

Consultation on Proposed Variation to an Exemption under the Gas (Downstream Reconciliation) Rules 2008

- (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009

1 Introduction

This consultation paper addresses a proposed variation to the above exemption. The above exemption excluded Vector as a transmission system owner from its obligation to provide daily injection quantities, in accordance with rules 41 and 42 for nine nominated gas gates. The existing exemption provides for the allocation agent to use consumption information provided by the retailers at those gates to estimate the gas injection quantities. The exemption is due to expire on 30 September 2010 but, in respect of the Papakura No 3 PAP06603 and Waverley WY23601 gas gates will expire on 30 November 2009.

A comprehensive consultation on this and other matters was issued in September 2008 and is located on our website.¹

A decision was made in June 2009 that the pre existing exemption should be extended until September 2010 for the 9 unmetered gas gates featured in the application, but gas gates at Papakura No 3 PAP06603 and Waverley WY23601 featuring significant gas quantities were treated differently. A shorter exemption was granted for these 2 gas gates and pursuant to condition 3(d) of the Exemption, Vector was obliged to provide a report including certain cost specific and flow information so that Gas Industry Co can assess whether the exemption should flow beyond 30 November 2009.

This report has now been provided and based on this with Vector's agreement Gas Industry Co seeks to vary the existing exemption for the two unmetered gas gates. It is proposed to vary the existing exemption on a short term basis and effectively end the exemption for Waverley WY23601.

Two weeks are being allowed for consultation. Submissions are sought no later than Thursday 26 November 2009. Submissions can be made by registering on Gas Industry Co's website www.gasindustry.co.nz and uploading your submission, preferably in the form of the submissions template attached to the consultation document.

All submissions will be published on the website after the closing date. For further information, see *Help for New Users* on the Gas Industry Co homepage. Submitters should discuss any

¹ http://www.gasindustry.co.nz/sites/default/files/consultations/21/Consultation_Paper_on_Exemptions_Applications_DR09-910_and_11_under_the_Gas_Downstream_Reconciliation_Rules_2008.pdf

intended provision of confidential information with Gas Industry Co prior to submitting the information.

A general information paper on the exemptions process and criteria has been issued by Gas Industry Co and can be viewed by downloading from Gas Industry Co's website at the following link: <http://www.gasindustry.co.nz/work-programme/market-administration/exemptions>

2 Application DR09-11-S regarding unmetered gas gates and rules 41 and 42

Summary of application

This particular application to vary the existing exemption is initiated by the Gas Industry Co in response to submission of the required report and additional enquiries from Vector in this regard. Gas Industry Co may vary an exemption pursuant to rule 21.2 of the Gas (Downstream Reconciliation) Rules 2008.

The variation is only intended to cover two of the nine gas gates included in that exemption. The proposal is to vary the exemption as it applies to gas gates at Papakura No 3 PAP06603 and Waverley WY23601 only. This part of the exemption was due to expire on 30 November 2009.

The remainder of the exemption expires on 30 September 2010 and it is not proposed to make any changes in this regard (this covers the remaining seven gas gates).

Proposed amendments

When considering the matter Gas Industry Co's starting presumption is that all gas gates are appropriately metered to ensure that consumption information is accurate as required by the Rules. Exemptions are only appropriate in certain limited situations and there seems no reason why these gas gates should continue indefinitely to be exempt from their compliance obligations. The reason these two gas gates were singled out last time was because of the higher volumes of gas involved.

- **Waverley**

In this case the costs were not large and the installation of the meter appears straightforward. Gas Industry Co therefore recommends that a meter should be installed as soon as possible. It is proposed to extend the variation by six months until 31 May 2010 which will allow Vector to install a meter.

- **Papakura**

As the costs of installing a gas meter are more significant at this gas gate it is proposed to extend the exemption until 30 September 2010 when the entire exemption will expire. The

question of exemptions and the requirements for meters at all gas gates is part of a broader policy question which Gas Industry Co will address as part of a comprehensive policy review scheduled to commence within the next six months. It is expected that a decision on the issue generally will be made in advance of the exemption expiry date. The decision made will guide Vector going forward and is likely to ensure compliance.

