

The urgent amendment to part J of the Rules: The seasonal adjustment shapes issue

Consultation paper

November 2008

Executive summary

1. On 18 September 2008 the Minister of Energy (Minister), following a recommendation made by the Electricity Commission (Commission)¹, made an urgent amendment to the Electricity Governance Rules 2003 (Rules). The amendment inserted a new rule 11.4.9 in part J of the Rules (attached as Appendix 1).
2. The Rule amendment came into force on 16 October 2008.
3. The Rule amendment was necessary to resolve an unanticipated issue with the seasonal adjustment shapes that arose following the major change to the reconciliation process that occurred when part J of the Rules (and other associated Rule amendments) came into force on 1 May 2008.
4. The issue arose because the new reconciliation rules provide for a change from reconciliation on the basis of differencing to global reconciliation. That change distorts the seasonal adjustment shapes issued by the reconciliation manager for the period spanning 1 May 2008, and would have resulted in inaccurate allocation of electricity volumes between reconciliation participants.
5. Participants that were incumbent retailers before 1 May 2008 would have been financially disadvantaged compared with participants that were independent retailers before 1 May 2008 because of that inaccurate allocation. Although there has been no detailed analysis of the potential financial disadvantage, it is estimated it could have been as much as \$20 to \$30 million.
6. The urgent amendment to part J of the Rules requires the reconciliation manager to issue, and reconciliation participants to use, one-off seasonal adjustment shapes for the reconciliation of submission information the period spanning 1 May 2008.
7. That resolved the seasonal adjustment shapes issue by minimising the distortion created by the change from reconciliation on the basis of differencing to global reconciliation, which in turn minimised the financial disadvantage to participants that were incumbent retailers.
8. Section 172E(3) of the Electricity Act 1992 (Act) provides that if a Rule amendment is made urgently, the Commission must, within 6 months:
 - assess the options for achieving the objective of the Rule amendment, and prepare a statement of proposal under section 172F;
 - consult with persons representative of interested persons likely to be substantially affected by the Rule amendment, and consider all submissions received; and

¹ The recommendation is available on the Commission's website at <http://www.electricitycommission.govt.nz/pdfs/rulesandregs/recommend/pdfsrecommend/RP133-recommend.pdf>

- make a recommendation to the Minister on whether or not the Rule amendment should be revoked, replaced or amended.
9. The Commission now seeks submissions on the urgent amendment to part J of the Rules, including the options set out and issues discussed in this paper. The closing date for submissions is **5:00pm on Friday 28 November 2008**.

Glossary of abbreviations and terms

Commission	Electricity Commission
Minister	Minister of Energy
Act	Electricity Act 1992
Rules	Electricity Governance Rules 2003
Regulations	Electricity Governance Regulations 2003

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1. Introduction

1.1 Purpose of this paper

- 1.1.1 The purpose of this paper is to consult with participants and persons that the Commission thinks are representative of the interests of persons likely to be substantially affected by the urgent amendment to part J of the Rules, as required by section 172E(3) of the Act.
- 1.1.2 This paper is a statement of proposal prepared in accordance with section 172F of the Act. As such, it is required to set out a detailed statement of the proposal, a statement of the reasons for the proposal, an assessment of the proposal and all reasonably practicable options identified by the Commission, and any other information the Commission considers relevant.
- 1.1.3 The Commission invites submissions on the urgent amendment to part J of the Rules, and the issues set out in this paper.

1.2 Submissions

The Commission's preference is to receive submissions in electronic format (Microsoft Word). It is not necessary to send hard copies of submissions to the Commission, unless it is not possible to do so electronically. Submissions in electronic form should be emailed to info@electricitycommission.govt.nz with "*Submission on the seasonal adjustment shapes issue*" in the subject line.

If submitters do not wish to send their submission electronically, they should post one hard copy of their submission to the address below.

Maree McGregor
Electricity Commission
Level 7, ASB Bank Tower
2 Hunter Street
Wellington

Tel: 0-4-460 8860

Fax: 0-4-460 8879

- 1.2.1 Submissions should be received by **5:00pm on Friday 28 November 2008**. Please note that late submissions are unlikely to be considered.
- 1.2.2 The Commission will acknowledge receipt of all submissions electronically. Please contact Maree McGregor if you do not receive electronic acknowledgement of your submission within two business days.

