Submission on the Gas Industry Company's proposed changes to gas governance arrangements

Thank you for the opportunity to make this submission on Gas Industry Company's (GIC) proposed drafting changes to the Gas (Downstream Reconciliation) Rules 2008 and Gas (Switching Arrangements) 2008 (the 'Reconciliation Rules' and 'Switching Rules' respectively, or together, the 'Rules').

GIC's changes to the Rules cover three main topics: advanced gas metering infrastructure (AGMI), daily allocations (D+1) and renewable gas injection into distribution systems. Our submission responds only on the D+1 and renewable gas injection aspects of the proposed changes to the Rules.

Overall, we support GIC's proposals in these areas and how it intends to give effect to them through amendments to the Rules.

There is no confidential information in this submission.

Daily Allocations (D+1)

Our Firstgas business has been closely involved in the development and operation of D+1 arrangements for many years. We support the ongoing evolution of the framework and believe that a pragmatic, fit-for-purpose solution is possible and would benefit the industry. We look forward to engaging constructively with stakeholders as the arrangements develop.

Our feedback on the topic of D+1 falls into the categories of:

1. General Observations
2. Specific Drafting Issues or Considerations
3. Implementation

General Observations

- **Alignment with existing processes:** The approach and drafting proposed by GIC generally reflects the existing D+1 processes and information flows that have developed through industry practice. This alignment is important and consistent with the objective of codifying an established and proven process and should help enable a smooth implementation to a 7-Day D+1 regime.

- **Data quality and operational considerations:** The proposed arrangements require the provision of information on a seven-day basis, including weekends and public holidays. Although we support this direction, it is important that the drafting of the Rules recognises the challenges inherent in data provision and validation. As noted in previous submissions, metering, telemetry and communications systems can experience outages and data quality issues. The investigation and resolution of those issues can take time, particularly where outages occur outside normal business hours or during holiday periods. In practice, there will need to be a reasonable balance between accuracy expectations and operational realities. For this reason, we support an approach that allows for appropriate flexibility where data are unavailable, incomplete, or delayed; or where data require subsequent validation.

- **Drafting and governance matters:** Firstgas supports GIC's general approach to the drafting of the revised Reconciliation Rules. In particular, we support:

    - GIC determining and publishing criteria for invalid D+1 allocations following consultation with industry participants;
    - GIC determining and publishing deadlines for D+1 information flows;
    - Not including unnecessary operational parameters and timeframes directly in the Rules; and
    - Retaining sufficient flexibility to allow processes and determinations to evolve over time.

  This approach will allow experience gained through implementation and operation of the regime to inform future refinements without requiring frequent amendments to the Rules.

  We also support the proposed re-establishment of the Downstream Allocation Working Group to assist with implementation planning, determination development and system impacts. It will be important that the group contains an appropriate cross-section of industry participants and has clearly defined objectives and deliverables to ensure it operates effectively.

Specific Drafting Issues or Considerations

- **Morning allocation:** The consultation document specifically asks whether the morning D+1 allocation should be given the status of an "allocation result" in the Reconciliation Rules.

  Firstgas does not consider that the morning run should be considered an allocation result. As GIC points out, the morning allocation run is completed with unvalidated data, and it can vary significantly from the afternoon allocation results. In many cases, it is likely that the morning allocation would fail the test for a valid D+1 allocation that GIC contemplates.

  As the morning run exists simply to give retailers a "steer" on the actual allocation (and has no regulatory status), it is worth considering whether the production of the morning allocation run needs to be included in the Reconciliation Rules – rather, it could be a matter catered for in the Service Provider Agreement between the Allocation Agent and GIC.

  If the morning allocation is specifically provided for in the Reconciliation Rules, then Firstgas suggests that it be called an Allocation Estimate and explicitly defined as not an Allocation Result.

- **Allocation results used for invoicing purposes:** As discussed in the June industry workshop, Firstgas is willing to take guidance from Shippers on their preference for what information is used for GTC billing, whether it is the Initial allocation result or the D+1 allocation result.

  Any change in sequencing of the publication of allocation results and the preferred basis for billing will be considered by Firstgas when assessing the required scope of any GTC changes. Alternatively, if Shippers prefer to be billed on the D+1 allocation results, the allocation agent could publish the amalgamated D+1 results file after publication of the Initial allocation. For reference, the GTC currently requires Firstgas to issue invoices by the 10th of the month.

- **Future-proofing gas composition arrangements:** We support the general proposed gas composition provisions relating to D+1 and renewable gas arrangements. In developing the final provisions, we encourage GIC to ensure that the Rules can accommodate situations where a distribution network may be supplied from more than one Firstgas Transmission Delivery Point. Future-proofing the framework for these scenarios will be increasingly important as gas supply arrangements continue to evolve.

In principle, we support the use of appropriate flow-weighted averaging methodologies for gas composition information in such circumstances and would welcome further industry discussion through an appropriate working group**.** It may also be prudent to allow provisions in rule 27F to allow the industry body to revise the guidelines as they see fit over time. If the industry wished to pursue a more granular approach to distribution gas composition, the impacts on existing systems and processes would need to be considered, including any implementation costs, resource requirements, and transition timeframe.

