

31 January 2023

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Submission on the D+1 Options Paper

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (Gas Industry Co) *D+1 Options Paper* (the Options Paper), dated December 2022.
2. Vector appreciates Gas Industry Co's engagements with the industry around D+1 through the Daily Allocation Working Group (DAWG). We have been actively involved in the DAWG and support its conclusions that:
 - The D+1 allocation process should be integrated into the *Gas (Downstream Reconciliation) Rules 2008* (the Rules).
 - The accuracy of the D+1 process will be improved by introducing a change to the Rules that requires all sites with an annual gas consumption of 20TJ and above to be an Allocation Group 1 (AG1) customer, i.e. a customer that is required to have telemetry installed and report its gas consumption daily.
 - The D+1 allocation arrangements should operate seven days a week.
3. Gas Industry Co has suggested some alternatives to the D+1 allocation process. In our view, these alternatives would deliver less accurate information than D+1 and are therefore unlikely to be widely supported by industry participants at this stage. With the increase in gas price variability over recent years – including increasing pipeline balancing gas costs – it is more important than ever that gas shippers are provided with accurate information to efficiently manage their balancing positions.
4. Gas Industry Co has consistently advised that the most effective way to improve the accuracy of D+1 calculations is the increased provision of daily metered data. Vector is of the view that the Rules should require all time-of-use meters to have telemetry installed. We nevertheless support the second DAWG proposal above which requires telemetry to be installed subject to a 20TJ per annum volume threshold.
5. We look forward to the Advanced Gas Metering Infrastructure Group's recommendations on where improvements could be made to the accuracy of the D+1 allocation process using advanced gas meter daily readings.
6. It is Vector's view that the operation of the D+1 allocation process, and market-based balancing, on business days only is an anomaly that should be corrected. The industry operates seven days a week, and gas balancing on the transmission pipelines is required every day of the week. It is therefore illogical that critical information to assist shippers in managing their pipeline positions, such as their daily balancing gas positions, is only made available on business days.
7. We set out our responses to the consultation questions below using the submission template provided by Gas Industry Co for this consultation.

8. We are happy to discuss any aspects of this submission with Gas Industry Co. Please contact Jim Raybould (Business Services Advisor) at Jim.Raybould@vector.co.nz in the first instance.
9. No part of this submission is confidential, and we are happy for Gas Industry Co to publish it in its entirety.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read 'J. Tipping'.

Dr James Tipping
GM Market Strategy/Regulation

D+1 Options Paper

Submission prepared by: Vector

(Contact Jim.Raybould@vector.co.nz in the first instance.)

Question	Vector's comments
Section 3 – Assessing problems and solutions	
1. Do you agree with the characterisation of the problem?	<p>Vector broadly agrees with the characterisation of the problem in the Options Paper.</p> <p>We are, however, surprised that whilst Gas Industry Co has noted the tightening gas supplies in recent years, there is no comment in the Options Paper on its potential impact on the D+1 allocation process. Tighter gas supplies (along with less producer flexibility) have resulted in more variable gas prices, which have caused balancing gas costs to rise. As a result, we believe that shippers require more accurate daily allocation data to be able to manage their balancing positions more efficiently and minimise their balancing costs (thereby reducing costs to consumers).</p> <p>A key input for shippers to efficiently manage their balancing positions is accurate daily allocations every day of the week.</p>
2. Are there other practicable alternatives to D+1 that we haven't considered?	No. We are not aware of any alternative method of calculating shippers' daily allocations to the same or higher degree of accuracy than D+1 allocation.
3. What do you consider are the key features of an enduring D+1 solution? Are there other ways to transition D+1 from a pilot stage that we haven't considered?	For a D+1 solution to be enduring, it must be stable, reliable, and above all as accurate as possible. It must also operate seven days a week.
Section 4 – Alternatives to D+1	
4. Do you consider that Option 1 (an alternative source of daily information) is a reasonably practicable option that should be investigated further in the Statement of Proposal?	<p>No, we do not consider Option 1 to be a reasonably practicable option that should be investigated further, at least at this stage.</p> <p>In our view, the increase in variability in the price of gas in recent years calls for a more accurate version of D+1, not an alternative that is less accurate. The current washup process corrects</p>