- 1.2.3 If possible, submissions should be provided in the format shown in Appendix 3. Your submission is likely to be made available to the general public on the Commission's website. Submitters should indicate any documents attached, in support of the submission, in a covering letter and clearly indicate any information that is provided to the Commission on a confidential basis. However, all information provided to the Commission is subject to the Official Information Act 1982.

2. Background

- 2.1.1 New reconciliation rules came into force on 1 May 2008, and are reflected in a new part J of the Rules and significant, but less substantial, amendments to parts A, D, E, G and H of the Rules. Importantly, the new reconciliation rules provide for a change from reconciliation on the basis of differencing to global reconciliation, and eliminate the concept of incumbent retailers.
- 2.1.2 Seasonal adjustment shapes are a form of profile used to allocate non half-hour meter readings that may occur at any time within a month, into the market settlement period of calendar months (called consumption periods).
- 2.1.3 The change from reconciliation on the basis of differencing to global reconciliation distorts the seasonal adjustment shapes for the period spanning 1 May 2008, causing the allocation of electricity into the wrong months (even though the total settlement volume remains accurate).
- 2.1.4 Allowing the process in part J of the Rules to allocate non half-hour volumes of electricity over the 1 May 2008 boundary would have resulted in the inaccurate allocation of volumes between participants that were incumbent retailers before 1 May 2008, and participants that were independent retailers before 1 May 2008, because of that distortion.
- 2.1.5 That would have meant that participants that were incumbent retailers would have been financially disadvantaged compared with participants that were independent retailers had the process in the Rules been allowed to operate.
- 2.1.6 That disadvantage would have been exacerbated because of the high spot prices in May 2008, which meant that the value of any incorrectly allocated electricity volumes would be high. One participant estimated they could have lost up to \$14 million, and another estimated they could have lost up to \$5 million. Although there has been no detailed analysis of possible financial losses, the Commission estimates the total loss to all participants that were incumbent retailers could have been as much as \$20 to \$30 million. There would also have been flow-on effects for prudential security requirements set out in part H of the Rules.
- 2.1.7 The Commission granted two exemptions to avoid the inaccurate allocation of electricity volumes between participants: Exemption No. 90, with effect from 19 June 2008, and Exemption No. 93, which replaced Exemption No. 90 with effect from 19 August 2008. The exemptions were put in place to hold the distortion in abeyance until a solution to the seasonal adjustment shapes issue was identified and put in place.
- 2.1.8 The solution to the seasonal adjustment shapes issue identified by the Commission, in consultation with stakeholders, required an amendment to part J

of the Rules by the insertion of a new rule 11.4.9 of part J of the Rules (attached as Appendix 1).

- 2.1.9 While Exemptions No. 90 and 93 were in place, participants had to settle non half-hour electricity volumes for the period spanning 1 May 2008 on the basis of initial estimates rather than actual metered data.
- 2.1.10 That meant that electricity volumes for the period spanning 1 May 2008 would continue to be settled on the basis of inaccurate information until a Rule amendment was put in place (and Exemption No. 93 revoked). At least two participants advised the Commission that they were being financially disadvantaged by the continuing inaccurate settlement of non half-hour electricity volumes for the period spanning 1 May 2008.
- 2.1.11 One participant alleged that an undesirable trading situation (UTS) existed because of the inaccurate settlement of electricity. Although the UTS Committee determined a UTS did not exist, the Committee recommended that a Rule amendment be programmed as soon as possible.
- 2.1.12 To enable settlement to take place on the basis of actual metered data, and following the recommendation of the UTS Committee, the Commission recommended that the proposed amendment to the Rules be made urgently.
- 2.1.13 The urgent amendment to part J of the Rules was approved by the Minister by notice in the *Gazette* on 18 September 2008 (attached as Appendix 2), and came into force on 16 October 2008.
- 2.1.14 Exemption No. 93 was revoked by the Commission with effect from 16 October 2008, as it was no longer required once the Rule amendment came into force.
- 2.1.15 The Commission now seeks submissions on the urgent Rule amendment in accordance with section 172E(3) of the Act.

