

Subject	Gas (Downstream Reconciliation) Rules 2008 Guideline note for rules 44 and 51 – correction of allocations by allocation agent and special allocations
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1. Introduction

- 1.1 Rule 51 of the Gas (Downstream Reconciliation) Rules 2008 ('the Rules') sets out when Gas Industry Co may require the allocation agent to perform a special allocation, which amends and replaces the *allocation results* from the previous allocation of gas quantities. Rule 44 sets out the processes for the notification of errors in consumption information submitted to the allocation agent and, where such errors would have resulted in a materially different allocation, requires Gas Industry Co consider whether to direct a special allocation.
- 1.2 The purpose of this note is to provide guidance on how rules 44 and 51 are to be given effect by allocation participants and by Gas Industry Co. Under rule 51, Gas Industry Co may also determine any specific procedures that will apply to a special allocation – which are also set out in this note.
- 1.3 This note is explanatory in nature and is not legally binding. It needs to be read in conjunction with the Rules and the general approach set out for participants in no way reduces the requirement upon participants to know and comply with their obligations under the Rules.
- 1.4 In this guideline note '*allocation results*' means:
 - (a) the quantities determined by the allocation agent in accordance with rule 45 and allocated to allocation participants as initial, interim, or final allocations under rules 48 to 50; and

- (b) includes any quantities allocated as a special allocation under rule 51 or corrected quantities allocated under rule 44.3.¹

2. Correction of allocations - application of rule 44

- 2.1 Under rule 44, allocation participants are to advise the allocation agent immediately if they discover a material error in consumption information submitted to the allocation agent. The allocation participant (usually the relevant retailer or transmission system owner) must immediately advise the allocation agent of the nature and extent of the error and provide corrected consumption information.
- 2.2 Where metering equipment at a consumer installation is found to be in error, the affected consumption information is to be corrected in accordance with the Schedule to the Rules. If the period over which the error occurred is unknown, then:
 - (a) for a TOU meter installed at an allocation group 1 or 2 ICP, the allocation agent must estimate the expected period of the error using the best available information; and
 - (b) for any other metering equipment at any ICP, the retailer at that ICP must estimate the expected period of the error using the best available information.²

Errors discovered in the next business day

- 2.3 Up until 1730 hours on the next business day following an initial, interim or final allocation, the allocation agent may amend the *allocation results* using the corrected consumption information. To exercise this discretion, the allocation agent must have amended the *allocation results* and notified affected allocation participants by this time. If an allocation participant provides the allocation agent with corrected consumption information within sufficient time for an amended allocation to occur, then it is expected that the allocation agent shall amend the *allocation results*.
- 2.4 If the allocation agent does not to amend the *allocation results* by 1730 hours on the next business day after the *allocation results* were provided, the corrected consumption information is to be resubmitted for the next scheduled allocation for that consumption period (ie included in either the interim or final allocation).

Errors discovered later than the next business day

- 2.5 If an error is discovered later than 1730 hours on the next business day after the original *allocation results* were provided, the allocation agent must consider whether the correction of that error would have resulted in a materially different allocation. If the allocation agent

¹ This is the definition of 'allocation results' in rule 5 of the Rules – which, to avoid doubt, includes the quantities in the gas gate residual profile and also the allocated quantities attributed to each gas transmission contract in the allocation results (ie as per GAR010 report).

² The estimated correction cannot extend back further than 13 months from when the error was first notified or detected.

reasonably considers the correction of that error would have resulted in a materially different allocation then:

- (a) it must notify the affected allocation participants and Gas Industry Co; and
- (b) Gas Industry Co must decide in accordance with rule 51 whether a special allocation should occur.

2.6 In determining whether the correction of that error would have resulted in a materially different allocation, the allocation agent must have regard to all of the relevant circumstances surrounding the error and its effect. However, to provide a degree of consistency and certainty, Gas Industry Co has sought to identify some objective thresholds and factors to assist the allocation agent in making this decision. These include where:

- (a) there is a change in a retailer's allocated quantity at a gas gate of more than 500GJ, the correction of that error is generally considered to result in a materially different allocation;³
- (b) there is a change in a retailer's total allocated quantities across all gas gates of more than 1,000GJ, the correction of that error is generally considered to result in a materially different allocation; and
- (c) there are any other matters including financial impacts⁴ that, in the particular circumstances surrounding the error and its effect, the correction of that error is reasonably considered to result in a materially different allocation.

