

Consultation on proposed variations to exemptions under the Gas (Downstream Reconciliation) Rules 2008

- Urgent Exemption (DR10-01-U: Direct Connect Gas Gate) Notice 2010
- Exemption (DR09-11-S: Unmetered Gas Gates) Notice (No 2) 2009

1 Introduction

This paper seeks submitters' views on two issues regarding exemptions from the Gas (Downstream Reconciliation) Rules 2008 (the Rules): first, whether to revoke, replace or amend an urgent exemption granted to Greymouth Gas New Zealand Limited (Greymouth) in respect of the Hunua 3 (HUN15303) gas gate; second, the variation of a standard exemption granted to Vector Transmission Limited (Vector) relating to unmetered gas gates.

Submissions are sought no later than Wednesday, 7 April 2010. 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 as Appendix A.

All submissions will be published on the website after the closing date. Submitters should discuss any 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 Urgent Exemption (DR10-01-U: Direct Connect Gas Gate) Notice 2010

The original exemption application sought to have the Hunua 3 (HUN15303) gas gate exempted from certain provisions of the Rules in a similar manner to the direct connect gas gates covered by the following existing exemptions:

- [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption: Direct Connect Gas Gates\) Notice 2008](#)
- [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption DR09-01-U: Direct Connect Gas Gate\) Notice 2009](#)

- [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption DR09-13-U: Direct Connect Gas Gate\) Notice 2010](#)

An urgent exemption was granted on an interim basis on 14 February 2010, which exempts the Hunua 3 gas gate from certain rules relating to the provision of consumption information and the allocation process¹. This was to ensure that Gas Industry Co was able to properly consider, and consult on, the application and the applicant was not unduly disadvantaged in the interim as the gas gate came into use. The urgent exemption expires on 12 April 2010 and following the completion of this consultation exercise Gas Industry Co must decide, pursuant to rule 20.2.4, whether to revoke, replace or amend the exemption.

Summary of application

The full application is attached as Appendix B. A summary of the application follows:

GIC Code: DR10-01-U

Applicant: Greymouth Gas

Exemption Type: Urgent to be replaced by Standard

Exemption Sought: In respect of the Hunua 3 (HUN15303) gas gate, an exemption is sought by Greymouth Gas from the application of rules 29, 31-33, 39-40, 48-53, 78 and 79. The exemption requested is a permanent exemption, to be granted urgently under rule 20, to apply immediately and for a duration equal to the existing direct connect gas gate exemptions, that is, until 30 September 2010.

Summary of Reasons:

- The exemption is for the Hunua (3) Delivery Point, HUN15303, which is a direct feed site with one end-use customer that is supplied gas by Greymouth Gas.
- Greymouth Gas is seeking the exemption on the basis that all other direct-feed sites have been exempt from the Gas (Downstream Reconciliation) Rules 2008.
- Greymouth Gas also notes the exemption-in-progress for the Kupe Delivery Point, and considers it appropriate that all such exemptions are treated the same.

Additional information

The direct connect gas gate exemption already covers 38 gas gates. 36 gas gates were identified as fitting the characteristics of direct connect consumption when the Rules went live and were all granted a standard exemption until September 2010. Two new gas gates have been commissioned since then that also feed single consumers directly from the transmission system, these are Stratford 3 (STR00501) and Kupe (KUP37503). Exemptions were granted for the two new gas gates, under the same terms as the original exemption, in February 2009 and February 2010 respectively. The application for the Hunua 3 gas gate requests an exemption on the same terms as the existing exemptions.

¹ The urgent exemption notice is attached as Appendix C

Issues

On the information provided by Greymouth in its application, and based on discussions with Greymouth and Vector, it appears that the Hunua 3 gas gate fits the characteristics of a direct connect gas gate as per the currently exempted gas gates. Greymouth confirmed that the direct consumer at the gate is a distributed generation facility.