3. Analysis

3.1 The urgent amendment to part J of the Rules

- 3.1.1 Not long after part J of the Rules came into force, the Commission identified five possible solutions to the seasonal adjustment shapes issue, each of which required the recalculation and reissuing of the seasonal adjustment shapes. The five solutions were set out in a memo to reconciliation participants from Ron Beatty dated 26 June 2008. A copy of the memo is attached as Appendix 4.
- 3.1.2 Solutions 1 to 4 required the reconciliation manager to scale the seasonal adjustment shapes to account for the change from reconciliation on the basis of differencing to global reconciliation, reissue the shapes to participants, and use the scaling factor for all future revisions. The difference between solutions 1 to 4 was that each proposed a different time period for the scaling of the shapes.
- 3.1.3 Solution 5 required the reconciliation manager to create balancing areas for the revisions spanning 1 May 2008 using the balancing area groupings that existed for the May 2008 consumption period, and use those balancing areas to recalculate the seasonal adjustment shapes.
- 3.1.4 Solution 5 was preferred by the majority of reconciliation participants and the Commission, because it would minimise the distortion in the seasonal adjustment shapes more than any of the other solutions. It was also preferred because it would not require substantial changes to either participants' systems or the reconciliation manager's systems. In contrast, scaling the shapes as solutions 1 to 4 proposed was considered to be difficult to manage, prone to error, and would have required significant changes to the reconciliation manager's systems.
- 3.1.5 Rule 11.4.9 of part J of the Rules reflects solution 5. It resolves the seasonal adjustment shape issue by putting in place requirements that:
- (a) the reconciliation manager publishes a one-off seasonal adjustment shape for each balancing area that existed at the beginning of the first trading period of May 2008 (rule 11.4.9.1);
 - (b) the reconciliation manager does not publish any further shapes for those balancing areas (rule 11.4.9.2);
 - (c) reconciliation participants provide submission information for the months of February 2008 to July 2008 based on those shapes (rule 11.4.9.3);
 - (d) the reconciliation manager completes revisions using that submission information (rule 11.4.9.4); and
 - (e) reconciliation participants continue to use the one-off shapes issued for all subsequent revisions (rule 11.4.9.5).

- 3.1.6 The reconciliation manager must recalculate the seasonal adjustment shapes and provide those shapes to participants once only, and participants must use the seasonal adjustment shapes for all subsequent revisions. That is because issuing the recalculated seasonal shapes more than once would require substantial change to the reconciliation manager's systems.
- 3.1.7 The final residual profile shapes used to allocate electricity volumes into trading periods will, however, be recalculated by the reconciliation manager as revision information is received, in accordance with the normal process in the Rules (see rule 8.3.2 of part J and schedule J5). The recalculation of the residual profile shapes will ensure the accurate allocation of non half-hour volumes.
- 3.1.8 The effect of the Rule amendment is that the distortion created by the transition from reconciliation on the basis of differencing to global reconciliation is minimised. That is because the issuing of one-off seasonal adjustment shapes will shift the distortion back into the period before 1 May 2008, when spot prices were lower and the same incumbent retailer existed before and after the start date of the seasonal adjustment shapes.
- 3.1.9 The overall effect of this is that participants that were incumbent retailers before 1 May 2008 are less financially disadvantaged than they would have been if the Rule amendment was not made.
- 3.1.10 The Rule amendment also means that non half-hour electricity volumes for the period spanning 1 May 2008 are settled on the basis of actual metered data, as opposed to initial estimates. That ensures that participants are not financially disadvantaged by inaccurate settlements, which was a concern raised by several participants as set out in paragraphs 2.1.9 to 2.1.11 of this paper.

3.2 Objectives of the Rule amendment

- 3.2.1 The objectives of the Rule amendment are to ensure that:
- (a) the distortion created by the transition from reconciliation on the basis of differencing to global reconciliation is minimised, which means that the financial disadvantage to participants that were incumbent retailers before 1 May 2008 is minimised; and
 - (b) non half-hour electricity volumes for the period for which transition revisions are required are settled on the basis of accurate information.

3.3 Other reasonably practicable options

- 3.3.1 The amendment to part J of the Rules by the insertion of rule 11.4.9 is the Commission's preferred solution to the seasonal adjustment shapes issue. It

was identified following consideration of five possible solutions to the issue that were set out in a memo to reconciliation participants, as detailed in part 3.1 of this paper.

