GREYMOUTH GAS

5 March 2019

Grace Clapperton-Rees
Advisor
Gas Industry Company Limited

Dear Grace,

Re: Consultation on correcting a TOU metering error at GMM08801

1 Background

1.1 Greymouth Gas New Zealand Limited is party to alleged breach notice 2018-169 which alleges that On Gas Limited under-reported 100 TJ of gas demand between March 2014 and June 2018. During this period we have had two TOU ICPs at this gas gate.

2 GJ Impact

2.1 Greymouth Gas understands that the impact relates to the period from October 2015[1] to October 2018[2] inclusive. Below we split this into three periods and outline our estimated impact:

a) October 2015 to September 2017 ('period one'): 16,760 GJ.
b) October 2017 to December 2017 ('period two'): 3,153 GJ.
c) January 2018 to October 2018 ('period three'): 10,462 GJ.

2.2 Greymouth Gas therefore agrees with GIC's estimated GJ impact in column three of Table 2 – i.e. 16,773 GJ ('harm') from period one that requires some sort of wash-up that cannot be subject to the interim or final allocation process.

2.3 Greymouth Gas disagrees with GIC's total estimated GJ impact in column two of Table 2. However, this is not so relevant[3] and, subject to footnote seven, we are okay with this approach.

3 Special Allocations

3.1 Greymouth Gas agrees with GIC that Options 1 and 2 (i.e. including special allocations) are sub-optimal options, for the reasons GIC cites in the paper.

[1] As February 2014 to March 2015 submitted data is an input to the 2015/16 AUFG factor.
[2] As November 2018 initial allocations onwards used the corrected AUFG factor.
[3] As the numbers from period two have already flowed through First Gas' billing and balancing wash-up processes for us using the corrected AUFG factor, and the numbers from period three will do likewise in forthcoming BAU interim and final allocations.

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4 Proposed Split of Option 3

4.1 Greymouth Gas considers that the financial settlement in Option 3 could also be treated as a hybrid settlement – i.e. a physical return of gas plus a financial settlement related to other netbacks. The choice between financial or hybrid settlement could be tailored to each impacted party. Greymouth Gas prefers a hybrid settlement because:

- It is simple.

- On Gas has access to gas and could return gas at Pokuru (on the ex-Vector pipeline via a GTA) at a constant rate during a particular month during the current gas year.

- It avoids having to debate or agree on the price of gas[4] including any time value of money component (incidentally we disagree with the logic to use MBIE's average wholesale prices for various reasons).[5]

- It can exclude a number of netbacks from a financial settlement.[6]

- The remaining financial settlement should be easier to calculate.[7]

5 Technical Matter

5.1 Greymouth Gas requests clarity as to how alleged breach notice 2018-160 is to be treated as the quantity and time period appears to be included in notice 2018-169.

6 Conclusion

6.1 Greymouth Gas does not support Options 1 or 2, or Option 3 as currently proposed.

6.2 Greymouth Gas would support Option 3 if we could reach agreement with GIC on the appropriate financial multiplier for the harm, or we would support a sub-option of Option 3 if a hybrid settlement was available. The latter is our preference.

Yours sincerely

Chris Boxall
Commercial Manager

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[4] Other than, potentially, for GST purposes.

[5] These include On Gas effectively paying for its mistake using the cheapest source of gas available, using wholesale prices when the market impacted (and opportunity cost of being prevented from potentially obtaining another customer) is the commercial market (for us) or residential market (for some others), and using nominal prices that do not adjust for the time value of money.

[6] I.e. By receiving gas from a trade at Pokuru straight into our balancing position, we would not incur further netbacks related to climate change, VTC throughput charges, and MPOC throughput charges which we have effectively already paid. Balancing charges can also be discounted because the impact of the harm would not have been material on daily balancing positions.

[7] I.e. Any delta in overpaid network variable costs, any correction to VTC overrun charges, and an amendment to market fee charges relating to the downstream rules. The latter may also be relevant for periods two and three.