- Summary of Report submitted as a condition of the exemption (full report at Appendix C)

An abridged version of the report is attached. Vector asked Gas Industry Co to remove the breakdown of its costing which has been done. The report had to include

a breakdown of the costs of installing a meter, an associated cost benefit analysis, the time and other arrangements needed to install a meter, all available current and historical information on gas quantities at the gas gate, and any other additional information reasonably requested by Gas Industry Co for the purpose of assessing the operation of this exemption to those gas gates.

The amount quantified for Waverley is further qualified by the following comments from Vector:

Vector advises that this estimate of costs for installing a meter has a high probability of being accurate, though the actual costs will not be known until the meter has been installed. Vector also advises that the reason why the cost, when compared to the cost of installing a meter at the Papakura no 3 gas gate, is low is due to the fact that the Waverley Delivery Point does not require alteration, and a corrector and telemetry are already in place.

Issues relating to continuing the exemption

The list is the same as in the earlier consultation document but in this case it is considered that the level of risk is some what lower because, if the exemption is varied in the manner suggested by Gas Industry Co, Waverley will be metered by 31 May 2010.

- Possible adverse effects from continuing the exemption in particular for Papakura include the inability to determine the magnitude of any UFG at the gates concerned, and there may be other adverse effects to consider. The existence of unmetered gas gates means that UFG at those gas gates will likely be treated as transmission system UFG. Do you have any concerns or will you suffer adverse effects of this or any other type if the existing exemption is continued?
- Vector has put forward both cost-benefit and operational reasons for deciding that it is inappropriate to install a gas gate meter at these gas gates. Do you agree or disagree with Vector's analysis? If you disagree please give reasons.
- As indicated above, Vector (and Gas Industry Co) is not aware of any reports of concern or of problems encountered, resulting from the operation of the existing exemption. Are there problems that you wish to identify that have not been notified yet, and if so what are they and how significant are they?

- Vector states it does not currently have an ability to provide injection information at these unmetered gas gates and that an alternative process needs to be determined in order that allocation processes can occur. Is it appropriate to continue the existing process at these unmetered gas gates, that is for retailers to provide the allocation agent with their consumption information so that this can then be aggregated and used to estimate the injection quantities?
- Gas Industry Co would usually expect gas gates to be metered unless installation of meters is manifestly commercially inefficient. Vector considers that it would be commercially inefficient to install meters at the gas gates in question due to the small volumes at those gas gates. However, the volumes at the Papakura No 3 PAP06603 and Waverley WVY23601 gas gates on average exceed 800 GJ and 1700GJ per month respectively. Should these gas gates be subject to an exemption or be treated differently in any exemption granted?
- Under the Rules, each consumer installation is required to have a meter (and which accords with the accuracy and interrogation requirements of NZ5259:2004). A question arises whether a continuing dispensation should be given in respect of the nominated unmetered gas gates, when no such dispensation is provided to retailers in respect of their more numerous consumer installations. Do participants have a view on this issue?
- Gas Industry Co would be very concerned if a potential outcome of exempting unmetered gas gates was that meters were removed from any other gas gates. For this reason it is recommended that any exemption (if granted) be limited to the 9 (or potentially 7) identified gas gates. Do participants agree?
- The unmetered gas gates Papakura 3 PAP06603 and Waverley WVY23601 also exhibit negative gas gate residual profile values. The issue appears to arise because of the manner in which the allocation system calculates the daily injection quantities at unmetered gas gates. The current methodology used by the allocation system for estimating injection quantities at unmetered gas gates is to take the total consumption quantities submitted by retailers and to allocate this evenly across all of the days in the consumption period. This approach was developed on the basis that unmetered gas gates did not have TOU-metered gas consumers. As a consequence of this approach, at unmetered gas gates with large TOU-metered consumers, it is possible that negative GGRP values will be calculated due to the TOU quantity on a given day being greater than the (flat-line profiled) daily average injection quantity estimated by the allocation system. The risk of negative GGRP values arising in this manner at these gas gates could be eliminated by having the allocation system take a flat-line profile average of non-TOU metered consumption at an unmetered gas gate before then adding the TOU metered consumption so as to estimate the daily injection quantities. One participant has previously expressed a view that the algorithm for calculation of injection quantities at unmetered gas gates should be changed to prevent negative GGRP values due to TOU quantities exceeding injection quantities. Do other participants have a view on whether the algorithm used by the allocation system in these situations should be altered?