- 3.3.2 The four other possible solutions considered by the Commission (and outlined in the memo) are effectively variations of the Rule amendment, as each required the recalculation and reissuing of the seasonal adjustment shapes by the reconciliation manager. Those four solutions were not preferred by the Commission or the majority of reconciliation participants because they would not resolve the seasonal adjustment shapes issue as effectively as the preferred solution, were difficult to manage and prone to error, and would have required substantial changes to either participants' systems or the reconciliation manager's systems. Accordingly, the Commission does not consider that the four possible solutions identified in the memo, but not adopted by the Commission, are reasonably practicable options.
- 3.3.3 The Commission has, however, considered two other options for achieving the objectives of the Rule amendment. They are described below.

Option 1 – Revoke the urgent Rule amendment

- 3.3.4 Option 1 is that the Commission recommends that the Minister revoke the urgent amendment to part J of the Rules, and does not put anything in its place. That would mean that the process for the reconciliation of non half-hour electricity volumes set out in the reconciliation rules that came into force on 1 May 2008 (before the urgent Rule amendment was approved) would operate.
- 3.3.5 The Commission does not consider option 1 is a reasonably practicable option because it does not achieve the objective of the Rule amendment.
- 3.3.6 Both participants and the reconciliation manager have already acted in reliance on the Rule amendment, which came into force on 16 October 2008. The reconciliation manager has calculated and issued one-off seasonal adjustment shapes (rule 11.4.9.1), reconciliation participants have provided submission information to the reconciliation manager based on those shapes (rule 11.4.9.3), and the reconciliation manager has completed revisions for the months of February 2008 to July 2008 (rule 11.4.9.4).
- 3.3.7 Those amendments resolved the distortion to the seasonal adjustment shapes created by the change from reconciliation on the basis of differencing to global reconciliation, which minimised the financial disadvantage to participants that were incumbent retailers created by that change.
- 3.3.8 The Commission considers that revoking the Rule amendment when participants have already acted in reliance on it would recreate the distortion, and 'undo' the effect of the amendment to part J of the Rules.

- 3.3.9 That is because, if participants are not required to use the one-off seasonal adjustment shapes issued by the reconciliation manager under rule 11.4.9.1 for all subsequent revisions the distortion in the seasonal adjustment shapes arising from the reconciliation rule changes in May 2008, and the resulting financial disadvantage to participants that were incumbent retailers, would be recreated
- 3.3.10 Specifically, revoking the Rule amendment would mean that the usual process in the Rules for reconciliation would operate. That is, the reconciliation manager would be required to recalculate the seasonal adjustment shapes, and participants would be required to use those shapes, for all subsequent revisions, in accordance with rules 4.1.2 and 8.3.1 of part J and rule 2 of schedule J4 of part J of the Rules.
- 3.3.11 The recalculated seasonal adjustment shapes would not take into account the change from reconciliation on the basis of differencing to global reconciliation, and would effectively recreate the distortion in the allocation of non-half hour electricity volumes that was minimised by the Rule amendment.
- 3.3.12 The result of that would be that participants that were incumbent retailers before 1 May 2008 would be financially disadvantaged, possibly by as much as \$20 to \$30 million, as set out in the benefit/cost analysis section of this paper (paragraphs 3.3.18 to 3.3.21).
- 3.3.13 Accordingly, the Commission does not consider that option 1 is a reasonably practicable option.

Option 2 – Revoke the urgent Rule amendment and exempt participants and the reconciliation manager from certain requirements in the Rules

- 3.3.14 The Commission has considered whether it is possible to grant a new exemption similar to Exemptions No. 90 and 93 under the Electricity Governance Regulations 2003, to permanently resolve the seasonal adjustment shapes issue.
- 3.3.15 The purpose of the exemption powers in the Regulations is to allow the Commission to exempt participants from having to comply with certain mandatory requirements in the Rules. The Commission's power to grant exemptions should not be used permanently to modify the requirements of the Rules, or to impose new requirements.
- 3.3.16 The solution to the seasonal adjustment shapes issue identified by the Commission essentially requires a modification to the Rules. It is not possible for the Commission to implement this solution by granting a further ongoing exemption to the Rules.
- 3.3.17 Accordingly, the Commission does not consider that option 2 is a reasonably practicable option because it cannot be used to achieve the objective of the Rule amendment.

