



**Allocation and Reconciliation of  
Downstream Gas Quantities**

***Powerco's submission on the  
Statement of Proposal to Gas Industry  
Company***

***4 October 2007***

| Question  | Comments   |
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| <p>Q1: Do submitters have any general comments on the proposal or the process adopted by the Gas Industry co?</p> | <p>Powerco is supportive of the work undertaken by the GIC and recognises that much has been achieved, however we believe that there some further work to be done. We recommend that the next step is to bring together an industry group: participants individually recognised for their experience and competency in the subject matter, to assist the GIC in finalising the Rules. Furthermore, a review of the arrangements undertaken by the Electricity sector for Reconciliation should be performed as there are many advantages of having a generic approach and conformity between gas and electricity. The proposal in its current form requires further discussions around technical issues and best ways to implement the outcomes prior to a recommendation to the Minister being made.</p> <p><i>GIC Proposal:</i> Powerco supports the development and implementation of a revised Allocation arrangements that -</p> <ul style="list-style-type: none"> <li>• can be demonstrated to improve the accuracy, equitability and reliability of the existing gas industry allocation processes, and</li> <li>• one which meets all other material regulatory objectives set-out in paragraph 2.18 of the statement of proposal.</li> </ul> <p><i>GIC Process:</i> Powerco agrees the process undertaken by the GIC has conformed to legislative requirements (Gas Act) but considers in this context that further development of the proposed Rules is required in order that the identified regulatory objectives are attained.</p> <p>Powerco would like to see a further round of consultation being performed.</p> |

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| Q2: Do submitters have any comments on the analysis in the Energy Acumen report?  | Powerco supports this piece of work and its findings and is hopeful that the GIC would act on any material issues or concerns raised by gas retailers relating to the intended dislocation between upstream and downstream reconciliation and settlement arrangements. <sup>1</sup>   |
| Q3: Do submitters agree that, provided compliance with the conversion process in NZS 5259:2004 is mandated, it is inappropriate to introduce a standardised billing methodology at this time. | <p>NZ 5259:2004 is not the defined standard under the Gas Regulations 1993 (clauses 9-11). The defined standard is NZ5259:1997 and therefore 5259:2004 is inappropriate for the proposed rules.</p> <p>We support the recommendation in Maunsell's report that a standard way of converting meter readings to energy quantities (based on the conversion calculations in NZS 5259) is desirable for reducing UFG.</p> <p>This process should be included in the Rules. We agree with Maunsell's findings that temperature correction factors need to be seasonally and regionally adjusted where direct measurement of the gas temperature is not practicable. Continuing to use a reference temperature of 15°C is appropriate, as it is an industry-standard temperature, but a correction factor for gas metered at temperatures other than 15°C needs correction. Implicit in Maunsell's findings is the suggestion that ground temperatures are closely linked to ambient air temperature, and this is unlikely to be correct. We also agree with the need for pressure correction, and would add that the correction factors applied (for both pressure and temperature) should account for changes in gas compressibility based on 'typical' NZS5442 gas compositions.</p> |

<sup>1</sup> Submission to the Gas Industry Company – Submission on Reconciliation of Downstream Quantities dated February 2007.

| Question   | Comments   |
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| <p>Q4: Do submitters have any comments on Gas Industry Co's proposed method of global allocation which would see UFG allocated to allocation groups 1 and 2.</p> | <p>Powerco supports the proposal to allocate some UFG to TOU ICP's on each gate based on data for the preceding twelve month period.</p> <p>We also agree with the GIC's conclusion that technical losses (network shrinkage) are negligible for gas. Losses prior to multiple Retailer trading were generally recognised to be around +/- 0.005% including meter accuracy effects. We can recall nothing significant which would mean that network losses have increased since then. Therefore the only appropriate losses to be accounted for are non-technical losses which the retailers need to be responsible for.</p> <p>We note however, that the proposal states that the GIC might initiate additional measures to reduce UFG if it is found that distributors are not taking steps to minimise network losses. Should unacceptable levels of UFG arise we are interested in understanding how the GIC would determine that the cause of the increase was contributable to technical losses. Clearly if there have been no major events or changes to a distributors network we can not see how increased UFG could be caused by technical losses.</p> <p>In relation to Global Allocation, Powerco agrees that it is inequitable to exclude an allocation of UFG to TOU customers (group 1 and 2 customers). We would like however to see this allocation capped to stop gaming occurring through value transfers or through lack of incentives on Retailers to improve their mass market data.</p> <p>Furthermore, we do not support any allocation of UFG based on a national averages when actual data will be available in mid 2008 to calculate interim UFG percentages by gas gate.</p> |
| <p>Q5: Do submitters have any comments on the</p>  | <p>Powerco is concerned that the time period for implementation is not</p>   |

