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Sent via email: Ian.Wilson@gasindustry.co.nz

Dear Ian

Submission on GTAC Preliminary Assessment Paper

This is First Gas' submission on the GIC's consultation paper "*Preliminary Assessment of October 2018 Gas Transmission Access Code (GTAC)*", released on 5 December 2018. We commend the GIC on its Preliminary Assessment Paper. The paper provides robust, structured analysis that assures stakeholders that the GTAC development has been a considered process.

We would also like to thank stakeholders and the GIC for their continued time and commitment to the GTAC process. Over the latter half of 2018 we have engaged with stakeholders in an intensive manner to address the concerns raised by the GIC in their assessment of the previous iteration of the GTAC. We believe that this process has been successful, not only in eliciting responses from stakeholders on particular issues, but also in establishing a better shared understanding of the industry concerns relating to gas transmission access. While this process has required a great deal of effort, we think it has been wholly worthwhile.

It is not surprising that we agree with the GIC's assessment that the GTAC is materially better. We refer back to the objectives identified in the *Gas Transmission Access Code: Single Code Options Paper (SCOP2)* to outline our reasons for supporting the GIC's assessment:

- **Enable the use of gas:** Barriers to market entry will be lowered through the GTAC as annual capacity booking is removed and trading will be frictionless. We also see changes to the arrangements for interconnection and non-standard arrangements as facilitating new transmission customers to maximise use of the system;
- **Minimise the cost of transporting gas:** The GTAC pricing structure allows for users to pay for only what they need. Transaction costs between pipelines are removed;
- **Keep it simple:** Arrangements are clear, principled and consistent across the entire transmission system. While we accept that some aspects of the code are quite complex and technical, we have endeavoured to limit this complexity to where it is genuinely needed;
- **Ensure flexibility:** The GTAC provides a wide range of flexibility in terms of capacity booking, non-standard arrangements, tailored ICAs and choice over allocation methods at welded points; and
- **Increase transparency:** Information is public by default and a wide range of data can now be shared at granular levels.

We believe that through our work gas industry stakeholders, we have established a modern code that will ensure gas remains part of New Zealand's energy future. We have attached a completed submission template in **Attachment A** that responds to the specific questions posed by the GIC.

Please contact me on 04 381 8056 if you have any queries on the matters raised in our submission.

Yours faithfully



Angela Ogier
Transmission Commercial Manager

Attachment A: Questions

Preliminary Assessment of Gas Transmission Access Code (GTAC)

Submission prepared by: Angela Ogier, Transmission Commercial Manager, First Gas Limited

QUESTION	COMMENT
Q1: Do you agree with our assessment of the GTAC gas transmission products?	<p>We broadly agree with the GIC's assessment of the GTAC gas transmission products. We think that the ability to book daily capacity and trade gas in a frictionless manner will enable greater use of the flexibility in the gas transmission system. This is a compelling benefit of adopting the GTAC and will better support the value that natural gas offers to energy users.</p> <p>We raise the following points relating to the assessment of gas transmission products:</p> <ul style="list-style-type: none">• The additional workload associated with nominations is overstated in the Final Assessment Paper (FAP). While we agree that there will be costs associated with the transition to the GTAC, we do not agree that the ongoing workload will be significantly greater once new systems and processes are bedded down. Stakeholders currently need to manage their gas portfolio in a way that ensures that the right amount of gas is uplifted from producers and supplied to end users. While this workload can be allocated to various parties (producers, users, shippers, interconnected parties), it cannot be avoided altogether. <p>We have endeavoured to design GTAC nominations in the way that leverages the work that parties already undertake to manage their gas portfolios. In fact, we believe that GTAC nominations provide new opportunities to better allocate the workload associated with nominations by:</p> <ul style="list-style-type: none">○ Making an Operational Balancing Arrangement (OBA) available, but optional, at all points on the transmission system. The two existing codes both restrict the choice of party responsible for balancing (and therefore interested in ensuring accurate nominations). Under the MPOC it is the interconnected party, while under the VTC it is the shipper. The GTAC offers parties the option of an OBA across the whole system, enabling responsibilities to be allocated where they can be best managed; and