Benefits and costs

- 3.3.18 The benefit of the amendment to part J of the Rules is that it minimises the financial disadvantage to participants that were incumbent retailers before 1 May 2008, by shifting the distortion created by the change from reconciliation on the basis of differencing to global reconciliation into the period before 1 May 2008, when spot prices were lower.
- 3.3.19 As set out in paragraph 2.1.6 of this paper, two participants estimated that financial disadvantage to them had the process in the Rules been allowed to operate could have been as much as \$14 million and \$5 million respectively. The Commission estimates that the total distortion to all participants that were incumbent retailers could have been as much as \$20 million to \$30 million.
- 3.3.20 The cost of implementing the amendment to part J of the Rules is, in contrast, very small. That is because the implementation of the Rule amendment requires only a minor change to the reconciliation manager's system. Participants should not need to make changes to their own systems.
- 3.3.21 The Commission does not consider that options 1 and 2 are reasonably practicable options because they do not achieve the objective of the Rule amendment. Accordingly, the Commission has not considered the costs and benefits of either option 1 or 2.

3.4 Assessment of all options

- 3.4.1 For the reasons set out in paragraph 3.3 above, the Commission's view is that:
- (a) the amendment to part J of the Rules is the only option that has a positive net benefit, and is effectively the only reasonably practicable option available to the Commission to achieve the objectives of the Rule amendment; and
 - (b) the objectives of the amendment to part J of the Rules are unlikely to be satisfactorily achieved by any other reasonably practicable means.

3.5 The Commission's proposal and reasons for the proposal

- 3.5.1 The Commission proposes to recommend to the Minister that the urgent amendment to part J of the Rules not be revoked, replaced or amended.
- 3.5.2 The reasons for the Commission's proposal are, in summary:

- (a) The amendment to part J of the Rules was necessary to resolve an issue with the seasonal adjustment shapes.
- (b) The issue arose because the reconciliation rules that came into force on 1 May 2008 provided for a change from reconciliation on the basis of differencing to global reconciliation.
- (c) That change distorted the seasonal adjustment shapes, causing the allocation of electricity into the wrong months. That would have resulted in inaccurate allocation of non half-hour electricity volumes between reconciliation participants, which would have financially disadvantaged participants that were incumbent retailers before 1 May 2008 compared with participants that were independent retailers.
- (d) The amendment to part J of the Rules resolves the seasonal adjustment shape issue by minimising that distortion. This is achieved by requiring the reconciliation manager to calculate and issue one-off seasonal adjustment shapes for the period spanning 1 May 2008, and requiring all electricity volumes for that period to be reconciled using the one-off seasonal adjustment shapes (including all subsequent revisions).
- (e) The amendment also ensures that non half-hour electricity volumes are settled on the basis of accurate information.
- (f) There are no other reasonably practicable options that will achieve the objectives of the Rule amendment set out in paragraph 3.2 of this paper.

3.5.3 The Commission seeks submissions on its proposal to recommend that the urgent amendment to part J of the Rules not be revoked, replaced, or amended.

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Appendix 1 Rule 11.4.9 of part J of the Rules

11.4.9 Transitional rules concerning revisions for February 2008 to July 2008

Despite anything in these **rules**:

- 11.4.9.1 as soon as practicable after the commencement of this rule, the **reconciliation manager** must publish one **seasonal adjustment shape** for each **balancing area** that existed at the beginning of the first **trading period** of May 2008; and
- 11.4.9.2 the **reconciliation manager** must not publish any further **seasonal adjustment shapes** for the **consumption periods** for which transitional revisions are required; and
- 11.4.9.3 within 5 **business days** of the date on which those **seasonal adjustment shapes** are published each **reconciliation participant** must provide **submission information** to the **reconciliation manager** based on those **seasonal adjustment shapes** for the months of February to July 2008; and
- 11.4.9.4 as soon as practicable after the expiry of the time referred to in rule 11.4.9.3 the **reconciliation manager** must complete revisions using that **submission information** for the months of February 2008 to July 2008; and
- 11.4.9.5 each **reconciliation participant** must continue to use the **seasonal adjustment shapes** published by the **reconciliation manager** under rule 11.4.9.1 for all subsequent transitional revisions for the period for which transitional revisions are required.