| Question                            | Comments  |                         |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
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| proposed transitional arrangements? | <p>realistic given that recent discussions of the Registry Establishment Team are now recommending a March 2009 operational date for the central registry.</p> <p>Prior to the adoption of the rule a significant clean up of ICP data and ICP switches needs to be done before the UFG figures (as calculated by the Allocation Agent) should be applied.</p> <p>In 2006 Powerco undertook a calculation of non-technical losses across our networks for the period 1 October 2004 to August 2005 and compared these with the allocation agent as below:</p> <table border="1" data-bbox="1025 683 1814 917"> <thead> <tr> <th><u>Network</u></th> <th><u>Powerco</u></th> <th><u>Allocation Agent</u></th> </tr> </thead> <tbody> <tr> <td>Taranaki</td> <td>8.23%</td> <td>1.61%</td> </tr> <tr> <td>Hutt Valley,</td> <td></td> <td></td> </tr> <tr> <td>Porirua</td> <td>3.74%</td> <td>4.78%</td> </tr> <tr> <td>Hawkes Bay</td> <td>2.82%</td> <td>3.50%</td> </tr> <tr> <td>Manawatu</td> <td>6.13%</td> <td>4.39%</td> </tr> <tr> <td>Wellington</td> <td>4.24%</td> <td>7.77%</td> </tr> </tbody> </table> <p>As you can appreciate apart from Hawkes Bay there is a wide variance between the figures calculated by the Allocation Agent (using sales data from retailers – excluding incumbents mass market data) and the volumes reported to Powerco (normalised). To reconcile the differences we asked the Allocation Agent to provide us with a count of ICP’s at each gas gate and these were compared to the numbers of ICP’s we were billing. The results of this were not conclusive, but it was sufficient to say that the number of ICP’s provided to the Allocation Agent was understated in comparison to the numbers reported by Powerco. This analysis highlights the problems we face by receiving fundamentally</p> | <u>Network</u>          | <u>Powerco</u> | <u>Allocation Agent</u> | Taranaki | 8.23% | 1.61% | Hutt Valley, |  |  | Porirua | 3.74% | 4.78% | Hawkes Bay | 2.82% | 3.50% | Manawatu | 6.13% | 4.39% | Wellington | 4.24% | 7.77% |
| <u>Network</u>                      | <u>Powerco</u>  | <u>Allocation Agent</u> |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Taranaki                            | 8.23%   | 1.61%                   |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Hutt Valley,                        |   |                         |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Porirua                             | 3.74%   | 4.78%                   |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Hawkes Bay                          | 2.82%   | 3.50%                   |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Manawatu                            | 6.13%   | 4.39%                   |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |
| Wellington                          | 4.24%   | 7.77%                   |                |                         |          |       |       |              |  |  |         |       |       |            |       |       |          |       |       |            |       |       |

| Question  | Comments  |
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|   | <p>different data and ICP counts for billing purposes to what is used for Allocation and Reconciliation.</p> <p>While the purpose of the Allocation and Reconciliation rules does not specify that the same data is provided for both Allocation and Reconciliation, if distributors have some responsibility for UFG then a mechanism which makes it transparent for distributors to see Allocation data allocated by Retailer (in the same manner as in electricity) so that we can be forewarned of occasions where data is getting out of sync and may identify causes of UFG.</p> <p>Powerco considers that the premise on which the need for one-year transitional arrangements are based (<i>including unacceptably high existing UFG levels requiring a resultant phase-in of the new provisions</i>) will be based on incomplete information and analysis of existing loss experience. The linkages between Allocation and Reconciliation and the new Gas Registry are very strong. We believe that it would be inappropriate to implement the transitional arrangements until the registry is live in March 2009.</p> <p>We suggest that the GART group is reconvened to discuss these transitional arrangements further.</p> |
| <p>Q6: Are the proposed exemption provisions appropriate? Do submitters envisage that, if the proposal is implemented, they seek an exemption? If so, please provide details.</p> | <p>No. Rule exemptions are a very important consideration, having the ability to impact materially on the good standing and appropriateness of the Rules themselves, including continued compliance with regulatory objectives.</p> <p>As the Gas (Downstream Reconciliation) Rules 2008 are intended to operate for all allocation participants other than those who are granted an exemption, Powerco requests that (1) the Rules are made clearer that they take effect notwithstanding anything to the contrary in any agreement to which an allocation participant is a</p>  |