- Do participants consider continuing the existing exemption is desirable to better achieve the objectives set out in section 43ZN of the Act and the purpose of the Rules?

Q1: Do submitters have any comments on the proposed variation to Exemption DR09-11-S regarding the two nominated unmetered gas gates?

Appendix A Recommended format for submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Consultation Paper. Submitters are also free to include other material on the exemption applications in their responses.

Submission from:..... (company name and contact)

Q1: Do submitters have any comments on the variation to exemption DR09-11-S regarding the two nominated unmetered gas gates?

| | |
|--|--|
| | |
|--|--|

Appendix B

Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009

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

Notice

1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009.
- (b) This notice comes into force on the day this notice is published on Gas Industry Co's website.

2. Interpretation

- (a) In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under sections 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.
- (b) Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.

3. Standard Exemption

An exemption is granted to transmission system owners in respect of their obligations under rules 41 and 42 to provide daily energy quantities for the unmetered gas gates identified in this notice, subject to the following terms and conditions:

- (a) The exemption shall only apply to the following gas gates on the transmission system that do not have a meter as at the date of this notice:

| | |
|---------------------------|----------------------|
| Kuku KUK22401 | Pungarehu 1 PGU13101 |
| Matapu MTP20601 | Te Horo THO22701 |
| Oakleigh OAK18601 | Waverley WVY23601 |
| Okoroire Springs OKS32801 | Wellsford WEL18301 |
| Papakura No.3 PAP06603 | |

- (b) The exemption shall expire on:
 - (i) 30 November 2009 for the Papakura No 3 PAP06603 and Waverley WVY23601 unmetered gas gates; and

- (ii) 30 September 2010 for all other unmetered gas gates.
- (c) The requirement to provide actual daily energy quantities under rule 41 will be met by the allocation agent using the consumption information provided by retailers under rules 31, 32, and 33 to estimate the injection quantities for those gas gates.
- (d) No later than 1 October 2009, in respect of each Papakura No 3 PAP06603 and Waverley WVY23601 gas gate, Vector Gas Limited must provide a detailed report to Gas Industry Co setting out a breakdown of the costs of installing a meter, an associated cost benefit analysis, the time and other arrangements needed to install a meter, all available current and historical information on gas quantities at the gas gate, and any other additional information reasonably requested by Gas Industry for the purpose of assessing the operation of this exemption to those gas gates.

4. Reasons for granting standard exemption

The reasons for granting the exemption are that:

- (a) Gas injection quantities at unmetered gas gates are unable to be measured. For these gas gates, Vector Gas Limited has applied to Gas Industry Co for an exemption in respect of the obligations to provide injection quantities as set out in rules 41 and 42.
- (b) Given the significant costs to install meters at these gas gates, it is considered reasonable that an exemption be granted on similar terms to the previous *Gas (Downstream Reconciliation) Rules 2008 (Exemption DR08-14-T: Unmetered Gas Gates) Notice 2008*. The alternative arrangement provides for the allocation agent to use consumption information provided by retailers under the Rules to estimate the injection quantities at the affected gas gates.
- (c) At the Papakura No 3 PAP06603 and Waverley WVY23601 gas gates, the injected quantities are materially higher than the other unmetered gas gates. Given the higher volumes and multiple retailers at these unmetered gas gates, there are greater risks to the accuracy or fairness of allocations without metered injection quantities. A shorter exemption applies for these gas gates to enable Gas Industry Co to obtain detailed information on all injection data, and the costs and benefits of installing meters, at each of these gas gates and accordingly determine whether an exemption should apply beyond 30 November 2009.

