

NOVA GAS LTD

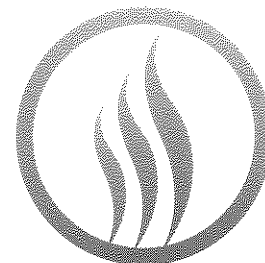
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8 October 2007

Gas Industry Co  
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Wellington

**Submission re Proposed Regulations for Allocation and Reconciliation of  
Downstream Gas Quantities.**

Please find attached a submission from Nova Gas regarding the GIC's proposal regarding allocation and reconciliation of downstream quantities.

Please contact me if you would like to discuss our submission.

Regards

Charles Teichert  
Nova Gas

**Q1: Do submitters have any general comments on the proposal or the process adopted by Gas Industry Co?**

The revision of the arrangements for downstream allocation and reconciliation sit within an overall industry framework that is made up of a mix of bilateral and multilateral contractual arrangements including:

- The Maui Pipeline Operating Code;
- Vector Transmission Service Agreements;
- Powerco, Vector and Wanganui Distribution Network Agreements;
- The Reconciliation and Switching Code;
- National Gas Contingency Operating Plan

It is important that consistency between these arrangements is maintained as change occurs.

However we note that there is the likelihood that as several of the above arrangements are renegotiated or are replaced with regulations, consistency will not be maintained.

At the time of writing Nova is aware of two potential inconsistencies that could arise:

- 1) The introduction of regular washups for downstream customer consumption to take account of improved metering information through time will be prevented from having effect with respect to balancing costs allocated under Vector Transmission Service Agreements that are currently being negotiated.

Vector's proposed TSA provides for the use of washup information in the recalculating of transmission charges but not the reallocating of balancing charges. Instead, shippers will be allocated balancing costs on the basis of the initial downstream allocated quantities only and any subsequent adjustments will be rolled into the current months positions of each shipper. This will result in cross subsidies between shippers and will create perverse incentives for shippers behaviour in relation to meter reading and estimation practices.

- 2) Different implementation dates for implementation of the new reconciliation regulations and the new switching and registry regulations.

Currently, the GIC has notified the industry of the intention to give effect to the proposed reconciliation rules from 1 October 2008. The proposed switching and registry rules were to take effect from the same date however a date of March 2009 is now proposed following an industry meeting.

Given the new regulatory framework for reconciliation and allocation of downstream quantities, Nova believes that it is important that there is alignment with the switching and registry arrangements. Deferral of the implementation of the switching and registry regime to a date after the introduction of the new reconciliation rules will introduce compliance risk for retailers. Given the nature of the change to a global reconciliation methodology, the added comfort of a registry system to capture responsibility for ICP's is an important aspect of the compliance process.

Nova Gas believes that the GIC must ensure that other industry contractual arrangements as well as other regulations in the gas industry are consistent with any new regulations proposed.

**Q2: Do submitters have any comments on the analysis and findings in the Energy Acumen report?**

We note that while Vector has the discretion under current TSA arrangements to use washup information to recalculate balancing costs and transmission fees, Vector has signalled that it will only be using washup information to recalculate transmission fees in the future. This treatment is inconsistent.

Nova does not agree that washups will discourage Vector shippers from correcting mismatch. Conversely, washups will deter shippers from seeking to benefit from inaccurate estimations and will spur them to improve customer demand forecasting and estimation processes to reduce the effects of washups. Washups will also create an incentive for parties to participate in balancing markets.

We do agree with Energy Acumens conclusion that downstream allocation washups do not have a direct link back to upstream allocations. The only link is indirectly through the reallocation of balancing charges between shippers which is the equitable outcome. An inequitable outcome is to only allocate balancing charges according to the initial allocation. This is important, as a party's initial allocation will not only be determined on its own estimates, but also the estimates of others and the resulting UFG. Regardless of how accurate a retailer is with its estimates, this means that they may bear costs associated with another retailers inaccuracy indirectly through the allocation of UFG. Such an outcome can only create perverse incentive for retailers.

**Q3: Do submitters agree that, provided compliance with the conversion processes in NZS 5259:2004 is mandated, it is inappropriate to introduce a standardised billing methodology at this time?**

Yes.