Appendix 2 Notice of Making of Electricity Governance Amendment Rules (No. 65) and Notice of Reasons for Decision

**Notice of Making of Electricity Governance
Amendment Rules (No. 65) 2008 and Notice of
Reasons for Decision**

1. Pursuant to section 172I of the Electricity Act 1992 (“Act”), I notify the amendment of the Electricity Governance Rules 2003 (“Rules”) under section 172H of the Act.
2. The empowering provision for the Electricity Governance Regulations in relation to which the Rules are amended is section 172D(1)(1)(b) of the Act.
3. The amendment is to insert a new Rule 11.4.9 into Part J of the Rules, to put in place a new process for reconciling non half hour submission information for the period for which transitional revisions are required, to ensure that the financial disadvantage to incumbent retailers that results from the change from reconciliation on the basis of differencing, to global reconciliation, is minimised.
4. The amendment is made under urgency in reliance on section 172E(3) of the Act.
5. Pursuant to section 172Z(4) of the Act, the reason for my decision to amend the Rules is that the insertion of Rule 11.4.9 in Part J of the Rules resolves an issue that has arisen in relation to the seasonal adjustment shapes required to be calculated and published under the Rules. The issue is a consequence of the transition from reconciliation on the basis of differencing, to global reconciliation. If the reconciliation process, otherwise set out in the Rules, were allowed to operate, it would:
 - (a) result in the inaccurate allocation of electricity volume between participants; and
 - (b) financially disadvantage participants that were incumbent retailers prior to 1 May 2008 compared with participants that were independent retailers prior to 1 May 2008.
6. These Rules come into force 28 days after the date of notification in the *New Zealand Gazette*.
7. Copies of the Rules may be inspected free of charge, or purchased, from the Electricity Commission, Level 7, ASB Bank Tower, 2 Hunter Street, Wellington.
8. The Rules can also be viewed on the Electricity Commission’s website
<http://www.electricitycommission.govt.nz/rulesandregs/rules>

Dated at Wellington this 10th day of September 2008.

DAVID PARKER, Minister of Energy.

au6908

Appendix 3 Format for submissions

General comments in regards to the:	Response

Appendix 4 Memo to reconciliation participants dated 20 June 2008

Memo

To Reconciliation participants

From Ron Beatty

Date 20 June 2008

Subject Seasonal adjustment shapes correction

For your action

Note: this specifically affects non half hour submission information to the reconciliation manager.

The purpose of this letter is to notify reconciliation participants of a problem that exists within the reconciliation process, and obtain reconciliation participant feedback on the options for correcting the problem.

There are a number of ways that this problem can be solved, and these are detailed further below. The market administrator requests that you consider these solutions and advise the market administrator on your organisation's preference and the reasons for that preference by **27 June 2008**. Please send considerations to retailoperations@electricitycommission.govt.nz, with "seasonal adjustment shapes correction" in the subject line.

We intend to produce a fix for this problem as soon as possible, and re-issue the relevant seasonal adjustment shapes.

Nature of the problem

The problem is with a component used in the non half hour settlement process known as seasonal adjustment shapes. There will be an inaccuracy with the allocation of non half hour electricity over the boundary between differencing reconciliation and global reconciliation that will occur for any meter reads spanning the 1 May 2008 transition.

This will have a financial outcome for retail participants that will be exacerbated with the high spot prices in May 2008 if revision periods are run by the reconciliation manager with non half hour seasonal adjustment shape corrected data and meter reads spanning this date.

Consequently, an urgent exemption has been approved by the EGR Committee for all non half hour submission revisions for April, May and June 2008 for the period 19 June 2008 to 16 September 2008. The purpose of this urgent exemption is to allow time to identify, develop, and implement an acceptable solution to the problem. The exemption notice (no. 90) is available on the Commission's website at <http://www.electricitycommission.govt.nz/rulesandregs/exemptions>.

A previous email was sent to our reconciliation participant contacts advising:

1. Of the urgent exemption; and
2. In the interim not to present revision files for April and May and June 2008 until the seasonal adjustment shape issue is resolved.