| Question                                   | Comments  |
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|  | <p>party and (2) the exemption provisions clarify the effect of the exemption and not just the timing of when the exemption takes effect (draft clause 18). For example, where an exemption is granted, the draft Rules give the Gas Industry Company discretion as to the terms and conditions of the exemption (draft clause 17.1). Gas Industry Company could, therefore, exercise its discretion to allow an allocation participant to continue to use pre-existing contractual provisions with respect to downstream reconciliation which would have applied but for their inconsistency with the Rules. As such, Powerco considers that it would be helpful for the Rules to clarify the status of "inconsistent" contractual provisions in the Rules so that it is clear when and in what circumstances existing contractual provisions otherwise inconsistent with the Rules will be able to be "revived". Powerco's concern is to avoid confusion as to when, and in what circumstances, existing contractual provisions otherwise inconsistent with the Rules may apply.</p> <p>Also the Allocation Agent should not be eligible for exemptions as its performance is pivotal to the maintenance of high standards of performance and conduct of all data providers.</p> <p>If included, a structure for transacting (i.e processing and determining) exemption requests is needed to be clearly prescribed within the Rules, including provision of industry submissions and consultation (i.e a structure/process that ensures that all material considerations are adjudged and confirmation that regulatory objectives will be maintained). These processes should apply to determine whether an exemption request should be granted, the terms to be prescribed and the duration of the exemption.</p> |
| Q7: Do submitters have any comments on the | The key differences between the cost benefit analysis for the Pan   |

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| cost-benefit analysis, including any comments on NZIER's report attached as appendix 5?   | Industry Agreement and Rules is essentially the one year timing difference which would see the benefits of rules regime come into effect sooner. However the major assessed benefit supporting legislation based (Gas Act) Rules, of overcoming implementation delay identified with an equivalent Pan industry arrangement, is unlikely to materialise. A high level of industry support for a Pan industry outcome continues. It appears voluntary industry adoption of the proposed rule provisions will be forthcoming and the need for a legislative promulgation of Rules will be unnecessary. |
| Q8: Do submitters agree with the funding options for the proposal? If not, please state your reasons.   | Powerco supports the funding proposals.  |
| Q9: Do submitters agree with allocation of costs for the proposal? If not please state your reasons.  | Powerco supports the proposed cost allocation.   |
| Q10: Do submitters have any comments on the proposed rules attached at appendix 6? If appropriate, please provide a marked up copy of the rules.  | Powerco has detailed comments on the proposed Rules: see Q12.<br>Further development work on the proposals is necessary if the regulatory objectives are to be attained. As presently drafted, the Rules are not suitable for either adoption as a pan industry agreement or in the absence of agreement, proceeding to Rule promulgation. The character and the quantum of the work yet to be completed require further industry consultation pursuant to the legislative framework.  |
| Q11: Do submitters have any comments on the proposed compliance arrangements? If appropriate, please provide a marked up copy of the regulations. | While the GIC has made good progress on complex and important industry issues there is still a significant amount of work to be done to establish an acceptable level of confidence that targeted objectives will be accomplished.   |