**Q4: Do submitters have any comments on Gas Industry Co's proposed method of global allocation which would cap the UFG allocated to allocation groups 1 and 2?**

Nova does not believe that UFG allocations should be capped to any particular group of consumers as there is no rational basis for this. The only reason presented for capping UFG has been "rate shock" for TOU consumers. The UFG above the level of the cap is then shifted to non TOU consumers who are then equally exposed to "rate shock".

Nova believes that capping UFG simply reduces the incentive on retailers to TOU consumers from carrying out activity associated with identifying and reducing UFG on a network.

If retailers and auditors have checked and validated their data, made sure that all sites are accounted for and meters are working accurately and that processes have not failed, then it cannot be right that one class of consumer receives a benefit on the basis of size.

Nova believes that UFG should be allocated among all consumer classes on the basis of volumes until such time as evidence shows that a particular consumer class has a higher propensity for error.

**Q5: Do submitters have any comments on the proposed transitional arrangements?**

Transitional issues fall away if all classes of consumer are treated equally.

Instead of having to deal with "rate shock" with the move to global reconciliation, Nova believes that it would be better for the industry to focus on identifying and resolving UFG before the implementation date. The focus should be on those areas (and there are not many) where there are large volumes traded and higher levels of UFG reported.

It is our understanding that audit attempts historically have been founded due to a lack of ability of incumbent retailers to enforce audit rights under the current Reconciliation Code to the extent necessary. This highlights the need for some transitional measures involving changes to the current Reconciliation Code as it is unlikely the industry will be able to achieve what is required on a voluntary basis, given that has not occurred to date.

There are similar issues in the proposed switching and registry arrangements that could benefit from a similar approach.

**Q6: Are the proposed exemption provisions appropriate?**

No.

- 1) Even with check meters and other verification means, meters have a tolerance of +/-2% so it cannot be said that a sites contribution to UFG can be nil.
- 2) Gate meters themselves also are subject to error and metering tolerances that are difficult if not impossible to calculate. Therefore even a customer meter proven to have no error should be allocated a proportion of UFG arising from error at the gas gate level.

Each site with multiple meters as the basis for an exemption should then at least be allocated some level of UFG reflecting the consumer meters tolerance range as well as the gate meter tolerance range.

**Do submitters envisage that, if the proposal is implemented, they would seek an exemption? If so, please provide details.**

Nova is likely to take advantage of the exemption process if it was available. Most likely that will be a commercial decision based on a cost/benefit analysis on a case by case basis.

**Q7: Do submitters have any comments on the cost-benefit analysis, including any comment on NZIER's report attached as Appendix 5?**

No

**Q8: Do submitters agree with the funding options for the proposal? If not, please state your reasons.**

Yes

**Q9: Do submitters agree with the allocation of costs for the proposal? If not, please state your reasons.**

Nova believes that more analysis of costs should be performed before a final decision is made.

Some factors that suggest a different approach would be more reflective of a causer pays principle:

- there are different processes for TOU and non TOU data;
- TOU data is provided to the allocation agent on a site by site basis as opposed to an aggregate basis;
- While NON TOU sites are on an aggregate basis, there is the activity associated with the creation of seasonal profiles to consider.

Considering these issues, Nova believes that costs should be identified with the two types of customer – TOU and Non TOU and then allocated on a volume basis between within those classes. This will prevent cross subsidisation between TOU and non TOU customers.

**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 (a Word version is available on Gas Industry Co's website for this purpose).**

Unfortunately Nova has not had sufficient time to review in detail the drafting of the regulations.

Given that the Go-live Date is to be no earlier than 1 October 2008, then there is sufficient time for a more detailed review of the rules to ensure that drafting is correct and that there are no loop holes.

Nova believes that it will be beneficial for a review of the regulations closer to the Go-live Date so that issues identified during the implementation phase can be addressed.

**Q11: Do submitters have any comments on the proposed compliance arrangements? If appropriate, please provide a marked-up copy of the regulations (a Word version is available on Gas Industry Co's website for this purpose).**

See Question 10.