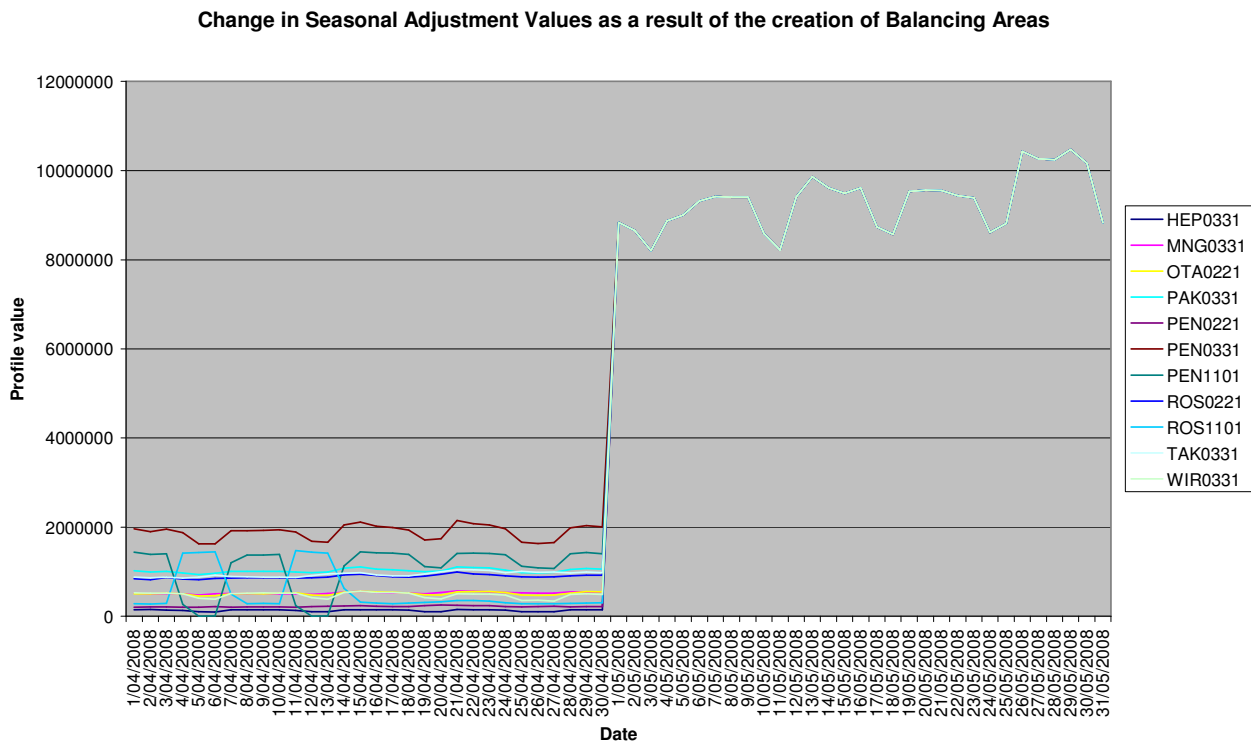
The conditions of this exemption are:

1. Only non half hour information is exempted, and only for the revision months of April 2008, May 2008 and June 2008;
2. Half hour revisions must still be submitted in accordance with the Electricity Governance Rules 2003 (Rules); and
3. The reconciliation manager must run the reconciliation process for all revisions in accordance with the Rules using the latest half hour submission information for those consumption periods and the initial non half hour submission files for the April 2008, May 2008, and June 2008 periods.

Further to this, there is also a potential problem with balancing areas that has been identified; that is where NSPs are added to or removed from a balancing area. In this instance, the increase in quantity of the seasonal adjustment shape will cause non half hour data processing systems to allocate more volume into the period where the greatest numbers of NSPs exist.

UFE will act as a trim and will scale individual trading periods back to the NSP shape, but as volumes will be submitted incorrectly in proportion to the non half hour consumption and UFE is allocated in proportion to the total consumption, there will be inaccuracies in this. One participant has calculated that at current prices, this could cause a difference of up to \$14M per month.

As an example, the below graph indicates the step change in the seasonal adjustment shapes that occurs over the 1 May 2008 boundary.



Possible solutions

There are a number of possible solutions to this problem. These and the potential advantages and disadvantages of each is listed below. The market administrator requests that you consider each of these potential solutions and respond by **27 June 2008** with your organisations preference, reasons, comments, or any further potential solutions that you feel should be considered.

It should be noted that, in each case, there is no facility within the Rules for the reconciliation manager to amend and re-issue profiles (after approval from the market administrator) in the case that the methodology has produced a result that is not sensible (zero profiles, anomalous spikes, unreported load shifting, constraints). Where an issue does arise, it is necessary for either an exemption or a subsequent revision cycle to correct the issue.

Solution 1

Scale seasonal adjustment shapes for each NSP for the consumption periods of February, March, and April 2008, and re-issue these to participants.

Methodology

1. The reconciliation manager will use the May 2008 NSP mapping table to create balancing areas for each of these consumption periods, and derive a scaling factor for each NSP in that balancing area. The scaling factor will be retained and used for each revision cycle where the seasonal adjustment shape is recalculated for that consumption period.

