

Summary of submissions on Consultation on special allocations to replace initial with D+1 allocation results

Submitters generally supported the proposal, at least in principle:

Submitter	
Contact Energy	Agrees with proposal, but only once Vector producing daily BPP results
Genesis	Comfortable with the trial proposal
Greymouth	Supports D+1 trial, intent of using D+1 as special allocation, vision of daily BPP information – but opposes the proposal of using special allocations to replace initial allocation results
MRP	Supports proposal: special allocations should go ahead even without daily BPP positions, as it would provide a net benefit
Nova	Supports proposal in principle; daily BPP should be given urgency and implemented on 1 October
Nova	Implementing MBB in absence of D+1 allocation will result in market inefficiencies and additional costs for industry, particularly mass market retailers and end consumers
Trustpower	Proposal will provide some benefit; cautiously accepts that D+1 allocations should replace initial

A number of submissions touched on issues that are being addressed through Vector's MBB D+1 Pilot Agreement (Agreement).

Submitter	
Contact Energy	Further consultation on wash-ups required
Greymouth	Other things also need to happen: VTC amended to process daily receipts, Vector agreement to providing daily BPP information, inclusion of direct connect gates

Submitter	
Vector	Does not support – will cause inconsistency in calculation of BPP invoices under VTC
Vector	Mismatch between data used to calculate shipper mismatch (allocated quantities) and Vector imbalance and running imbalance (receipts and offtakes reflect measured quantities of gas). Separate data sets could result in unfair treatment of one or more parties to the VTC
Vector	Lack of accuracy in D+1 allocation results will mean an increase in the number of transmission invoices needing correction
Vector	Reluctant to go live with daily BPP information if it would trigger special allocation process

Gas Industry Co understands that:

- Vector has undertaken further consultation on the wash-up methodology and the methodology is incorporated into the Agreement
- The VTC has been amended to enable Gas Transfer Agreements to be processed on a daily basis
- The daily BPP process outlined in the Agreement includes the treatment of direct connect gas gates
- The Agreement will eliminate the inconsistencies and data mismatches raised as concerns in the Vector submission

Vector has since informed Gas Industry Co that it will support the introduction of special allocations in relation to D+1 results provided that the Agreement is unanimously agreed to by its shippers and Vector.

Greymouth Gas has informed Gas Industry Co that it now supports the proposal, on the basis that its concerns regarding robustness, unfairness, and procedures have been addressed by Gas Industry Co and the industry.

Submitter	
Greymouth	Concern about legality of proposal

As outlined in the consultation document, Gas Industry Co has developed the D+1 system as a means for shippers to obtain information about their allocated quantities on the day after gas flow. The provisions of the Agreement would use the D+1 allocations as an input

to calculating each shipper’s running mismatch on a daily basis. However, the D+1 allocations have no status under the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), and so they do not satisfy the definition of Allocation Result in the Vector Transmission Code. The end result of this situation, in the absence of other intervention, is that shippers have the information on a daily basis that will help them manage their positions, but they will be invoiced at the end of the month based on a different set of data, namely the initial allocation produced under the Reconciliation Rules.

Gas Industry Co considers that this situation would be unfair for the shippers involved, and it is for this reason that we proposed using the special allocation provision to replace the initial allocation results with D+1 allocations. As Greymouth Gas points out, the Reconciliation Rules provide for special allocation decisions to be made after the allocation that is to be replaced. The reason for Gas Industry Co consulting on the proposal in advance was to gauge how industry participants viewed the potential unfairness and the prospect of special allocations as a remedy.

The Reconciliation Rules specify the criteria that Gas Industry Co must consider before directing a special allocation, and our analysis of those criteria was set out in the consultation document. Gas Industry Co is satisfied that those criteria will be met if and when Vector commences providing its shippers with daily running mismatch data.

Submitter	
Greymouth	Concern about operation of proposal (timing of special allocations, how directed)
Nova	Would like shipper report in format of GAR130

Gas Industry Co considers that unfairness will result as long as Vector is providing daily running mismatch positions to its shippers but shippers are billed based on the initial allocation as published by the allocation agent. As long as this situation exists, Gas Industry Co considers that there are grounds for directing a special allocation. Responses from submitters suggest that stakeholders broadly agree with this view.

In practice, Gas Industry Co would ask the allocation agent to perform a special allocation immediately following the publication of the initial allocation. Under rule 51.3, the industry body may determine any specific procedures that will apply to a special allocation; and in this case, it will mean that the special allocation consists only of the allocation agent providing the D+1 allocations to Vector, as a replacement for the usual GAR130 report. Gas Industry Co will also provide to shippers a report of their D+1 allocations for the month.

Submitter	
Greymouth	Concern about business rules relating to D+1

Nova	Seeks clarity on business rules
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Business rules have been developed by the Daily Allocation Working Group and have been published separately.

Submitter	
Trustpower	Concerns about rushed implementation and accuracy of results (D+1 incorrect in regions where customer base is changing rapidly); should be more formal testing

The D+1 algorithm has been developed as a way of producing allocations on the day after gas flow with a minimal requirements for data inputs from retailers. As such, it relies heavily on estimations based on previous allocation results. This method has the advantage of producing timely allocations, and the allocations it produces can be quite accurate when the allocation is for an established, predictable load. Unfortunately, its accuracy suffers in cases where the customer base is changing. The reality is that regression techniques do not work well in situations where there are few data points, such as for new retailers and rapidly changing customer bases.

Gas allocation using the bottom-up process described in the Reconciliation Rules will always result in more accurate allocations than top-down estimations. The interim and final allocations will continue as per usual processes.

Submitter	
Contact Energy	BPP should be transferred to allocation agent to allow equitable funding of the function

If the D+1 trial proves to be worthwhile, then Gas Industry Co will work for formalise the arrangement in the Reconciliation Rules. Part of this process will be assessing how best to ensure that industry participants reliably receive daily information in a cost-effective way. Incorporating the BPP calculations into the responsibilities of the allocation agent may provide a feasible option.