

Consultation on correcting a TOU metering error at GMM08801

1. Introduction and purpose

This paper considers options for dealing with the impact from a TOU metering error that occurred at the Greater Mount Maunganui gas gate (GMM08801) between March 2014 and June 2018. This paper relates to alleged breach 2018-169 that was alleged by the Allocation Agent. Options considered involve special allocations in accordance with rule 51 of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) and with the [Guideline Note on Special Allocations](#) and/or a financial settlement which could be facilitated by the Market Administrator. Gas Industry Co (GIC) invites feedback from allocation participants on their preferred option.

1.1 Background

High unaccounted-for-gas (UFG) has been an issue at GMM08801 since around mid-2014. An error discovered during an audit in 2016 where ICPs were incorrectly reconciled between GMM08001 and Greater Tauranga (GTT07701) was initially thought to be the cause of the issue. However, when this was resolved in 2017 the UFG at GMM08001 remained high.

Recently GIC undertook further investigation into TOU load at GMM08001 and uncovered a potential under-metering error at a TOU site supplied by OnGas. The suspected problem was confirmed by the meter owner and retailer as a fault and it corresponds directly to the period and magnitude of high UFG. The error went undetected for so long because the meter error coincided with operational changes made by the customer which provided a reasonable explanation for the apparent reduction in demand.

The meter has now been replaced and corrected submissions have been supplied to GIC and the Allocation Agent for the affected period (March 2014 – June 2018). Annual UFG factors (AUFG) for the 2017/2018 and 2018/2019 gas years were corrected by the Allocation Agent in October 2018 to ensure that future business-as-usual (BAU) allocations are not going to be impacted by the error.

1.2 Impact

The recorded under-submission totalled 100,157 GJ for the gas gate over the affected period. This has caused incorrect AUFG and allocated quantities to be published. The extent of these inaccuracies are described below.

Annual UFG Factors

The period over which the error occurred affected four gas years. The AUFGs for gas years 2015/2016, 2016/2017, 2017/2018 and 2018/2019 were affected and the difference between the originally published AUFGs and the estimate of what the AUFGs would have been if no under-submission occurred is detailed in Table 1 below. The AUFGs for the two most recent gas years were corrected in October 2018 and the numbers in bold represent the corrected AUFGs that have since been re-published and are being used by the allocation system. The corrected AUFG numbers show a considerable improvement to the UFG at the gate.

Table 1: Difference between published AUFGs and corrected AUFGs

Month	Published AUFG	Corrected AUFG	Difference
October 2015- September 2016	1.0622	1.0284	0.0338
October 2016- September 2017	1.0410	1.0168	0.0242
October 2017- September 2018	1.0471	1.0069¹	0.0402
October 2018- September 2019	1.0446	1.0110¹	0.0336

¹ These AUFGs were corrected by the Allocation Agent in October 2018 and will be used by the allocation system for future allocations

Allocated Quantities

There have been twelve retailers trading at GMM08801 at different times over the affected period and their allocated quantities have been impacted as a result. Both time-of use (TOU) and non TOU allocations have been impacted. The resulting difference in retailers' published allocations and their corrected allocations are listed in Table 2. BAU final allocations are still to take place for the months January 2018 to June 2018 and special allocations are still available for the months from February 2017 onwards (assuming specials are directed by March 2019). The volumes that won't be washed up by BAU allocations and the volumes that are unable to be corrected via special allocations are also presented in Table 2.

OnGas has been under-allocated gas for the entire period and as a result all remaining retailers have been over-allocated. The affected period covers 52 months and the volume impact has been substantial. For some retailers the volume that won't be washed up by BAU allocations is greater than the total volume to be washed up for the full period. This is because the monthly UFG factor that was used in the calculations of the non TOU allocations was changed as a result of AUFG corrections and it has meant that some retailers' allocations have been scaled up for some months where previously they were scaled down.

Overall, only about 9% of the 'harm' (in gigajoules terms) will be washed up via BAU allocations and, even with special allocations going back to February 2017, about 77% of the gigajoule harm would not be corrected.

Table 3 uses nominal quarterly average wholesale prices of natural gas (sourced from MBIE data) to give an indication of the financial impact of the error on retailers. This does not take into account transmission or balancing charges.