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	<ul style="list-style-type: none"> ○ Providing auto-nominations for shippers supplying mass-market customers. Shippers serving mass-market customers currently need to estimate load on an annual basis – taking on the risk of overruns with little control over usage or flexibility to manage changes in their portfolio over the year. The GTAC gives these shippers the option of nominating themselves or accepting a nomination based on a forecasting algorithm. This will significantly reduce the risk for these shippers and potentially reduce barriers to entry to gas retailing. • We see additional operational benefits from GTAC nominations. We see the information received from nominations as allowing the system operator (First Gas) to see all parts of the road ahead. Currently, under the MPOC, we can see the central lane and the double yellow line from the nominations given under the MPOC. However, we are blind to the periphery, as there are no nominations under the VTC and we often need to react to unseen events or infer events based on MPOC nominations. With complete coverage of nominations under the GTAC, we will be able to have a view over all the road. This will enable us to better anticipate events, react proactively and manage the transmission system more efficiently in the interests of all stakeholders. • Additional Intra-Day (ID) cycles provide choice, not cost. The GIC also notes that the increased number of nomination cycles will result in an increased workload. The increase from 4 to 7 cycles was made at the request of stakeholders who wanted more granularity in managing flows. All cycles are optional and if a nomination is not updated intra-day then the previous nomination would stand. If the cost of using additional ID cycles outweighs the benefit, then we would expect parties to only use the cycles that provide value. • The FAP raises the risk that a party could 'game' the Peaking Regime (p26). While the GIC's analysis is correct, we are not concerned about the risk of gaming given the assiduous management of flows required to do so. Our view is that the effort required to successfully game the peaking regime is unlikely to be worthwhile. Also, the statement regarding s.11.6 is not correct as the relief given in s.11.6 is only available if the end user submits a maintenance profile. We also consider that the requirement for all parties to act as a Reasonable and Prudent Operator in s.2.12 would mitigate against this risk as such nominations would not represent a genuine estimate of capacity. If we detect such behaviour, we would raise the matter with the party making these nominations. However, our need to interfere would be tempered to extent that correct information allowing us to operate the system was being received. • We do not agree that it is unfair that VTC SAs are maintained while Maui arrangements are terminated. We have sought to minimise the potential for legacy agreements wherever practicable. As detailed in our summary of SAs (https://www.gasindustry.co.nz/dmsdocument/6197), 21 agreements are likely to continue into the GTAC. 14 of these agreements are annual agreements while 7 are Existing Supplementary Agreements. We expect that between 10 and 14 of these agreements will be renewed under the GTAC and will fall under the new SA Policy. We expect that between 7 and 11 of the current agreements will no longer be required under the GTAC, mainly because the standard DNC product will provide the functionality that standard VTC terms do not. However, we believe that honouring existing arrangements is the fairest approach available to us. It allows us to reduce the impact of code changes on all users by

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	<p>ensuring that diversity and magnitude of load is maintained, which will place downward pressure on prices. To supplement the provisions of s. 7.1 to 7.6 of the GTAC, First Gas has committed to produce a Supplementary Agreements policy, which will give more detail on the parameters of SAs in certain circumstances.</p>
<p>Q2: Do you agree with our assessment of the GTAC pricing arrangements?</p>	<p>We agree with the analysis on pricing but believe that the costs associated with nominations are overstated (see above).</p>
<p>Q3: Do you agree with our assessment of the GTAC energy quantity determination?</p>	<p>We broadly agree with the conclusions but would like to clarify that the changes to the Metering Requirements are a change from a prescriptive standard to a performance-based standard. Consultation with producers during 2018 on this change found that this modern standard can be achieved with existing equipment. The change required is to documentation and demonstration of compliance, rather than capital expenditure on metering equipment. We agree that it is important that modern standards are implemented across the system and removing legacy protections will achieve this outcome.</p> <p>We note the comments regarding fairness to Maui stakeholders in removing legacy system protection. However, we also observe that these legacy protections were creating inequalities in compliance standards between parties. We believe that this demonstrates why a technical issue, such as metering, should not be codified. The difficulties in changing MPOC technical standards have led to rigid compliance regimes that cannot improve and reflect industry best practice. These issues will be avoided in future under the GTAC.</p>
<p>Q4: Do you agree with our assessment of the GTAC energy allocation?</p>	<p>We believe that the flexibility for parties to choose their own allocation method is a benefit to all stakeholders. As noted above, this allows stakeholders to allocate responsibilities to the party that is able to manage it at the lowest cost or risk.</p>
<p>Q5: Do you agree with our assessment of the GTAC balancing?</p>	<p>We agree with the GIC's assessment of balancing. We believe that the GTAC retains the primary benefit of MPOC MBB by continuing to require positions to be balanced within a tolerance by the end of each gas day, while addressing the main weakness of MPOC MBB in requiring unnecessary secondary balancing activity.</p>
<p>Q6: Do you agree with our assessment of the GTAC curtailment?</p>	<p>We agree with the analysis that the simplicity of the GTAC curtailment algorithms and the ability to target particular users will improve the efficiency of curtailments. However, we do not agree that the removal of the MPOC s.15.2 mechanism is an issue:</p> <ul style="list-style-type: none"> • We have increased the number of ID cycles from 4 to 7 which means that the need for s.15.2 is diminished as the spacing between cycles is much shorter; and • Users also have the option of requesting an Extra ID cycle. We attempted to shorten the timing requirements for these cycles during the GTAC workshops. However, we found that while producers could react within 30 minutes, the timing of

