

DAWG Meeting #12

Date: Wednesday 14 June 2017

Time: 9:30 – 12:30pm

Venue: Intercontinental Hotel, Grey Street, Wellington

Minutes

Present

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| <ul style="list-style-type: none"> • Chris Bolton, First Gas • Don Gray, First Gas • Brendon Pallesen, Nova Energy • Anna Carrick, Vector • Jim Raybould, Vector • Sharon Wray, Contact Energy • Craig Schubauer, Trustpower • Fiona Wiseman, Trustpower • William Turner, Mercury Energy • Greg Redshaw, Genesis Energy | <p>From Gas Industry Co:</p> <ul style="list-style-type: none"> • Pamela Caird (PC) • Andrew Walker • Paul Cruse (PFC) |
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1	Recap of emerging views on balancing & allocation
	<p>First Gas presented its slides on the proposed 'New [Transmission] Code and Allocations'.</p> <p>CB said that under the new code, First Gas will require daily allocation information for two reasons:</p> <ul style="list-style-type: none"> • For balancing the transmission system. First Gas will use the information for calculating shipper running mismatches. • As an input into transmission billing. First Gas will use daily allocation information for the calculation of overrun charges at the delivery points. Overrun charges can be calculated throughout the month but aren't billed until after the end of the month, so for transmission billing purposes daily information for the month is only required at this time. The current initial allocation could be used for this purpose, though shippers wouldn't have information on their overrun position during the month. CB acknowledged that some parties may require more timely overrun information to manage their positions, and invited shippers to express whether or not daily overrun information would be useful. <p>CS noted that, for shippers, it would be useful to have an estimate of demand at each gate as an input into nominations.</p> <p>The slides show a comparison of the current BPP D+1 process and the proposed GTAC balancing process. CB said that the proposed process is considerably simpler than the existing process, with the new IT system absorbing the equivalents of the GTAs and First Gas' BPP D+1 process. The new system will include automatic estimates in place of missing data to reduce wash-ups due to missing data. It will also have a default allocation algorithm so if D+1 (or its replacement) fails, a daily allocation is available to calculate running mismatches.</p>

	<p>CB noted that First Gas is agnostic on the nature of the algorithm used for daily allocations as long as it fits with the running mismatch process.</p> <p>AC asked whether the allocations will be five days a week or seven days. DG responded that this issue was still under investigation.</p> <p>AC asked about the approaches the new system could use for calculating allocation estimates. DG commented that the various systems that First Gas is investigating have a broad range of options. One system has an entire mathematical allocation system, which could be similar to the current D+1 approach.</p> <p>First Gas commented that it is still planning on using the three and 12 month wash-up cycles, no matter what allocation approach is chosen.</p> <p>AC commented there should be an analysis on the trade-off between the complexity (and accuracy) of the daily allocation approach and the complexity of the wash-up process. If a simple, nominations-based allocation approach is adopted upfront, there could be reasonably large allocation errors and also the potential for gaming. In this situation, simple volume-based wash-ups may be insufficient if the value of gas (for example) changes between the initial daily allocation and the wash-up. Some form of financial-based wash-up may be more appropriate, taking into account the value of gas on the day, time-value of money and so on.</p> <p>First Gas responded generally to the conversations noting that it valued the discussion and would consider the points raised in developing the GTAC.</p>
2	<p>Survey results</p> <p>What will daily allocations be used for?</p> <p>Allocation options & issues</p>
	<p><u>Survey results/What will daily allocations be used for?</u></p> <p>Gas Industry Co presented the results from the survey it circulated to parties on 6 June, canvassing views on the future of daily allocation.</p> <p>Gas Industry Co noted that it has no immediate preference and no particular driver for any of the possible daily allocation options; it is really a decision that shippers must make (given that First Gas is also agnostic regarding options).</p> <p>The survey asked parties what they use the current D+1 allocation results for. Responses varied, but generally shippers use the allocations for both informing wholesale purchases and as an input to TPWP nominations.</p> <p>Regarding the proposed GTAC, parties generally thought that they would use allocation information for both DNC nominations and wholesale purchases. One party commented that they could not answer this question until there is more certainty over the nature of the GTAC.</p> <p>CS said that with the combination of less frequent (i.e. not daily) cash-outs and the tolerance at the balancing pool, shippers may be able to accept less accurate daily allocations for balancing. Accuracy may be required for DNC nominations.</p> <p>AC commented that daily publishing of TOU telemetry information, enabling a residual shape for each gate to be derived, could enable shippers to nominate more accurately at the delivery points. This information could possibly replace daily allocation results for nomination purposes.</p>

Allocation options & issues

Gas Industry Co presented some alternative options for daily allocation: an approach similar to the existing D+1 system (though recognising that there is only one balancing pool under the proposed GTAC) with residual volumes at each gate allocated using shipper market shares and two 'simpler' approaches. These latter allocation methods include using shipper DNC nominations to allocate delivery point volumes (an approach First Gas put forward in its Emerging Views paper) or gate-based market shares.