Table 2: Difference in published allocated quantities and estimates of corrected quantities

Retailer	Total GJ change due to error	GJ that won't be washed up by BAU allocations	GJ unable to be washed up by special and BAU allocations
Contact (CTCT)	2,260	2,371	1,896
Energy Direct (EDNZ)	672	672	672
Genesis (GEND)	7,760	6,331	4,748

Retailer	Total GJ change due to error	GJ that won't be washed up by BAU allocations	GJ unable to be washed up by special and BAU allocations
Genesis (GENG)	16,297	16,483	14,967
Energy Online (GEOL)	229	242	184
Greymouth (GMTH)	22,890	16,773	12,041
OnGas (GNGC)	-89,500	-81,713	-68,658
Nova (GNVG)	27,681	26,866	23,808
Mercury (MEEN)	1,325	1,361	1,196
Pulse (PUNZ)	51	53	39
Switch Utilities (SULG)	0	0	0
Trustpower (TRUS)	10,337	10,562	9,108

Table 3: Estimate of financial impact

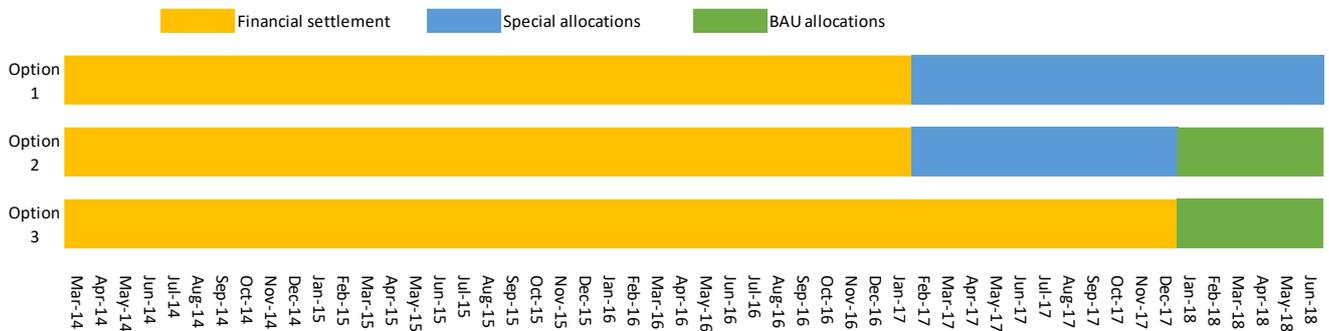
Retailer	Total \$	\$ that won't be washed up by BAU allocations	\$ unable to be washed up by special and BAU allocations
Contact (CTCT)	\$13,232	\$13,219	\$10,620
Energy Direct (EDNZ)	\$3,619	\$3,619	\$3,619
Genesis (GEND)	\$41,273	\$32,879	\$24,350
Genesis (GENG)	\$93,903	\$93,955	\$85,615
Energy Online (GEOL)	\$1,292	\$1,296	\$975
Greymouth (GMTH)	\$123,508	\$86,888	\$61,769
OnGas (GNGC)	- \$501,284	-\$450,357	-\$379,811
Nova (GNVG)	\$157,761	\$151,590	\$134,912
Mercury (MEEN)	\$7,707	\$7,743	\$6,838
Pulse (PUNZ)	\$286	\$286	\$206
Switch Utilities (SULG)	\$1	-	-
Trustpower (TRUS)	\$58,703	\$58,882	\$50,908

2. Options

GIC suggests three different options that could address the harm caused by OnGas's under-submission. Gas Industry Co seeks feedback from Allocation Participants on these options.

1. Facilitate a financial settlement for the months that are unable to be fully corrected by special allocations (March 2014 – January 2017) and direct the Allocation Agent to perform special allocations for the remaining period (February 2017 – June 2018).
2. Facilitate a financial settlement for the months that are unable to be corrected by special allocations (March 2014 – January 2017), direct the Allocation Agent to perform special allocations for the period which will not be washed up by BAU allocations (February 2017 – December 2017) and leave future allocations to wash up the remaining months (January 2018 – June 2018).
3. Facilitate a financial settlement for the months that will not be washed up by BAU allocations (March 2014 – December 2017) and leave future allocations to wash up the remaining months (January 2018 – June 2018).

The difference between the options is illustrated in the diagram below:



2.1 Financial settlement

Financial settlements have previously occurred in instances where special allocations have been unavailable or infeasible to address harm from retailer errors. Table 4 below provides examples of such events.

