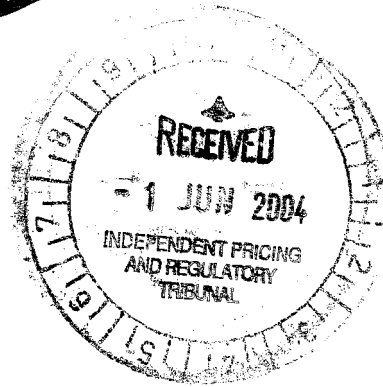


# **GAS MARKET COMPANY**



25 May 2004  
Ms Ruth Lavery  
Program Manager of Gas  
Independent Pricing and Regulatory Tribunal (IPART)  
PO Box Q290, QVB Post Office  
NSW 1230

Dear Ms Lavery

## **Treatment of Unaccounted-For-Gas In AGL Gas Networks Access Arrangement**

Gas Market Company Limited (GMC) has been developing an enhanced methodology for gas reconciliation between gas retailers ("Users") in the NSW and ACT Gas Retail Market (the "Market") in response to perceived shortcomings with the existing methodology contained in the Business Rules of the Market. One aspect of the proposed new methodology potentially involves a new treatment of unaccounted-for-gas (UAG) compared to the existing treatment in the AGL Gas Networks Access Arrangement (AGLGN AA). The purpose of this letter is to:

1. Inform IPART of GMC's progress in the development of a new gas reconciliation methodology for the Market;
2. Highlight the provisions of the existing AGLGN AA, in respect of the treatment of UAG, that precludes GMC from consideration of a possible alternative gas reconciliation methodology, and outline how such impediments could be overcome in the new AGLGN AA; and
3. Suggests a meeting between IPART, GMC and AGLGN to discuss this issue.

### **Background to Gas Reconciliation**

The gas market is balanced and paid for on a daily basis. Since the gas meters for delivery points where consumption is less than 10TJ per day are not read on a daily basis, GMC, as part of the FRC system, estimates consumption for every such delivery point in NSW and the ACT. That information determines the percentage of the net system load (that is, the quantity of gas delivered into the network on a day which is attributable to the non-daily metered market) which is attributed to each User. Inevitably, there is a variance between the estimation and the actual consumption at the gas delivery point, so that Users have effectively lent and borrowed gas between themselves. Gas reconciliation is the means by which actual consumption is reconciled to estimated consumption, and those loans and borrowings are repaid.

After the commencement of contestability, GMC identified a problem with the existing Business Rules for gas reconciliation. A mathematical anomaly resulted in an inequitable (scaling factor) treatment of smaller Users compared to larger Users, requiring smaller Users to inject a volume of gas into a network section on a day that was significantly greater than their standard daily gas withdrawals. Accordingly, GMC suspended the gas reconciliation mechanism until investigations confirmed that the underlying algorithms for reconciliation were correct, and the

market could develop an alternative mechanism which did not disadvantage smaller users. Reconciliation has, during this period, occurred through the natural (albeit slow) reconciling mechanism of "time" — whereby the progressive receipt of non-daily gas metering data over time offsets accumulated past imbalances for a User (generally taking around a year for a complete cycle).

### **Development of a New Gas Reconciliation Methodology**

GMC's Business Rules Industry Committee ("BRIC") recently settled on a preferred approach for future gas reconciliation in the Market — embracing a recommendation from GMC's Business Rules Balancing Committee (BRBC) that was especially established to investigate options for gas reconciliation. The BRIC has been articulating the specifics of the new gas reconciliation methodology which does not require a different treatment of UAG from that provided for in the existing AGLGN AA. While the proposed new methodology appears to be a workable solution, it requires an acceptance of the principle that the Market is unlikely to fully reconcile at any given time, because the methodology relies on Users having equal and offsetting gas imbalances at the time of reconciliation, which may not necessarily be the case — partial, as opposed to full, offsets between Users are more likely.

An alternative methodology that circumvents the problem of only partial offsets existing between Users' gas imbalances has been proposed for consideration through the BRIC meeting held on 29 April. This option would borrow from the SA/WA Gas Retail Market (which is scheduled to launch in mid-2004). It involves UAG providing the mechanism for balancing non-daily metered gas such that the Network Operator contracts with a User(s) to supply UAG and, in turn, notifies the independent market operator (REMCo) so that the UAG could be allocated to that User(s) when reconciliation occurs. Alternatively, the network operator may take no role, and a user could be required to provide UAG under the Rules. At present, the BRIC has requested further investigation of this option, and will consider the possibility of adopting this methodology as an additional step to the reconciliation methodology outlined above in the coming months. It is clear that any reconciliation methodology which uses UAG as a balancing factor would also need to ensure that adequate amounts of UAG are provided to the Market at an appropriate price, and the means of ensuring this occurs will also be the subject of investigation.

However, any use of UAG in the reconciliation methodology would necessitate a new treatment of UAG in the upcoming AGLGN AA.

Please note that GMC is also seeking a similar treatment of UAG in respect the upcoming new ActewAGL Distribution **Access** Arrangement for ACT, Queanbeyan and Yarrowlumla and is concurrently seeking a meeting with the Independent Competition and Regulatory Commission (ICRC) of ACT to discuss this matter.

### **Allowance for a Future Alternate Treatment of UAG in the Upcoming AGLGN AA**

Under the present AGLGN AA, there is a requirement for AGLGN to provide UAG to the market, and pricing and incentive provisions apply to that provision of UAG. This requirement would prevent the market moving to a reconciliation methodology convergent with that adopted in SA/WA.

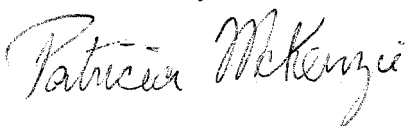
In order to provide sufficient flexibility for the Market to consider all options for a reconciliation methodology, GMC suggests that the new AGLGN AA include a provision that all obligations on AGLGN to provide and manage UAG be completely removed in the event that GMC's Business Rules provide for an alternative mechanism for provision of UAG associated with a gas reconciliation process. Such removal of UAG related obligations would need to be reflected in the price and incentive mechanism provisions of the AA. AGLGN has indicated to GMC that it would not object to a provision which allowed for an alternative provided that this can be done so that all current UAG related obligations cease to apply. GMC agrees that this would be appropriate.

GMC is aware that the release of a draft decision on revised AGLGN AA is imminent. We request that IPART consider adopting this suggestion in its draft decision in order to provide the NSW and ACT Gas Retail Market with flexibility to consider a better reconciliation methodology and to facilitate greater convergence of gas market operations.

GMC would welcome a meeting with IPART and AGLGN at a mutually convenient time in the near future to *discuss* the net benefits to the gas industry and consumers safeguards in respect of this matter.

Should you wish to clarify any aspect of this letter or to arrange a meeting, I can be contacted by telephone on (02) 9418 2660 or by email at [pmmckenzie@optushome.com.au](mailto:pmmckenzie@optushome.com.au). Alternatively, please contact Slavko Jovanoski of M-co on (02) 9256 6334 or [slavko.jovanoski@m-co.com.au](mailto:slavko.jovanoski@m-co.com.au).

Yours sincerely



Patricia McKenzie  
Chief Executive Officer  
**Gas Market Company Limited**

cc: Agility Management