PFC commented that the merits of the various options come down to a trade-off between cost and complexity.

Estimated costs for a production version of an approach similar to the current D+1 system were presented. These were based on the establishment of the gas registry and allocation systems. Gas Industry Co noted that if the D+1 system was built as an add-on to an existing system the cost would hopefully be lower.

Parties were broadly comfortable with the size of these indicative numbers, but commented that the ongoing cost would be a more material concern than the establishment cost. Parties expressed a preference for spreading the establishment cost over a number of years. AC commented that there would have to be decisions made on cost allocation between parties – whether it was done on the basis of some combination of GJs and ICP numbers. It was also suggested that volumes associated with telemetry sites could be exempted from, or make a lower contribution to, market fees in order to incentivise the rollout of telemetry.

An initial analysis of three options, spanning two separate weeks in 2016, was inconclusive. Gas Industry Co did not have access to sufficient data to analyse the nominations-based approach, and First Gas previously mentioned the difficulty associated with trying to model a scaled DNC approach using historical pool-level shipper nominations. The gate-based D+1 approach appeared to perform with a similar level of accuracy to the current D+1 approach for the sample period.

Parties agreed that a longer time period was required to properly evaluate the options.

GR suggested that a further scenario that could be explored is one where all TOU sites are assumed to be on telemetry and provide daily data for the D+1 calculation.

CS suggested that if First Gas uses a 'simple' allocation approach such as its nomination-based proposal as a back-up then it could set the tolerances temporarily wider while this back-up is being used. The rationale for this suggestion is that the tolerance is designed to incentivise accurate DNC nominations, but if First Gas is providing inaccurate allocation information, it should not expect shippers to nominate accurately using this information.

Actions:

- Gas Industry Co will analyse the alternative daily allocation options over a longer time period. The results will be presented in a paper.

3	Timing of Initial / Interim / Final allocations
	<p>Gas Industry Co suggested that another avenue to mitigate inaccurate day-after allocation results (such as might occur with a nominations-based system) might be to move the timing of the other allocations. The current initial allocation, for example, could be moved later in the month and perhaps be used as the basis for a first round of balancing and transmission wash-ups.</p> <p>AC suggested that an option of removing the final allocation could be explored. She argued that this final cycle was resource-intensive and elongated processes for limited gain. This could possibly be done in tandem with pushing out the interim, say to the fourth or fifth month. Specials could deal with the problem of an extended interim with no final. The trade-off would be more special allocations. She suggested putting a procedure around special allocations so they would be less onerous. There was mixed reaction to this proposal. WT noted that this would involve significant system changes.</p>
4	Telemetry threshold for TOU
	<p>The requirement for daily allocation estimation reduces as more volumes are picked up daily with telemetry.</p> <p>Gas Industry Co presented an analysis of the amount of additional meter information that would be obtained by changing the Reconciliation Rules so that some current AG2 ICPs would become AG1s. This analysis showed that there are around 81 AG2 ICPs with greater than 20TJ annual consumption, and they account for about 11% of total allocated volumes. There are a further 83 AG2 ICPs with 10-20TJ annual consumption, and they account for about 4% of allocated volumes. So a rule change that requires ICPs with greater than 20TJ consumption would add significantly to the daily information that is available.</p> <p>CS suggested that the regulation could be based on a GJ/month criteria so that peaky ICPs (e.g. grain dryers) could be covered by the rule.</p> <p>AC noted that, from Vector's perspective, it would be good to have a regulation like this for telemetry. This would enable common service information quality (all retailers would provide the information for customers where were large enough); and it would be helpful for explaining to customers why the cost of telemetry was needed</p> <p>JR suggested that if a rule was introduced that enabled more telemetry, a transition period should be considered.</p> <p>The meeting was generally supportive of a rule change that enables more telemetry on meters.</p> <p>Gas Industry Co will include a 20 TJ annual threshold scenario in its modelling to determine the effect on allocation accuracy.</p>
5	Improvements to reliability of allocation at Maui gates
	<p>AW said that the current D+1 algorithm sometimes has issues with the Maui pool: because volumes on the pool are relatively small, the Maui pool to gate allocation trips up from time to time. He asked if shippers use gate level information in this pool and that perhaps a simpler approach that avoided these allocation errors could be adopted.</p> <p>Several shippers commented that gate level information is used in the Maui pool.</p>