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|                     | <p>We recommend that the GIC reconvenes the GART group (or engages other industry expertise) to develop the Allocation Reconciliation Framework along the lines of what has been developed for electricity.</p> <p>While the GIC proposed rule and structure and some content are similar to that developed for electricity, there is considerable administrative and operational benefit of ensuring a constant and generic approach and conformity between gas and electricity. Most of the rule differences will largely be confined to technical and physical energy characteristics.</p> <p>The proposal in its current form requires further discussions around technical issue and best ways to implement the outcomes prior to a recommendation to the Minister being made.</p>   |
| Q12: Other Comments | <p><b><u>Allocation Agent:</u></b><br/> Accuracy and care arrangements should apply to all Allocation data providers; a responsibility to:</p> <ol style="list-style-type: none"> <li>1. Supply accurate and complete data, to minimise UFG variances and comply with data submission timetables (initial, interim and final);</li> <li>2. Not mislead or provide any information or data that is known to be inaccurate, incomplete or defective or misleading or is likely to mislead;</li> </ol> <p>Performance and conduct standards for Allocation Agent's responsibilities should be prescribed, and subject to industry body surveillance.</p> <p>Powerco would also like to see the Allocation Agent maintain a website for purposes of publishing information required to be</p> |

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|          | <p>published under the rules, as suggested in this submission (operational information, breach information etc).</p> <p>The Allocation Agent is responsible for correcting allocations where gas gate metering discrepancies are reported the by Transmission Owner or in circumstances where the Distributor reports a force majeure event (or say oil contamination etc). This process should be:</p> <ol style="list-style-type: none"> <li>1. Advise Retailer(s), transmission owner or distributor (as in the case may require) of the nature and effect;</li> <li>2. Outline proposal to deal with quantity adjustment (including the quantum of the adjustment).</li> <li>3. Provide opportunity for parties affected to consider; Allocation Agent to reasonably consider all proposals received relevant to the issue; may perform temporary Allocation if necessary as an interim measure)</li> <li>4. Allocation Agent (or GIC) to make a determination required to advise affected parties with reasons and allocation methodology.</li> </ol> <p>Thereafter the Allocation Agent to correct errors/and or omissions when discovered and advise affected parties as soon as practicable of effects. If material or requested by any affected retailer, Allocation Agent shall perform a special allocation or advise when the error will be corrected (interim or final).</p> <p><b><u>Definitions:</u></b></p> <p><b>UFG</b> needs to be comprehensively defined to cover unaccounted for gas resulting from all causes (i.e physical losses such as</p> |

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|          | <p>network leakages as well as quantity calculation variances that result from metering and data errors.</p> <p><b>Balancing Area</b> methodology needs to be included which changes "Gas Gate" to "Distribution Network" this is required to both overcome the balancing issues present under the current proposals with interconnected gates and to reflect existing industry practice. The defined term "Gas Gate" is still needed as there is a requirement on distributors to advise Retailers and Allocation Agents of Gas Gates attached to each "distribution network" under their ownership, including changes thereto.</p> <p><b>Gas Gates with one Retailer trading</b> needs to be excluded from the rules through definition.</p> <p><b><u>Retailer Obligations:</u></b><br/>Powerco proposes the inclusion of additional provisions providing for the submission of ICP days reporting by the Retailer for each allocation group. This information could be downloaded from the Gas Registry when it comes into effect in March 2009.</p> <p>In addition there is a need to improve clarity that notwithstanding the 10TJ/yr threshold requirements. The rule should state that all TOU ICP's irrespective of metered quantity should be included in groups 1 or 2 data submissions.</p> <p><b><u>Interim and Final Revisions:</u></b><br/>The data file for the interim and final allocations should be a complete file (i.e not just changes which have occurred between the original file and the revision). The Allocation Agent should also publish the quantity variances between the initial, interim and final</p> |

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|          | <p>submission by retailer, by network on its website.</p> <p><b><u>Standing Data Formats Group</u></b><br/> The Gas Standard Data format Group (GSDFG) should be convened as soon as possible to recommend changes to the current reporting regime. The file formats should include a mechanism which allows retailers to report compliance with the meter reading rule.</p> <p><b><u>Reconciliation Framework - Electricity:</u></b><br/> Significant work has been performed in the Electricity industry to improve the accuracy, transparency and processes for performing reconciliation. Some of the initiatives which they have introduced have included:</p> <ul style="list-style-type: none"> <li>• ICP day data;</li> <li>• ICP's with zero reads;</li> </ul> <p>ICP days data should be downloaded monthly from the registry by the Allocation Agent in respect of each Retailer Distributor network. This can then be compared with the data submitted by the retailer.</p> <p>ICP's with zero consumption not reported in the month by the Retailer should have an allocated a standard default quantity of volume (similar to in electricity).</p> <p>Any ICP with a consistent zero read should be investigated with the Retailer to establish why consumption is not being provided.</p> <p>We recommend that the Global Methodology once agreed, should be included as a schedule to the reconciliation rules to facilitate</p> |