2.7 Note that if the allocation agent considers the correction of the error would not have resulted in a materially different allocation or Gas Industry Co decides not to require a special allocation in respect of the error, the corrected consumption information is to be resubmitted in the next scheduled allocation for that consumption period (ie included in either the interim or final allocation). If there is no further scheduled allocation in that situation, the corrected consumption information is not used and the existing *allocation results* stand.

Information on error to be provided by allocation agent to Gas Industry Co

2.8 Gas Industry Co's consideration of whether or not to require a special allocation relies significantly on the information provided by the allocation agent (and the information that has been provided by allocation participants to the allocation agent). To assist Gas Industry Co in making this decision, the allocation agent is expected to provide Gas Industry Co with all

³ Clause 2.19 of Schedule 2 of the Allocation agent service provider agreement provides an initial reference point for determining materiality is a change in a retailer's allocated quantity at a gas gate of more than 500GJ – subject to any other circumstances considered by the allocation agent to be relevant.

⁴ For example, the following situations may be also considered to result in a materially different allocation:

- There is a change in a retailer's allocated quantity at a gas gate which will, on the best available information, have a financial impact in excess of \$5,000 on an allocation participant at the gas gate; and
- There is a change in a retailer's total allocated quantities across all gas gates which will, on the best available information, have a financial impact in excess of \$7,000 on an allocation participant

relevant information surrounding its knowledge of the error and its effect on the *allocation results*. This information must include as a minimum:

- (a) The allocation affected (ie the consumption period(s) in question and whether the allocation is an initial, interim or final allocation);
- (b) The difference between the existing *allocation results* and the *allocation results* that would apply if the corrected information was used;⁵
- (c) Information identifying which of the thresholds set out in paragraph 2.6 above apply and how they have been considered; and
- (d) Any other information relevant to Gas Industry Co's decision on whether to direct a special allocation under rule 51.

2.9 The allocation agent is to also provide the appropriate allocation participants (ie those allocation participants at a gas gate affected by the error) with the same information. This is to assist an allocation participant in understanding the error and any effect it may have on the participant.

3. Directing a special allocation - application of rule 51

3.1 A special allocation is performed by the allocation agent in a similar manner as an initial, interim or final allocation, but:

- (a) it needs to be specifically required by Gas Industry Co in accordance with rule 51; and
- (b) it can occur at any time, rather than at the set times applying to initial, interim or final allocations in rules 48 to 50.

3.2 A special allocation can be performed up to 12 months after a final allocation has been performed (ie up to 25 months after the consumption period affected).

3.3 When deciding whether or not to direct the allocation agent to undertake a special allocation, Gas Industry Co must:

- (a) believe that the current allocation information or *allocation results* are sufficiently unfair that it is not appropriate to wait until the next (if any) scheduled interim allocation or final allocation is performed; and
- (b) balance the unfairness of the current allocation information or *allocation results* against any commercial reasons for retaining the current *allocation results*.

⁵ Note in order to provide this information, the allocation agent may need to rerun the allocation calculations. To avoid doubt, if a re-run is required, the re-run is not in any way an allocation under the Rules and the allocation agent will not publish the re-run on the allocation agent website or upload it into OATIS.

- 3.4 As noted in paragraph 1.2 above, Gas Industry Co may determine specific procedures applying to a special allocation. These specific procedures may be generic (ie such as those set out in this note that are intended to apply to all special allocations) or they may be case specific (ie to apply to a single particular special allocation). Examples of such procedures would include the process and consultation steps to be taken before reaching a decision or identifying factors to be assessed before reaching any decision. These procedures may also relate to the type of allocation methodology to be used for a particular special allocation – though a departure from the allocation methodology provided in the Rules is likely to be exercised only in exceptional cases.
- 3.5 Gas Industry Co may request a special allocation on its own initiative – for example, in situations where there has been no error or no material error advised by the allocation agent under rule 51. Gas Industry Co does not generally intend to unilaterally investigate situations that might warrant such action. However, any allocation participant is able to request Gas Industry Co to consider initiating a special allocation on the basis that the current allocation information or *allocation results* are sufficiently unfair. Allocation participants are to put any requests for a special allocation to Gas Industry Co in writing. Requests must include detailed reasons, together with full supporting information.
- 3.6 To assist its assessment, Gas Industry Co will generally seek the views of, and additional information from, the allocation agent and the allocation participants (including both retailers and transmission system owners) likely to be affected by a special allocation – particularly in respect of the degree of unfairness of the current *allocation results* and the commercial considerations for retaining those current *allocation results*.⁶ In respect of material errors notified under rule 44, Gas Industry Co will also rely on the information previously provided to it in respect of the error by the allocation agent.
- 3.7 Gas Industry Co will notify all allocation participants of any decision, including reasons, to require the allocation agent to perform a special allocation.