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	<p>nominations in gas supply agreements meant that that shippers would not have time to comply with these contracts and the Extra ID cycle timing. Hence the timing could not be reduced further. Unless there was a change in contract timing for shippers, we would be unable to shorten timeframes.</p> <p>The second bullet point above highlights the reality that MPOC s.15.2 does not 'solve' an issue for the transmission system – it simply transfers any issue from producers to shippers/downstream users. The producer activates the curtailment under s.15.2 which immediately curtails shipper flows. Shippers then need to wait until the next ID cycle to adjust their positions. At worst, the response time under both systems is equivalent. We hope that the GTAC provisions may in fact facilitate better coordination between producers and shippers when events occur.</p>
<p>Q7: Do you agree with our assessment of the GTAC congestion management?</p>	<p>We broadly agree with the analysis on GTAC congestion management. The only clarification we would make is that while there will be administrative costs in allocating priority rights at constrained delivery points, these costs will be recovered via the reserve price charged to parties bidding in the auction. Therefore, if the auction clears (i.e. bids exceed the reserve price) then the benefits of obtaining PRs outweighs the administrative costs of holding the auction. The administrative cost is therefore internalised and borne by parties that are willing to pay for the scarce capacity and does not adversely affect other system users.</p>
<p>Q8: Do you agree with our assessment of the GTAC gas quality and odourisation?</p>	<p>We would like to highlight that the s.13.5 of the GTAC requires First Gas to publish a summary report each year on the facilities systems, procedures and monitoring it has in place to comply with the requirements of <i>NZS 5263:2003</i> for the odourisation of pipelines. This ensures that retailers are better able to comply with their obligations under the <i>Gas (Safety and Measurement) Regulations 2010</i> in relation to odourisation. This was not a requirement under either the VTC or MPOC and is therefore an improvement.</p>
<p>Q9: Do you agree with our assessment of the GTAC governance?</p>	<p>We agree with the GIC's analysis regarding confidentiality. The addition of ring-fencing provisions in the same manner as the MPOC would seem out of step with the current commercial context. All parties have a right of audit. This ensures that First Gas will need to be able to demonstrate that confidential information held by First Gas is only used for the intended purpose.</p> <p>On a practical level to facilitate such an audit, First Gas will need to produce a confidentiality protocol, that will support the GTAC arrangements. This protocol will cover, among other things, the access that First Gas personnel trading in balancing gas have to forecast running mismatch positions of shippers (i.e. through restriction of access in the IT system). This will ensure that this information is only used by operations personnel to manage the pipeline and not by commercial personnel when purchasing balancing gas. We believe that preparing these documents in advance will help us ensure that our duties in relation to confidentiality are well understood by all staff.</p>
<p>Q10: Do you agree with our top-down analysis?</p>	<p>We broadly agree with the GIC's top-down assessment. Please refer to comments above for any points of clarification.</p>

