

16 September 2015

Mr Ian Dempster  
Gas Industry Company Limited  
PO Box 10 646  
Wellington 6143  
(By email)

Dear Ian

**Re: Consultation on special allocations to replace Initial Allocations with D+1 allocation**

Thank you for inviting submissions on the Gas Industry Company (GIC) consultation on special allocations to replace initial allocations with a new D+1 allocation process.

Nova appreciates the work done by the GIC Gas Industry Company (GIC) in preparation for Market Based Balancing (MBB). Nova notes that introducing a D+1 allocation methodology to the allocation process is a part of the puzzle that is intended to assist Vector Shippers in managing their pipeline imbalances. Ultimately this should also increase the efficiency of daily cash-outs.

Nova supports the GIC's proposal in principal to assist in the implementation of a daily allocation regime as soon as possible. Nova believes that the least desirable and least efficient outcome for the industry would be to implement MBB without some form of D+1 allocation on the Vector Transmission Pipeline.

Nova understands that the GIC does not intend to implement the interim D+ 1 allocation process until Vector commences publishing Balancing and Peaking Pool positions on a daily basis. This should be given urgency, and if at all possible, become effective from 1 October given that the MBB is to be implemented then.

**D+1 Trial**

The D+1 proposal is presented as a trial. Nova understands the GICs intention is to implement a rule change to account for daily allocations by mid-2017, subject to the success of the trial.

In an ideal world, the D+1 trial would run alongside the current regime (in the absence of MBB) to allow the process to be refined and solve any issues discovered in the early stages. Given the lack of such a trial, Nova seeks clarity on the following issues:

- Which iteration of the D+1 allocation results will be used in the special allocation for each day?
- If there are unanticipated problems that arise during the trial period, what process does the GIC expect to follow
- What quantities will be used if, for any reason, the GIC is unable to publish D+1 allocation results on a day?

**Allocation reports**

While the D+1 data is available on a daily basis, it is also important that shippers can reconcile their monthly totals. This may be achieved by providing a report in the format of the GAR130 to each shipper for their particular allocations.

## **D+1 and MBB**

In its earlier submission on Market Based Balancing Nova stated 'Nova would be pleased to see elements of the MBB CR worked through with market participants in conjunction with D+1 reconciliation'.

We reiterate that implementing MBB in the absence of an adequate D+1 allocation mechanism will result in market inefficiencies and additional costs for the industry, in particular for mass market retailers and, ultimately, end consumers. It is apparent from the GICs paper that it has a similar view:

- *Implementing market based balancing (MBB), will almost certainly mean that the transmission pipeline welded points (TPWPs) will be cashed out every day, in contrast to the current rate of cash-outs, which is understood to be about once or twice a month*
- *Under current arrangements, Vector shippers do not know their running imbalance positions during the month.*
- *Under MBB, there will be an additional, potentially unknown, data point: the more frequent daily cash-out volumes allocated to each shipper*

Given that MBB is about to be fully implemented, it is imperative that the D+1 allocation mechanism be fully implemented in a pragmatic manner that both enables market participants to manage their short term positions; as well as enabling a range of improvements to the methodology's employed that progressively improves the accuracy of those allocations over time. The GIC has a key role in facilitating that process.

Yours sincerely



Paul Baker  
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