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|          | <p>subsequent revision and modification.</p> <p><b><u>Application of Deemed Profiles</u></b><br/> The accuracy requirements set out by the GIC for meeting the regulatory objectives (+/-2%) necessitates that the application of standardised residual profiles by all retailers for Allocation estimates (profiles for each distribution network). The use of individual Retailer profiles will produce inconsistent results and a significant exposure to inequitable UFG allocations. The approach to profiling, with appropriate changes reflecting physical and technical differences, should be consistent with the arrangements being adopted for electricity reconciliation. This is an important consideration in the accurate measurement and management of UFG.</p> <p>There are alternative approaches available to derive a standard residual profile what would meet the regulatory objectives. The mechanism adopted needs to be easily calculated and administered; further industry consultation is desirable. A suggested deemed profile structure is-</p> <ul style="list-style-type: none"> <li>• The profile is applied to all groups 4, 5 and 6 ICP's that have not been read in a reporting period.</li> <li>• The residual profile would be calculated using the preceding years reconciled data.</li> </ul> <p><b><u>Reporting of Breaches</u></b><br/> It is proposed that the Allocation Agent publish breach events, including (as for Electricity Reconciliation Rules)-</p> <ol style="list-style-type: none"> <li>1. Late or incomplete data submissions (for any Allocation)</li> <li>2. Non compliant format or inaccurate data submissions (including profiling variances);</li> </ol> <ul style="list-style-type: none"> <li>• Data submissions or data that compromises Allocation Agent</li> </ul> |

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|          | <p>reliability;</p> <p>3. Meter reading thresholds not met.</p> <p>Further known or likely affects of breaches to be published but confidential information not disclosed – full report to the industry body: Gas (Compliance) Regulations 2007 may require minor modifications to interface with breach reporting.</p> <p>There should also be a provision for self-reporting breaches for all participants.</p> <p><b><u>Audits:</u></b><br/> Audit scope lacks the specificity found in the Electricity Reconciliation Code; suggested scope needs to be class specific:</p> <p>1. Allocation Agent<br/> Powerco suggests that an annual audit of the Allocation Agent’s activities is mandated with the Audit report published either on the GIC’s or Allocation Agent’s website where all parties can view it. The audit should include statements addressing the Allocation Agents:</p> <ul style="list-style-type: none"> <li>• Compliance with the Rules;</li> <li>• The accuracy of Allocations performed;</li> <li>• Correctness of published data (ICP days/ UFG and standard and residual profiles etc;</li> <li>• Correctness of breach reporting.</li> </ul> <p>2. Retailer</p> <ul style="list-style-type: none"> <li>• Gathering recording accuracy and safeguarding raw ICP quantity data;</li> <li>• Processing and systems for preparing the data for</li> </ul> |

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|          | <p>submissions to the Allocation Agent, including altitude, calorific value, pressure and temperature adjustments. Calorific value and temperature should be reconciled with corresponding gas gate conditions and altitude and pressure with the registry records.</p> <p>In the statement of proposal it is noted that if no material issues are identified that costs will be apportioned between the parties. In relation to distributors, as they are suppliers of information it is assumed that they will not receive an allocation of costs?</p> <p>Audit arrangements for the industry need to allow the auditor access to retailer systems and processes around metering and billing set-ups and the processing of billing and submission data.</p> <p>In a letter written by Contact Energy in September 2007 they referred to the historical problems that they had getting meaningful audits. In this letter Contact concluded that the majority of errors which account for UFG will be found in incorrect metering/billing set-ups in retailers databases. Some of these errors would have been caused by deficiencies in the gas switching process or by people incorrectly loading set-up data correctly into their billing system. Contact Energy went on to recommend that prior to Global Reconciliation go-live there is an opportune time for a co-ordination of a program whereby GMS owners could provide relevant and up to date metering/billing information set up which the retailers could check. We would be pleased if the GIC was willing to undertake this initiative.</p> |