Advantages

1. Only a few seasonal adjustment shapes need to be recalculated and issued.
2. Non invasive on participants as the reconciliation manager will recalculate, manage, and issue the appropriate seasonal adjustment shapes.
3. Minimum work so faster to implement.

Disadvantages

1. Distortion is pushed into the incumbency settlements.
2. This will resolve the allocation issues but there will be a financial outcome on incumbent retailers as retailers volumes will be shifted into inappropriate months.
3. There is a potential problem that will occur in the future where NSPs are added to or removed from balancing areas that this solution will not address.

Solution 2

Scale seasonal adjustment shapes for all balancing areas and consumption periods going forward from the consumption period of May 2008.

Methodology

1. The reconciliation manager will use the May 2008 NSP mapping table to create balancing areas, and derive a scaling factor for each NSP in that balancing area. The scaling factor will be retained and used for each initial revision cycle where the seasonal adjustment shape is recalculated for that consumption period. The scaling factor may be either:
 - (a) re-calculated for each revision cycle so that as any submissions are corrected, then revisions to the seasonal adjustment shapes are recalculated. This ensures ongoing accuracy in the allocation of volumes into the appropriate months; or

- (b) may be calculated once and stored as constant with the same scaling factor applied to each revision.

Advantages

1. Only a few seasonal adjustment shapes need to be recalculated and issued.
2. Non invasive on participants as the reconciliation manager will recalculate, manage, and issue the appropriate seasonal adjustment shapes.
3. May resolve the potential problem that will occur in the future where NSPs are added to or removed from balancing areas for consumption periods after 1 May 2008.

Disadvantages

1. Scaling factor will remain constant, and there may be loss of accuracy in the reconciliation process.
2. In the event of a redefinition of a balancing area, or a redistribution of load across a balancing area recalculation of the scaling factors will be required, maintenance of this process could be problematic.
3. Scaling of balancing areas to NSPs would still leave an element of distortion over the 1 May 2008 boundary, as the NSPs that contribute to the balancing areas have different amplitudes.

Solution 3

Scale seasonal adjustment shapes for all NSPs for the consumption periods going backwards prior to the consumption period of May 2008.

Methodology

1. The reconciliation manager will use the May 2008 NSP mapping table to create balancing areas for each of the pre May 2008 consumption periods, and derive a scaling factor for each NSP in that balancing area for each consumption period. The scaling factor may be either:
 - (a) re-calculated for each revision cycle so that as any submissions are corrected, then revisions to the seasonal adjustment shapes are recalculated. This ensures ongoing accuracy in the allocation of volumes into the appropriate months; or
 - (b) may be calculated once and stored as constant with the same scaling factor applied to each revision.

and used in the calculation of the seasonal adjustment shape for the relevant consumption period.

Advantages

1. Very accurate allocation of historical volumes of electricity into consumption periods.
2. Non invasive on participants as the reconciliation manager will recalculate, manage, and issue the appropriate seasonal adjustment shapes.
3. Rules defined process takes over from 1 May 2008 going forwards.

Disadvantages

1. Is more complex and more work is involved so may take longer to implement.
2. There is a potential problem that will occur in the future where NSPs are added to or removed from balancing areas for consumption periods after 1 May 2008 that this solution will not address.

Solution 4

Scale the seasonal adjustment shapes for the consumption periods each NSP (prior the May 2008 consumption period going backwards) and each balancing area (from the May 2008 consumption period going forwards) by the number of non half hour ICPs in the balancing area.

This would effectively create a profile shape in the units KWH/ICP/day for each NSP.

Methodology

Scale the seasonal adjustment shapes for the consumption periods each NSP (prior the May 2008 consumption period going backwards) and each balancing area (from the May 2008 consumption period going forwards) by the number of non half hour ICPs in the balancing area.

This would allow for automatic adjustment for the cases where a balancing area changes (with a consequent change in the number of ICPs), or for that matter in the case of a residential subdivision where the number of ICPs is rapidly growing (and hence so is the profile).

Advantages

1. Non invasive on participants as the reconciliation manager will recalculate, manage, and issue the appropriate seasonal adjustment shapes.
2. Compensates for changes to balancing areas.
3. Compensates for areas of high growth.

Disadvantages

1. Is very complex and more work is involved so will take some time to implement.
2. As the ICP count is not load weighted, there may be minor distortions that will be compensated for within the UFE process.

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