The question for consideration by submitters is whether the policy rationale for the existing direct connect gas gates (set out below) applies equally to an exemption for the Hunua 3 gas gate. It should be noted that as the existing exemption expires on 30 September 2010 (at the end of the transitional period), the general policy surrounding direct connect gas gates will need to be revisited before this date.

Policy rationale for existing direct connect gas gates exemption:

- in light of the potential additional implementation and compliance costs, the initial benefits of applying the allocation methodology set out in the Rules in respect of direct connect gas gates are reduced;
- for reasons of simplicity and clarity, all direct connect gas gates should be treated the same in any exemption granted. All direct connect gas gates are connected to the transmission system and subject to existing upstream processes; and
- there are unlikely to be any detrimental effects on competition for retailers or transmission system owners at direct connect gas gates, and granting the exemption is likely to ensure consumers at these direct connect gas gates are not subject to increased gas costs or prices due to retailer compliance costs with the Rules.

Q1: Do submitters support replacing the urgent exemption DR10-01-U for the Hunua 3 gas gate with a standard exemption under the same terms as the existing direct connect gas gate exemptions?

3 Exemption (DR09-11-S: Unmetered Gas Gates) Notice (No 2) 2009

Background

In September 2008, Vector was granted a transitional exemption from providing injection information under rules 41 and 42 for nine specified gas gates². The gas gates in question did not have meters, hence injection information could not be determined, and the exemption provided for estimation of the gas quantities by the allocation agent. A condition of the exemption was that Vector had to provide a report on the estimated costs and benefits of installing meters at the specified gates.

The transitional exemption expired on 30 June 2009 and was replaced by a standard exemption³ expiring on 30 September 2010 on the same terms and covering the same gas gates, with the

² See [Transitional Exemption \(DR08-14-T: Unmetered Gas Gates\) Notice 2008](#)

³ See [Exemption \(DR09-11-S: Unmetered Gas Gates\) Notice 2009](#)

exception that for two of the gas gates, Papakura No 3 (PAP06603) and Waverley (WVY23601), the exemption expired on 30 November 2009. This was in recognition of the fact that injection quantities at the two gas gates were materially higher than the other unmetered gas gates and thus should be addressed more promptly.

Vector was required to provide a detailed report for Papakura No 3 and Waverley 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 gates, 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.

Based on the report provided by Vector, Gas Industry Co varied the standard exemption so that the provisions expired on 31 May 2010 for the Waverley gas gate and 30 September 2010 for the other eight gas gates (including Papakura No 3). This was on the understanding that Vector would proceed with the installation of a meter at the Waverley gas gate. This varied exemption is the current unmetered gas gates exemption (Exemption (DR09-11-S: Unmetered Gas Gates) Notice (No 2) 2009) and is attached as Appendix D.

Waverley meter

Vector has now installed a new meter at the Waverley gas gate and is in a position to provide gas gate injection quantities to the allocation agent. However the allocation system is still providing an estimated injection quantity in line with the current exemption. This creates a problem since the downstream allocations for the gas gate do not sum to the upstream total which Vector uses for invoicing purposes. Since this information is delivered via OATIS there is the additional problem that the GAR130 file fails to upload as the difference in estimated and actual injection quantities is outside of the tolerance permitted by OATIS.

Proposed amendments to the exemption

Gas Industry Co can vary an exemption under rule 21.2 subject to the same process being followed for the variation as for an initial application. The proposal is to remove Waverley from the list of unmetered gas gates subject to the exemption, which leaves the following eight gas gates as exempt:

- Kuku KUK22401
- Pungarehu 1 PGU13101
- Matapu MTP20601
- Te Horo THO22701
- Oakleigh OAK18601
- Okoroire Springs OKS32801
- Wellsford WEL18301

- Papakura No.3 PAP06603

Clause 3(b)(i) will be removed, 3(b)(ii) amended to reflect that the exemption expires for all gas gates on 30 September 2010 and 4(a) will be removed as it is no longer relevant. No other changes are proposed at this stage. As with direct connect gas gates, it is expected that before the end of the transitional period a general review of the policy settings will be conducted for unmetered gas gates. This will inform the decision on whether such exemptions will continue to be granted in the next, and subsequent, gas years.