DATED at Wellington this 30th day of June 2009.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.

Appendix C

2 October 2009

Ian Dempster
Principal Adviser – Markets
Gas Industry Company Limited
PO Box 10-646
Wellington 6143

By Email

Commercial in Confidence

Dear Ian

Report - Papakura No3 and Waverley Gas Gates - Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009

Vector Gas Limited (**Vector**) appreciates the opportunity to provide a report to the Gas Industry Co (**GIC**) in response to condition 3(d) of the Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-11-S: Unmetered Gas Gates) Notice 2009 (**Exemption Notice**).

The report is set out below.

Background

On 30 June 2009, the GIC granted Vector an exemption from compliance with rules 41 and 42 of the Gas (Downstream Reconciliation) Rules 2008 (**Rules**) for 9 unmetered gas gates (DR09-11-S). The Exemption Notice effectively continued Exemption Notice DR08-14-T issued by the GIC on 17 September 2008 and provided for daily energy quantities at those 9 gas gates to be met by using consumption energy quantities from Shippers as opposed to injection information.

Condition 3(d) of the Exemption Notice required that:

No later than 1 October 2009, in respect of each Papakura No3 PAP06603 and Waverley WY23601 gas gate, Vector Gas Limited must provide a detailed report to Gas Industry Co setting out a breakdown of the costs of installing a meter, an associated cost benefit analysis, the time and other arrangements needed to install a meter, all available current and historical information on gas quantities at the gas gate, and any other additional information reasonably requested by Gas Industry for the purpose of assessing the operation of this exemption to those gas gates.



Vector Limited
Level 7, Wellington Regional
Council Building, 142
Wakefield Street, Wellington
www.vector.co.nz
Corporate Telephone
+64-4-803 9000
Corporate Facsimile
+64-4-803 9065

Costs Breakdown

An estimate of the total costs for installation of an appropriate meter for Papakura No3 (PAP6603) gas gate is \$34,510 (SCADA connection is estimated to be a further \$12,000). A breakdown of the costs is as follows:

An estimate of the total costs for installation of an appropriate meter for Waverley (WVY23601) gas gate is \$8,075. A breakdown of the costs is as follows:

The pipework within the Waverley delivery point does not require alteration, and a corrector and telemetry are already in place hence the substantial reduction in cost when compared to Papakura No3.

Yearly Gas Throughput

Papakura

Gas throughput for the Papakura No3 gas gate, for year 2007/2008, derived from figures supplied by Shippers and the Allocation Agent, is 13,385 GJ.

Waverley

Gas throughput for the Waverley gas gate, for year 2007/2008, derived from figures supplied by Shippers and the Allocation Agent, is 19,332 GJ.

Benefits

Vector is not aware that any actual benefit will flow to Shippers should the Exemption Notice for these 2 gas gates not be continued until 30 September 2010 (as is the case for the other 7 unmetered gas gates). We acknowledge that the GIC's Consultation paper states that the gas volumes at these 2 gas gates exceed the other 7 unmetered gates (and a number of metered gates – Page 11). However, we do not consider that in itself is a reason, in terms of the criteria in the GIC's March 2009 Information Paper for the assessment of exemption applications, for terminating the exemption for these 2 gas gates before it expires on 30 September 2010.

In our June 2009 application for continuation of the exemption for all 9 gas gates, we indicated that the purpose of the Rules (efficiency, fairness and reliability) will not necessarily be undermined by not installing meters at those gates. We also indicated that the objective under section 43ZN of the Gas Act 1992 (for the maintenance and enhancement of incentives for investment) would be undermined if the exemption was not continued. We are still of that view for the reasons that were noted, in particular:

- Vector has not historically installed meters at all gas gates. An engineering and cost analysis precedes any decision;

- Installation and meter selection can be technically challenging particularly where there are a small number of customers; and
- Low flow rates can contribute to unreliable injection information as the meter may have zero flow for long periods of time punctuated by short bursts of high flow.

