



31 January 2023

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Andrew Knight  
Chief Executive  
Gas Industry Company

Sent via email: [consultations@gasindustry.co.nz](mailto:consultations@gasindustry.co.nz)

Dear Andrew

## **D+1 Options Paper**

Firstgas Group (Firstgas) welcomes the opportunity to comment on the Gas Industry Company's (GIC) D+1 Options Paper.

Firstgas supports the principle of transitioning away from pilot arrangements for D+1. Overall, we support incorporating the D+1 allocation into the Downstream Reconciliation Rules. We also support the investigation of the ideas outlined in Option 4, though we caution that the costs and benefits of each need to be considered carefully before requirements are put into regulation.

Our responses to GIC's specific questions are set out in **Attachment 1**. There is no confidential information in this submission.

## **Contact details**

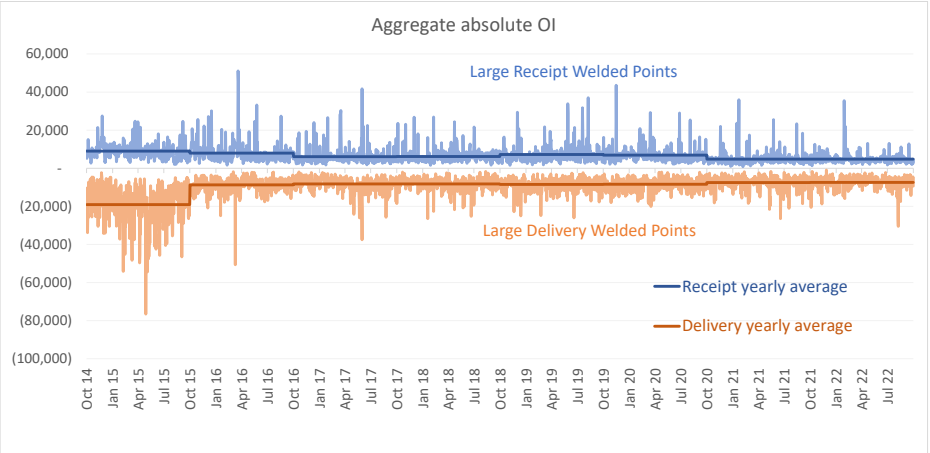
Firstgas Group is available to discuss any of the points we have raised in our submission. If you have any questions, please contact Callum McLean, Senior Policy & Government Affairs Advisor, on 027 201 6600 or via email at [callum.mclean@firstgasgroup.co.nz](mailto:callum.mclean@firstgasgroup.co.nz).

Yours sincerely

**Callum McLean**  
Senior Policy & Government Affairs Advisor



## Attachment 1 Firstgas response to GIC's questions

Question	Response
1. Do you agree with the characterisation of the problem?	Yes. We agree that there is an ongoing need by shippers for daily information.
2. Are there other practicable alternatives to D+1 that we haven't considered?	No.
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?	We agree with GIC's list.
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.</p> <p>We are aware that some shippers are concerned about the accuracy of their D+1 allocations. We do not see the logic in abandoning an existing, more accurate system for one that would need to be built and that would be less accurate.</p>
5. Do you have feedback on the alternative proposal to explore changes to balancing so that D+1 is no longer required?	<p>The discussion paper canvasses the possibility of ceasing MBB. We consider this to be an unrealistic option.</p> <p>Prior to the introduction of market-based balancing (MBB) in 2015, shippers had neither strong incentives nor the information needed to maintain a balanced position. Under the Maui Pipeline Operating Code (MPOC), the Imbalance Limit Overrun Notice (ILON) process that preceded MBB allowed Maui shippers a three-day grace period to correct imbalances and socialised the costs of pipeline balancing. In other words, ILONs were not very effective at incentivising pipeline users to be in balance, nor were they efficient in attributing costs to the causers of imbalance.</p> <p>Under the Vector Transmission Code (VTC), shippers were only informed of their balancing and peaking pool (BPP) positions at the end of each month. During the month, shippers had to operate without information that would help them to balance their own positions.</p> <p>MBB was introduced in October 2015 to improve the pipeline balancing regime on the Maui pipeline. After its implementation, GIC found that MBB had significantly improved primary balancing. Those improvements have persisted, as illustrated by the below chart showing aggregate absolute operational imbalances (before cash outs).</p> 



Question	Response
	<p>On the non-Maui side, the D+1 pilot achieved two things: it provided a means for Vector to pass the cashouts it received at Vector Welded Points to downstream shippers; and it instituted daily allocations and BPP calculations. That the pilot programme has endured for over seven years is testament to its usefulness.</p> <p>In short, MBB has been effective in improving primary balancing. Firstgas would not be in favour of discontinuing its operation, nor of watering down the price incentives that shippers and welded parties face in cash-outs.</p> <p>D+1 allocation information and information on BPP positions is an intrinsic part of providing shippers with what they need to balance their positions. We consider that these processes should continue.</p>
<p>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>	<p>Daily information is important to allow shippers to balance their positions, as outlined above.</p> <p>The discussion paper suggests that future trends such as multiple fuel types and greater thermal peaking may mean that shippers will no longer need to manage their daily positions. We consider that the opposite scenario is more likely. Decentralised receipt points, peaky gas flows, and multiple fuel types all point to a scenario where pipeline users will need more information, not less, to manage their positions.</p>
<p>7. Do you have a preference for, or feedback on, any of the options identified in Section 5?</p>	<p>We agree that there are both pros and cons to the contractual option and the regulated option. On balance, we consider that the Downstream Reconciliation Rules (DRRs) provide the best “fit” for the D+1 allocation arrangements. The existing DRRs already provide for an allocation framework and allocation agent. The addition of the D+1 allocation seems a natural extension to these existing arrangements. We consider that the DRR framework is flexible enough to accommodate future changes.</p> <p>In contrast, Firstgas considers that developing contractual arrangements for D+1 allocation could be costly and time-consuming and would provide little benefit, as it would largely re-create the framework that already exists under the DRRs.</p>
<p>8. Do you consider that the options identified are reasonably practicable options that should be investigated further in the Statement of Proposal?</p>	<p>Firstgas does not have any additional suggestions for options to investigate further.</p> <p>We note that one of the options listed is a requirement for retailers and the transmission system operator to provide daily data, in the form of consumption information for customers on telemetry and validated injection information, respectively. These requirements would be very different from the current obligation to provide data after month end. Both metering and telemetry equipment are complex and can malfunction from time to time. Monthly information provision can provide time to investigate and rectify equipment malfunction. In contrast, daily information provision that is accurate and complete may prove difficult and expensive. We suggest that if this option is pursued, then the industry needs to come to an understanding about what service levels are required and who bears the costs of meeting those service levels.</p>
<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>As we relayed to stakeholders late last year, we are in the process of constructing a system that will automate the gas transfer agent and daily BPP calculation processes. This system will replace our current manual processes and provide shippers with more timely and more reliable data. It will also provide the flexibility to adapt to future requirements.</p> <p>We look forward to working with the industry on the continued evolution of the D+1 arrangements.</p>