Issues

As this consultation paper is proposing to remove a gas gate from, rather than add to, an existing exemption, the previous issues relating to unmetered gas gates do not apply to the recommendation presented here. By varying the exemption as proposed this will increase overall compliance with the Rules.

Q2: Do submitters support the proposed amendments to the standard exemption DR09-11-S?

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 application in their responses.

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

Question	Comment
Q1: Do submitters support replacing the urgent exemption DR10-01-U for the Hunua 3 gas gate with a standard exemption under the same terms as the existing direct connect gas gate exemptions?	
Q2: Do submitters support the proposed amendments to the standard exemption DR09-11-S for unmetered gas gates?	

Appendix B Application DR10-01-U from Greymouth Gas

Gas Industry Company Limited

Application for an Exemption from the Gas (Downstream Reconciliation) Rules 2008

1. Please complete a separate form for each type of exemption sought.
2. Complete sections 1 to 4 of the form for all exemption types. Complete section 5 only in addition for urgent exemptions, and section 6 only in addition for transitional exemptions.
3. Please provide all relevant information. Expand the sections of the form as necessary to provide reasonably full information, but detailed supporting information should be set out in attachments to the form.
4. Gas Industry Co may request additional information after receiving and reviewing the application

1. Name and contact details for the participant(s) seeking exemption:

Company name: Greymouth Gas New Zealand Limited

Phone: 09 3734223

Contact Name: Chris Boxall

Fax: 09 3734228

Email: chris.boxall@greymouthpetroleum.co.nz

Mailing Address: PO Box 1394,
Shortland Street, Auckland

2. Type of exemption sought:

Permanent (under rules 19 and 20)

3. Provisions of the Rules from which the exemption is sought:

Rules 29, 31, 32, 33, 39, 40, 48, 49, 50, 51, 52, 53, 78, 79

4. State the reasons on why you are seeking the exemption and why the exemption sought should be granted

The exemption is for the Hunua (3) Delivery Point, HUN15303, which is a direct feed site with 1 end-use customer that is supplied gas by Greymouth Gas New Zealand Limited (Greymouth Gas). We are seeking the exemption on the basis that all other direct-feed sites have been

exempt from the Gas (Downstream Reconciliation) Rules 2008 (the rules) as per the current exemptions:

- http://www.gasindustry.co.nz/sites/default/files/u21/Exemption_Direct_Connect_Gas_Gates_Notice_2008.pdf
- http://www.gasindustry.co.nz/sites/default/files/u21/DR09-01-U_direct_connect_notice_149565.1.pdf

Greymouth Gas also notes the exemption-in-progress for Kupe Delivery Point. We consider it appropriate that all such exemptions are treated the same.

Describe how the exemption sought may affect other participants (including service providers) and any costs and benefits to them:

It affects Vector Gas Limited (Vector) as they will need to upload all the split deliveries at HUN15303 and assign those against Greymouth Gas. Vector currently does this process for all gas gates that are exempt from the rules.

It will not affect other retailers as this is a direct-connect to an end-user supplied by Greymouth Gas.

It will positively affect M-co/NZX (Allocation Agent), because it will not distract them from breach issues that are not material. It will also save them having to undertake Allocation Agent Obligations as per part 3 of this form relating to rules exempt between and including rules 43 and 53 of the rules. Including these rules from this form should save the Allocation Agent from submitting a form requesting the same.

It will also make things easier for the GIC towards the end of 2010, when it comes time to reassessing the exempt gas gates. This is likely to be easier if done in aggregate from a policy perspective. The GIC will also not be distracted from breach issues in the interim that are not material.