Also, submissions by Shippers and the Allocation Agent, as part of the GIC consultation on Vector's application for continuation of the exemption, did not provide any reasons to support a benefit in receiving actual injection quantities (as opposed to use of Shipper consumption quantities) for these 2 gas gates. The 5 submissions made to the GIC indicated an ambivalence towards installation of meters in the interim period until the Exemption Notice expires. Two Shippers considered that any gas gate exceeding 1,000 GJ (per month in one case, and per annum in another) warranted installation of a meter. The other 2 Shippers indicated they had no objection to the extension until 30 September 2010, and the Allocation Agent was neutral indicating that there was no operational impact should the exemption continue for all 9 gas gates. Accordingly, there was no evidence indicating any benefit that Shippers would receive from receiving actual injected quantities or detriment if the Exemption Notice was continued.

Compliance with rules 41 and 42 will not of itself provide a benefit. While Vector takes its legal compliance seriously, in this case it doubts that continuation of the Exemption Notice for these 2 gas gates for 1 further year will undermine that compliance obligation, particularly given the substantive compliance that has occurred through the use of Shipper consumption quantities since September 2008.

Further, Exemption Notices (DR09-09-S; the Variation to DR09-09-S that will apply from 2 October, and DR09-10-T) all impact on rules 41 and 42. Vector considers that for consistency there would be benefit in continuing the Exemption Notice for the Papakura No3 and Waverley gas gates until all of these exemption notices expire on 30 September 2010.

Finally, the GIC has advised industry participants that it is carrying-out a review of the Rules in 2010. This is a major policy review additional to the minor and technical changes to the Rules that have been completed and come into force on 2 October 2009 as the consolidated Rules. This policy review will no doubt cover the exemptions that are still extant with a view to either incorporating those exemptions into the relevant rules or issuing varied exemptions. Vector considers that, on balance, there would be more benefit in continuing the Exemption Notice for all 9 gas gates to enable that policy review to consider all exemptions, in relation to rules 41 and 42, collectively and comprehensively.

Time and Other Arrangements for Installing a Meter

Installation of a gas meter cannot occur quickly. Vector has a provisional capital works programme which would need to be altered to accommodate the installation of meters at the 2 sites. Internal processes and approvals would be required and implications for other works would need to be assessed.

Should the GIC terminate the Exemption Notice for both Papakura No3 and Waverley delivery points and require the installation of meters prior to the expiry date of 30 September 2010, these processes could take up to [] Months for Waverley and up to [] months for Papakura No3. The benefit (if any) for these extra few months prior to expiry of the Exemption Notice would, in Vector's view, be minimal.

Te Teko and Waverley

While we consider that, in terms of the benefits noted above, the most appropriate approach would be to treat all exemptions in respect of rules 41 and 42 consistently and consider all together prior to their expiry on 30 September 2010, Vector's engineers have considered the prospect of removing the gas gate at Te Teko (TTK30601) and fitting that to Waverley. They have assessed the relevant factors and believe that would be achievable at reduced cost.

You will be aware that Te Teko is an oversized gas gate currently covered by Exemption Notice DR09-10-T issued on 30 June 2009. That notice expires on 30 September 2010. Accordingly, if the GIC agreed in principle to exercise its power under rule 21.2 to vary Exemption Notices DR09-10-T to remove Te Teko (oversized gas gates) and simultaneously add Te Teko to DR09-11-S (unmetered gas gates), Vector would have the opportunity to further consider carrying-out that work.

In view of our comments, we confirm that this would be a 'second best' option for this gas gate. We also note the comment of the GIC that:

Gas Industry Co would be very concerned if a potential outcome of exempting unmetered gas gates was that meters were removed from any other gas gates.
(Consultation on Exemption Applications under the Gas (Downstream Reconciliation) Rules 2008; GIC; June 2009; page 12)

We look forward to receiving your preliminary view following consideration of this report.

If you have any questions or concerns, please contact Bob Sheppard (04) 803 9013 in the first instance.

Yours sincerely



Bob Sheppard
Commercial Adviser – Gas Transportation