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	for GJ; however, in a variable pricing market, the shifting of quantities from one period to another can create material value differences to shippers. Any lessening of accuracy in D+1 allocation will increase this materiality. We believe any cost savings from a simpler allocation process will be insignificant when compared to the inequities that are introduced with a simpler process.
5. Do you have feedback on the alternative proposal to explore changes to balancing so that D+1 is no longer required?	At this point, we cannot envisage a scenario where the transmission system operator will not require a daily balancing arrangement. As long as daily balancing is required by the gas transmission pipeline system, a daily allocation arrangement will therefore be required to assist shippers in managing their balancing positions.
6. Do you see value in D+1, even if MBB/daily cash-outs did not continue in the future? Are there any other factors that may impact the need for D+1 in the future?	<p>The lack of details on the proffered alternative options to D+1 in the Options Paper makes it difficult for industry participants to comment on those options.</p> <p>The DAWG could consider alternatives to D+1 in future years as the deployment of advanced gas meters continues, and as the energy transition progresses. It is, however, premature to consider alternatives to D+1 – a process that can potentially deliver the most accurate data – at this stage of market development.</p>
Section 5 – D+1 implementation options	
7. Do you have a preference for, or feedback on, any of the options identified in Section 5?	<p>Vector prefers Option 4, which is based on the DAWG's recommendations. We would, however, recommend that the threshold for having a logger/corrector remains at 10 TJ.</p> <p>Whilst it is our opinion that all sites with a logger/corrector should have telemetry installed, we accept that the 20TJ recommended threshold is a step in the right direction. We were surprised and disappointed that 10% of AG1 sites are not being reported for the current D+1 calculations.</p> <p>We support the move to a 'seven days a week' operation for D+1 and market-based balancing calculations. That these processes only operate on business days is an anomaly within the gas industry, which itself operates 24 hours a day, seven days a week.</p>
8. Do you consider that the options identified are reasonably practicable options that should be	Vector considers that the recommended seven-day operation under Option 4 should be investigated further in the Statement of Proposal. We believe that any of the other/alternative

Question	Vector's comments
investigated further in the Statement of Proposal?	options will not meet shippers' requirements for more accurate information to enable them to better manage their pipeline balancing positions.
<p>9. Do you have any comments on the additional measures outlined to improve the accuracy and reliability of D+1? In particular, please provide any evidence to support a determination of the costs and benefits of these proposals.</p>	<p>Gas Industry Co has consistently advised that increasing the reporting of actual volumes of gas consumed on a daily basis improves the accuracy of the D+1 allocation calculations. With this in mind, we support the formal adoption of the D+1 arrangements into the <i>Gas (Downstream Reconciliation) Rules 2008</i>. This will require the 10% of AG1 sites that are not currently being reported daily to be supplied to the Allocation Agent for D+1 calculation purposes.</p> <p>Further, we support the proposals to require all ICPs using more than 20TJ to have telemetry installed, and for their reported daily gas consumption to be included in the D+1 allocation calculations.</p> <p>Finally, as indicated above, we believe that the operation of the D+1 allocation process and market-based balancing only on business days is an anomaly that should be corrected. The industry operates seven days a week, and shippers are required to balance their gas positions on the transmission pipelines seven days a week. With the recent increases in gas price variability (and potential for further increases), it is more important than ever that shippers are provided with accurate information on their pipeline positions every day of the week. In our opinion, shippers will no longer accept having to estimate their pipeline positions on non-business days.</p> <p>We are aware of one Gas Transmission Code Change Request that was submitted to Firstgas to provide market-based balancing calculations on a 'seven days a week operation' basis. We understand this change request was held in abeyance while the DAWG was developing its D+1 recommendations.</p>