Specify how long the exemption sought is to be in effect for. Give reasons for the period that you specify:

The urgent exemption is sought to be in effect as at 26 January 2009, to expire upon granting of a standard exemption. The standard exemption is sought to be in effect until 30 September 2010 to align with the dates of the other gas gate exemptions.

Specify what conditions and/or alternative arrangements relating to the exemption sought are appropriate:

N/A

5. Additional information for an urgent exemption:

If your application is urgent, specify the date(s) by when a decision is needed:

A decision is needed by 3 February 2010.

State the reasons for seeking an urgent exemption rather than a standard exemption:

Greymouth Gas is requesting a permanent exemption, which firstly needs to be urgent because HUN15303 is currently in the commissioning-phase. We expect first gas to flow through this Delivery Point to the end-customer towards the end of January 2010 (timing is dependant on the Vector approval process). Accordingly, we request relief of the obligations pertaining to the month of January 2010 onwards, and such obligations start on the 4th of February 2010.

6. Additional information for a transitional exemption

N/A

Please email this form to exemptions@gasindustry.co.nz

Appendix C DR10-01-U Urgent Exemption

Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR10-01-U: Direct Connect Gas Gate) Notice 2010

Pursuant to rule 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.

Notice

1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR10-01-U: Direct Connect Gas Gate) Notice 2010.
- (b) This notice comes into force on the date of this notice.

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. Urgent Exemption

An urgent exemption from the application of rules 29, 31, 32, 33, 39, 40, 48, 49, 50, 51, 52, 53, 78 and 79 is granted in respect of the Hunua 3 (HUN15303) gas gate subject to the following terms and conditions:

- (a) To avoid doubt, as no quantities of gas will be allocated to a retailer by the allocation agent in an initial allocation under rule 48 in respect of the Hunua 3 (HUN15303) gas gate, ongoing fees payable under rule 16 of the Rules do not apply to the Hunua 3 (HUN15303) gas gate.
- (b) The exemption will expire on 12 April 2010.

4. Reasons for granting the urgent exemption

The reasons for granting the urgent exemption are:

- (a) Greymouth Gas has applied to Gas Industry Co to exempt the Hunua 3 (HUN15303) gas gate from the application of the Rules, consistent with the approach adopted for existing direct connect gas gates under the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (b) On the information provided to Gas Industry Co, the Hunua 3 (HUN15303) gas gate supplies a consumer directly from the transmission system and therefore is considered to be a direct connect gas gate in the context of the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (c) An urgent exemption is desirable to ensure that Gas Industry Co is able to properly consider Greymouth Gas' exemption application and to ensure the applicant is not unduly disadvantaged in the interim.
- (d) The urgent exemption is limited to 12 April 2010 to allow consultation to occur and to enable Gas Industry Co to properly consider Greymouth Gas' exemption application.

DATED at Wellington this 4th day of February 2010.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.

Appendix D DR09-11-S Standard Exemption

Gas (Downstream Reconciliation) Rules 2008 (Exemption DR09-11-S: Unmetered Gas Gates) Notice (No 2) 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 (No 2) 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. Variation to Standard Exemption

An exemption was 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 applies 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 has been varied in respect of two gas gates and shall now expire on:
 - (i) 31 May 2010 for the Waverley WVY23601 unmetered gas gate; and
 - (ii) 30 September 2010 for Papakura No 3 PAP06603 and 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.

4. Reasons for granting a variation to a standard exemption

The reasons for granting the variation to the exemption are that:

- (a) 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 short extension has been permitted to Waverley to allow for the installation of the meter and a longer exemption applies for Papakura so that this gate can be considered with a general policy which is expected to deal with all the unmetered gas gates remaining.

The original reasons for granting the exemption for all gas gates remain relevant:

- (b) 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.
- (c) Given the significant costs to install meters at the remaining seven 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.

DATED at Wellington this 30th day of November 2009.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.