Allocation information/results must be sufficiently unfair

- 3.8 In considering whether the current allocation information or *allocation results* are sufficiently unfair such that it is not appropriate to wait for the next scheduled allocation, Gas Industry Co will have regard to all of the relevant circumstances. In particular, it will consider the following factors:
- (a) The extent to which the objective thresholds and factors described in paragraph 2.6 above in relation to assessing materiality have been met or exceeded and the resulting degree of

⁶ Gas Industry Co will endeavour to provide all relevant information surrounding the error to allocation participants and the allocation agent so as enable informed views to be provided – however, information which is confidential or commercially sensitive will generally be withheld.

unfairness in the current *allocation results*. The financial impact on an allocation participant is also relevant here⁷;

- (b) The magnitude or nature of any claimed unfairness including, but not limited to, matters such as the effect of letting uncorrected *allocation results* stand until the next allocation on transmission charges, mismatch and imbalance positions, the billing of affected consumers, and any residual negative effects on other commercial or research activities reliant on such information;
- (c) The degree to which any unfairness would be remedied, or the benefits that would be achieved, by directing an immediate special allocation rather than waiting until the next scheduled allocation; and
- (d) Where there are no errors in the current allocation information or *allocation results*, the unfairness resulting from the application of the allocation methodology set out in the Rules – including the extent to which the current *allocation results* attribute UFG to retailers or consumers who, on the best available information, are unlikely to be responsible for that UFG.

Unfairness versus commercial reasons for retaining allocation results

3.9 In balancing any unfairness of the current allocation information or results against the any commercial reasons for retaining those results, Gas Industry Co will have regard to the following factors:

- (a) Whether there are any affected allocation participants that oppose a special allocation occurring. Where unfairness in respect of the current *allocation results* exists and there are no objections, Gas Industry Co will generally direct a special allocation. Where an affected allocation participant does object, Gas Industry Co will only direct a special allocation if it is satisfied that the commercial reasons in the objection are outweighed by the negative effect or unfairness on all other affected allocation participants;
- (b) The quantitative and qualitative aspects of the commercial reasons for retaining or amending the current *allocation results* – including the financial cost to allocation participants, and any negative effects or additional costs on the allocation agent in carrying out the special allocation. Where the financial cost to an allocation participant (in retaining the *allocation results*) is greater than the total financial cost to allocation participants (in amending the *allocation results*), Gas Industry will generally direct a special allocation.

⁷ See footnote 4 above.

Notification of decision

3.10 When a decision has been made by Gas Industry Co to either:

- (a) require a special allocation under rule 51 generally; or
- (b) not to require a special allocation in response to advice from the allocation agent under rule 44,

that decision will be notified to the allocation agent and to all of the allocation participants potentially affected by, or with an interest in, the decision. This will generally comprise the transmission system owner and all the retailers at the affected gas gate. In notifying that decision, information which is confidential or commercially sensitive will generally be withheld.

3.11 Gas Industry Co will also endeavour to follow previous decisions on directing special allocations. Given the Rules have only recently come into effect, the approach set out above is, to a degree, ad hoc, but over time, decision making will be able to be based on previous experience and precedent. As such, it is expected that this guideline note will be reviewed and updated in due course.

4. Injection Quantities

4.1 Rule 44 primarily addresses the correction of errors in consumption information rather than errors in injection information. Nevertheless, errors in injection information are able to be dealt with under the Rules.

4.2 Where errors in injection information are discovered, Gas Industry Co is able to require the allocation agent to perform a special allocation under rule 51. The same processes outlined above will apply to Gas Industry Co's consideration of special allocations for errors in injection information.

4.3 Gas Industry Co also notes that transmission system owners are required to provide information that is accurate and complete. Where an allocation participant becomes aware of an error in injection information provided by a transmission system owner, the nature and extent of that error is also to be notified to the allocation agent. Corrected injection information is to be provided to the allocation agent by the transmission system owner as soon as possible.

4.4 As with errors in consumption information, the allocation agent shall determine whether the correction of that error would have resulted in a materially different allocation, having regard to the matters set out in paragraph 2.6 above. Where the correction of that error would have resulted in a materially different allocation, the allocation agent is to provide Gas Industry Co and the appropriate allocation participants with the information set out in paragraph 2.8 above.