QUESTION	COMMENT
Q11: Do you agree with our overall assessment?	Yes.
Q12: Do you support the GTAC?	Yes.
Q13: Do you agree with our analysis of the code design?	We agree with this analysis. Table 26 provides a useful comparison of the structure of the codes.
Q14: Do you agree with our analysis of non-standard contracts?	<p>We think that the analysis is correct. However, there are two significant benefits in the GTAC relating to SAs that need to be highlighted:</p> <ul style="list-style-type: none"> • The GTAC opens up the option of an SA to shippers on the Maui pipeline, that may increase usage where previously standard MPOC terms were unworkable. This will benefit all pipeline users by enabling greater use of pipeline assets and greater sharing of fixed costs; and • The GTAC has more detailed criteria for the assessment of SAs than the VTC. This improves transparency and perceived fairness of the agreements.
Q15: Do you agree with our analysis of ICAs?	<p>We agree with the ICA analysis. Significant changes to the structure and proposed terms of ICAs have been made during 2018 to address the point previously made by the GIC that ICAs need to mesh with shipping arrangements. This outcome has been achieved by incorporating the common and essential terms of interconnection into the GTAC (Schedules 5 and 6). We see this as a better meshing approach than either of the existing codes – which either unnecessarily constrain ICA terms (MPOC) or risk incompatibility between shipping and interconnection (VTC).</p> <p>We would also like to comment on the analysis relating to excessive flow. The difference in wording between Schedule 5 s3.3(a) and Schedule 6 s3.5(a) simply reflects the different equipment that First Gas normally owns at Receipt Points (RPs) and Delivery Points, and the difference in risk that excessive flow can present to that equipment. RPs are normally owned by gas producers, while First Gas normally owns DPs.</p> <p>At an RP there is generally little or no First Gas equipment that can be damaged by high flow. In theory, excessive (injection) flow could over-pressure First Gas’ pipeline, hence the reference to liability for damage to First Gas’ pipeline in the RP context.</p> <p>At a DP however, First Gas equipment such as meters could be damaged or even destroyed by excessive (offtake) flow, whereas First Gas’ pipeline upstream of the DP is unlikely to be physically affected.</p>

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<p>Q16: Do you agree with our analysis of daily OR and UR charges?</p>	<p>We agree with the conclusion that the OR and UR charges in the GTAC appear unlikely to appreciably alter the scale or likelihood of inefficient outcomes as compared to the present position. However, we note that the comments regarding mass-market shippers do not appear to consider the potential for these shippers to use the mass-market nomination scheme to reduce their exposure to overrun and underrun fees to that of TOU shippers.</p>
<p>Q17: Do you agree with our description of the peaking arrangements?</p>	<p>Yes.</p>
<p>Q18: Do you agree with our analysis of balancing tolerances?</p>	<p>We agree that there will be differing impacts of balancing tolerances on different classes of pipeline user. However, the improvement for VTC shippers is that they will be directly linked to the balancing system and have greater transparency on their tolerances. Currently their liability for cash outs is dependent on the position at TP Welded points and their ability to predict their cash out liability is therefore limited.</p>
<p>Q19: Do you agree with our analysis of liabilities? In particular, do you have any particular comments on our assessment of the removal of the Incentives Pool and Balancing and Peaking Pool?</p>	<p>We broadly agree with the GIC's assessment of the liabilities regime and most of the analysis of provided in section B.7.</p> <p>We note comments regarding the uncertainty over the impact of removing the Incentives Pool. This functionality of MPOC has gone unused for some time, as it is impractical to link an event causing incentive pool credits with actual loss. While we did attempt to rethink the design of the incentives pool during the extensive negotiation and consultation on the GTAC, no practical solutions were forthcoming.</p> <p>We do believe that the lack of usage of the incentives pool indicates its limited utility as a liquidated damages mechanism. We believe that the incentives to not impact other users (Overrun/underrun charges, primary balancing obligations, ERM charges) are not impacted by the existence of an incentives pool. The incentives pool only affects how the monies collected by these incentives are distributed. We therefore fail to see that the incentives pool somehow strengthens behavioural incentives since these are unchanged by its existence.</p> <p>However, we are happy to accept that a better design may emerge at some point for a liquidated damages mechanism and the code change mechanisms in the GTAC allow for additional measures to be incorporated in the future if required. We would be happy to consider implementation of the design at that point.</p>
<p>Q20: Do you agree with our analysis of the TTP arrangements?</p>	<p>We agree with the analysis that the definition of GTAC is in line with MPOC, while providing for a more comprehensive consideration of pipeline system conditions in consideration of TTP.</p> <p>We do not agree that there is any difference in construction of TTP between the MPOC and GTAC. In both cases it is the pressure to which the system is managed (at Bertrand Rd). We consider the change from 'calculated' to 'determined' to be a</p>

