during lockdown.

The urgent exemption only excuses the obligation to submit TOU data for the initial allocation. If retailers consider that site access to its TOU customers could be prohibited for a number of months, then it would be appropriate to consider whether the exemption should be extended to rule 32.1 (which covers submissions for the interim allocation). We welcome comments on the perceived likelihood of this scenario.

Q4: Do you support the exemption from rule 31.1 where the lockdown prevents compliance with the requirement to provide daily metered energy quantities?

Q5: Do you consider that the alternative method of estimation provided in the exemption is necessary and sufficient?

Q6: Do you expect the exemption will also be required under Alert Level 3 or lower levels? What is your view of the likelihood that interim submissions could also be impacted?

Q7: Have the right rules been identified to mitigate the impact of the lockdown on provision of TOU data?

Wider impacts of reduced meter reading

The immediate financial impacts of reduced meter reading (more estimated bills, bill shock when meters are next read, difficulty forecasting gas purchases etc), will fall on the retailer and the customer. We consider that the retailer is best placed to address these impacts, but we are keen to hear if allocation participants think that Gas Industry Co can provide any assistance.

The wider impact of fewer meter reads on downstream reconciliation is more estimation and therefore an increased likelihood of inaccurate allocations. This is compounded by the fact we are in a shoulder season where UFG typically increases.

However, there are two mitigating factors:

- first, the initial allocation results, which are the most affected by this issue, are replaced each month by the D+1 allocation results. The D+1 results are produced using a top-down rather than bottom-up method, so are less exposed to (but not completely insulated from) poor quality data
- second, the initial (and D+1) allocation is eventually replaced by the interim and final allocations, which occur some months later and will hopefully have the benefit of a higher proportion of meter reads. This series of washups is a standard feature of the Rules and associated commercial arrangements.

We are considering whether there will be longer term impacts on UFG, for example in the calculation of annual UFG factors. In this case, we are lucky because the period used to calculate the next set of annual UFG factors is the 12 months from March 2019 to February 2020.

If you have any thoughts about the wider impact of the lockdown on downstream reconciliation or other gas governance arrangements, we welcome your input.

Q8: Are there other issues impacting downstream reconciliation or the wider gas market that Gas Industry Co should be aware of or consider? Do you have any further comments?

APPENDIX A

Notice of Urgent Exemption (DR20-01: COVID-19 Lockdown) under the Gas (Downstream Reconciliation) Rules 2008

Pursuant to rules 19 and 20 of the Gas (Downstream Reconciliation) Rules 2008, Gas Industry Company Limited (Gas Industry Co), as the industry body appointed pursuant to s43ZL of the Gas Act 1992, gives the following notice.

Title and commencement

1. This notice is the Urgent Exemption (DR20-01: COVID-19 Lockdown) Notice 2020.
2. This notice comes into force on 7 April 2020.

Interpretation

3. In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under section 43F, 43Q and 43S of the Gas Act 1992 by notice published in the New Zealand Gazette, as may be amended from time to time.
4. Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.

Exemption for metering interrogation

5. An urgent exemption is granted to retailers from the application of rules 28.1, 28.3, 29.4 and 29.5 of the Rules.
6. This exemption only applies if a retailer's compliance with the above rules is prevented by Level 4 of New Zealand's 4-Level COVID-19 Alert System (i.e. the rules continue to apply if compliance with the rules is not prevented by Level 4 of New Zealand's 4-Level COVID-19 Alert System).

Exemption for calculating and submitting daily metered energy quantities

7. An urgent exemption is granted to retailers from the application of rule 31.1 of the Rules.
8. This exemption is subject to the following terms and conditions:
 - (a) This exemption only applies if a retailer's compliance with rule 31.1 is prevented by Level 4 of New Zealand's 4-Level COVID-19 Alert System (i.e. rule 31.1 continues to apply if compliance with rule 31.1 is not prevented by Level 4 of New Zealand's 4-Level COVID-19 Alert System).
 - (b) 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 in allocation groups 1 and 2 for which it is the responsible retailer, 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.

- (c) Retailers must ensure that the consumption information provided to the allocation agent in accordance with paragraph (b) uses the best information available to the retailer at the time that the consumption information is provided from:
- (i) historical consumption data;
 - (ii) downstream consumer production figures;
 - (iii) downstream consumer observed demand;
 - (iv) downstream consumer forecasted demand.
- (d) If a retailer provides information to the allocation agent under paragraph (b) and (c), the retailer must advise the allocation agent of the fact that it is an estimate.

Reasons for granting the exemption

9. During Level 4 of New Zealand's 4-Level COVID-19 Alert System, retailers are unable to meet their normal meter reading requirements. Retailers are prevented from downloading daily data from TOU meters with no telemetry and from obtaining register readings for non-TOU meters.
10. There is an allowance for exceptional circumstances preventing meter reads but this only applies to the requirement to read every non-TOU meter at least once in a 12-month period.
11. The definition of daily metered energy quantities in the Rules allows for estimation where metering equipment is faulty but doesn't cover a situation where the TOU meter is unable to be interrogated.

Expiry

12. An urgent exemption must state an expiry date, which must be a date that reasonably enables Gas Industry Co to consult with the persons specified in rule 20.2.3 about the exemption.
13. As soon as practicable after consulting, Gas Industry Co must determine whether to revoke, replace, or amend the exemption.
14. The exemptions in this notice expire on 29 May 2020.



DATED at Wellington this 7th day of April 2020.

For and on behalf of Gas Industry Company Limited:

ANDREW KNIGHT, Chief Executive.