When settlements have been arranged via industry agreement and facilitated by GIC, the MA is more likely to determine the breaches as not material and the costs and time involved in settling the material breaches (investigation and/or rulings panel hearings) are avoided. Furthermore, previous examples show that breaches that are determined material and go through the MA process are likely to end up resulting in similar settlements (but with the additional cost and time of the full compliance process).

The process for the financial settlements typically involves retailers invoicing the breaching party with the amounts provided by GIC and once the payments have been confirmed by GIC, the MA will be able to determine the breach.

Table 4: Previous financial settlements

Breach	Settlement
OnGas submission error at Rotorua (breach notice 2016-137)	The error totalled 6,502 GJ across the affected parties. A settlement was arranged via industry agreement. After the settlement was finalised, the MA determined the breach as not material.

Breach	Settlement
Rule 37.2 breaches (May 2015 – November 2015)	A settlement totalling \$176,511 was arranged via the MA process. The MA will determine the breaches as not material once confirmation of payment is received from all parties.
Rule 37.2 breaches (June 2013 – April 2015)	A settlement totalling \$197,738 was arranged via the MA process. The MA determined the breaches as not material.
Rule 37.2 breaches (April 2012 – May 2013)	A settlement totalling \$49,994 was arranged via the MA process. The MA determined the breaches as not material.
Rule 37.2 breaches (April 2011 – March 2012)	The MA determined the breaches as material. A settlement totalling \$76,378 was arranged via the investigator and approved by the Rulings Panel.
Rule 37.2 breaches (December 2009 – March 2011)	The MA determined the breaches as material. A settlement totalling \$62,629 was arranged via the investigator and approved by the Rulings Panel.
Rule 37.2 breaches (October 2008 – November 2009)	The MA determined the breaches as material. A settlement totalling \$379,649 was arranged via the investigator and approved by the Rulings Panel.
Genesis submission error at Palmerston North (breach notices 2011-122 & 2011-138)	The MA determined the breaches as material. A settlement was arranged via the investigator and approved by the Rulings Panel.
OnGas submission error at Greater Hamilton (breach notice 2010-362)	The error totalled 46,808 GJ across the affected parties. The MA determined the breach as material. A settlement was arranged via the investigator and approved by the Rulings Panel.

2.2 Special allocations

Before considering a special allocation, rule 51 of the Rules requires GIC to determine the current allocation results as sufficiently unfair after considering any commercial reasons for retaining current results. The current guidelines for determining if allocations are sufficiently unfair, include materiality thresholds of whether:

- a) there is a change in a retailer's allocated quantity at an allocated gate of more than 1,000 GJ;
- b) there is a change in a retailer's total allocated quantities across all allocated gas gates of more than 2,000 GJ; and
- c) there are any other matters including financial impacts 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.

Both thresholds a) and b) above have been met and therefore GIC considers that it is appropriate to direct special allocations where they are still available unless the unfairness is corrected via a financial settlement. Rule 51 of the Rules only allows special allocations to be performed up to 12-months after a final allocation has been performed, leaving the months prior to December 2016 unable to be corrected via this process.

2.3 Summary

GIC's initial view is that because a financial settlement is the only means for correcting the errors in months that are unable to be corrected via special allocations, for the sake of simplicity, it would be more efficient to arrange the settlement to cover all the months that are not going to be corrected by future BAU allocations. Options one and two would involve a settlement plus 19 or 11 special allocations, respectively, whereas, option 3 which would involve just one settlement and achieve a similar result.

One important consideration of option 3 is that the corrections would not flow through into the transmission owner's (First Gas) billing whereas, options involving special allocations would require First Gas to re-open over 4 years of transmission billing. This might result in substantial administrative burden to First Gas, particularly at a time when they are focusing on the Gas Transmission Access Code and associated IT development. The task would be further complicated by the fact that the under-submission spans a period prior to First Gas's ownership of the pipeline. However, if agreement cannot be reached for option 3, then GIC will consider alternative options involving special allocations where they are available.

3. Consultation

The preliminary view reached above is GIC's initial position only and is dependent on stakeholder feedback. It is important retailers give an indication of whether there are financial or other commercial drivers that will influence GIC's assessment of the unfairness of the submission error. We request any retailer with a view to contact us via submission.

The deadline for submissions is close of business on **8 March 2019**

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ABOUT GAS INDUSTRY CO.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.