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	<p>practical matter. It merely reflects the need to allow for all the ways in which the pressure at Bertrand Rd could be found – including by direct measurement or by calculation. The change does not signify any difference in the nature of TTP.</p> <p>In addition, we do not agree that there is any relaxation in the operational standards relating to TTP under the GTAC, in relation to the MPOC. The first part of GTAC s.3.33 creates a positive obligation on First Gas to manage TTP within the allowable TTP range. This is the same as in the MPOC. The last paragraph in s. 3.33 provides the mechanisms by which First Gas can manage this obligation. While there is additional scope for First Gas to buy or sell balancing gas or to take other appropriate actions to maintain TTP, the obligation to maintain the appropriate pipeline pressure remains. We would also note that a further provision has been included in s. 3.33(a) which imposes on First Gas an express obligation to bring the TTP back within the specified limits if it moves outside them. This obligation is not included in the MPOC and was included at the request of industry participants during the consultation process.</p> <p>We see the requirements of the MPOC and GTAC to be equivalent and in line with our views on the need to maintain reliability in this area of pipeline operations.</p>
<p>Q21: Do you agree with our analysis of the curtailment arrangements?</p>	<p>Yes.</p>
<p>Q22: Do you agree with our analysis of Ahuroa underground gas storage? In particular do you agree with our assessment of the scope for First Gas’s ownership of Ahuroa UGS to influence its operation of the transmission system</p>	<p>We agree with the conclusion in the FAP that ownership of the Ahuroa gas storage (AGS) facility will not influence our operation of the transmission system under the GTAC:¹</p> <ul style="list-style-type: none"> • GSNZ is a facility operator. Shippers own the gas in the reservoir and will instruct GSNZ when to inject more gas or extract gas from storage; • Code/contractual protections. Existing transmission access codes (and any future code) require First Gas to treat all system users equally (see MPOC section 2.1, VTC section 2.7, GTAC sections 2.6 – 2.7). The terms of interconnection for GSNZ, therefore, cannot materially differ from other interconnected parties. We have simply novated Contact Energy’s Interconnection Agreement (ICA) to GSNZ. First Gas also has obligations as a Reasonable and Prudent Operator to ensure that it does not put system reliability at risk, and to ensure that all transmission system users act in a manner that does not adversely impact other system users. We take these responsibilities very seriously; • Information transparency. Parties can view nominations on OATIS. Nominations are currently made at welded points to the Maui pipeline (the relevant one for AGS being Frankley Rd). The GTAC would provide greater visibility of nominations at interconnection points like Stratford 3. This information can then be related back to the overall use of the

¹ Ahuroa Gas Storage facility, letter from First Gas Limited to the GIC, 8 March 2018, <https://www.gasindustry.co.nz/dmsdocument/5920>

QUESTION	COMMENT
<p>under the GTAC? If not, why not?</p>	<p>transmission system and linepack to monitor whether use of the facility is changing in ways that affect broader industry interests; and</p> <ul style="list-style-type: none"> <p>Related party transaction rules. First Gas is required by Commerce Commission rules to value any related party transactions on a market, arms-length basis. This means that services provided by First Gas to GSNZ (such as general management, commercial management, finance, IT etc) will be accounted for and economies of scope achieved by First Gas will be shared with consumers at the next price-quality reset. Equally, if any AGS service was ever provided to First Gas, then this would need to be disclosed and valued in accordance with the applicable regulations. Related party disclosures need to be independently audited and certified by our Board.</p> <p>The FAP highlights that the closest interface between Ahuroa and the GTAC is the balancing regime and the level of ERM charges. Even this interface is remote. We believe that the highest value use of AGS is likely to be to manage inter-seasonal differences in gas demand, allowing users to contract for a flat profile of gas injection while varying their offtake across the year and/or across years. The GTAC specifies that the maximum ERM charge is \$1/GJ/day (and specifies a current price of \$0.50/GJ/day). These charges are significantly lower than our current or expected charges for using long-term storage capability at AGS. This is appropriate since the value to users of carrying relative small imbalances across a day is much less than the value of carrying potentially large imbalances across seasons.</p>