Implementation

- **Implementation date:** We support the option of enabling GIC to determine a future go-live date for 7-day D+1 rather than prescribing a fixed implementation date within the Rules. Providing GIC with the ability to determine a future implementation date will give industry participants flexibility to complete the necessary preparatory work while maintaining confidence that progress continues toward implementation.

- **Changes to GTC and commercial arrangements:** Although Firstgas' D+1 system was built with 7-day operation in mind, it is true that changes to the GTC would be required to formalise 7-day D+1. The exact scope of any required amendments is not yet fully understood and may depend on the broader industry approach ultimately adopted. Firstgas encourages ongoing industry discussion on the most efficient path forward.

- **Industry readiness:** Implementation of a 7-day D+1 regime will require capability and operational preparedness across all participants, including participants who were not actively represented at the June industry workshop. In particular, meter owners and shippers will need to ensure that appropriate processes and resourcing are available on a seven-day basis to enable the timely provision, validation, correction, and use of D+1 information.

Arrangements for distribution injection points

GIC canvasses three issues related to renewable gas injection into gas distribution networks:

- Defining distribution injection points (DIPs);
- Gas composition for networks with distribution injection points;
- Information timing; and
- Modifying the allocation methodology for networks with distribution injection points.

While biomethane is the likely gas for injection into distribution networks, the arrangements need to work regardless of the origin or categorisation of the gas. It appears that GIC has designed the arrangements appropriately in this regard.

Defining distribution injection points

We agree that it is necessary to introduce a definition for the situation of gas being injected into distribution networks and to ensure the responsibility for providing information to GIC and the allocation agent is clearly identified.

GIC proposes that the distribution injection party would be responsible for daily delivery of DIP volumes, DIP gas composition and any sharing arrangements of gas (among multiple retailers) from the DIP. We suggest that a retailer's notice under clause 39A.2 should also require them to name the distribution injection party, who will be responsible for providing the above information.

We recommend that GIC amend Schedule 1A of the Downstream Reconciliation Rules to provide for metering corrections at a DIP. Under proposed clause 27E, the distribution injection party is responsible for providing "daily metered energy quantities", the definition of which includes reference to Schedule 1A. Alternatively, GIC could create a new Schedule 1B

('Correcting to DIP metering errors') that mirrors Schedule 1A but relates only to distribution injection parties and metering errors at a DIP.

The consultation paper and the draft Downstream Reconciliation Rules are inconsistent use the terms "distribution inject**ion** party" and "distribution inject**ing** party" interchangeably. Firstgas suggests that one consistent term be used in the Rules.

Firstgas also suggests amending the definition of distribution injection party so that it does not have the same likely acronym as a DIP. This may help to avoid confusion in future industry interactions. We suggest "party responsible for gas at a DIP" or similar.

Gas composition for networks with distribution injection points

Firstgas supports GIC's intention to convene an industry working group to develop a methodology for determining gas composition within a distribution network. As we outlined above, we believe this work will also be applicable to situations where a distribution network may be supplied from more than one Firstgas Transmission Delivery Point.

Information timing

The proposed rule 27D states that the transmission system owner must publish gas composition values for each allocated gas gate no later than 1200 hours on the allocation day for each consumption day. However, proposed rule 27C3.2 states that the yet-to-be-determined party responsible for publishing 'combined' gas composition values must do so no later than 1200 hours on each allocation day. As the output under rule 27C3.2 will rely on the input from rule 27D, we recommend there needs to be an appropriate gap between these two deadlines to enable processing.

Earlier in this submission we expressed our preference to avoid legislating hard-wired deadlines. We also recommend that daily timeframes for data provision not be embedded in the Rules, to allow the arrangements to evolve and adapt without the need for Rules changes.

Modifying the allocation methodology for networks with distribution injection points

We agree with the broad strokes of the proposed allocation methodology. In particular, we agree it is necessary to define the total distribution system injection quantities to account for injections at DIPs and for unaccounted for gas to be allocated to consumers with similar effect to present day.

Proposed rule 42.2 of the Reconciliation Rules provides that the distribution injecting party provides daily metered energy quantities and the volume of gas taken by each retailer at the distribution injection point. It may be useful to include a requirement that the sum of retailer volumes must equal the daily metered energy quantity.

One aspect of the proposed allocation methodology is that retailers may receive a negative allocation at a gas gate, representing excess injection at a DIP. Such a negative allocation could then be considered a receipt on the transmission system, as GIC suggests. In principle, Firstgas believes this concept is workable; however, it will need further development before it can be implemented. Currently, GTC shippers receive notification of their receipts into the GTC transmission system at approximately 12.20PM. This notification includes nominations from the Maui pipeline and any trades at a GTC Welded Point. GIC's proposal would add another category of receipt quantity, one that would not be known until the afternoon allocation run. Since the daily BPP processing occurs shortly after the afternoon allocation run, there would be no time for shippers to react to the biomethane receipt quantities. Firstgas suggests that this is a topic that would benefit from discussion with the Downstream Allocation Working Group.

We agree with GIC's position that every retailer who receives gas at a distribution injection point needs to have entered into both a use of system agreement with the network owner, and a transmission services agreement with Firstgas. A transmission services agreement is necessary to enable any 'excess' gas belonging to a retailer to be represented in the transmission system (and especially, balancing arrangements).