

9 October 2017

Ben Gerritsen
General Manager Commercial and Regulation
First Gas Limited
(via email to info@gasindustry.co.nz)

Dear Ben

RE: Submission on GTAC: Revised Draft

1. This is a submission on behalf of the Major Gas Users Group (MGUG) on the revised draft GTAC released on 11 September 2017.
2. Nothing in this submission is confidential and some members may choose to make separate submissions.
3. MGUG was established in 2010 as a consumer voice for the interests of a number of industrials who are major consumers of natural gas. Membership of the Group¹ includes:
 - Ballance Agri-Nutrients Ltd
 - Oji Fibre Solutions (NZ) Ltd
 - Fonterra Co-operative Group
 - New Zealand Steel Ltd
 - Refining NZ
4. Our members are currently not a contracted party to existing transmission access arrangements including the Transmission System Agreement (TSA) or Interconnection Agreement (ICA) that would incorporate the GTAC. However some members may choose to become a party in the future.
5. Our submission is therefore not intended to be based on any legal review of the GTAC clauses as if members were a party to the agreement. In part this reflects the reality that the pass through of provisions will be modified by each member's shipper/ retailer customer portfolio whose exact approach on this is still unclear. Rather our submission is concerned with finding whether the overall objectives and design principles appear to have adequately addressed consumer interests in the current drafting.
6. MGUG has appreciated the constructive and logical approach taken by First Gas to arrive at the draft code.
7. Regardless of more recent discussions by shippers on detailed workings and impact of draft provisions on their businesses and customers, MGUG are supportive of the basic design features of the GTAC and believe that they align with the code objectives articulated in SCOP2, and are consistent with the guiding principles developed by the PEA in 2013.

¹ Note that NZ Sugar/ Goodman Fielder has not renewed its membership.

8. Our members believe they have a working understanding of the current provisions. They have relied on this to engage with their retailers in terms of understanding how shippers/retailers might look to implement code provisions, including the nomination process, pass through of incentive charges on nominations, primary balancing obligations, and peak charges.
9. A number of areas remain a concern for members.
 - a. The extent of incentive and penalty provisions on delivered gas cost, particularly allocations of over and under run fees, excess running mismatch fees, and MHQ fees.
 - b. The overall cost impact of changes to products and pricing methodology on their business².
 - c. What additional administrative burden is required by users to manage the day to day and monthly interaction with retailers.
 - d. The lack of explicitly worded framework principles that would guide FG in operating and modifying the code
10. With regard to the first three points, members have taken some reassurance from First Gas statements that they are seeking the right balance between simplicity and maintaining natural incentives to manage pipeline integrity, reliability, and efficient (allocative and dynamic) capacity utilisation on behalf of the gas consumers. Members also assume that FG will continue to make progress on outstanding action list items to improve the code further, including items of particular interest such as inclusion of an emergency ID cycle, and cost reflective MHQ limits at dedicated delivery points.
11. Members would anticipate that some of these initial settings might change once experience provides feedback on whether the code application meets the design intent of the code.
12. We therefore agree with, and support, the suggestion made by others at the various workshops and focus sessions that the code would benefit from a clear statement at the front of the document, and where appropriate, within sections of the document, outlining the objectives and guiding principles that were used to develop the code itself. We feel that this would serve as a useful reminder on how the code arrived at its wording, act as a standard to assess code performance against, and serve as a framework/test for assessing whether further code changes preserve those objectives and guiding principles.
13. In addition we believe those objectives and guiding principles should also be intrinsic to the design and operation of supporting arrangements including; pricing methodology, non-standard agreements, and interconnection agreements

² Notwithstanding illustrative examples given by FG the overall impact can only be assessed once the code is final, the pricing methodology has determined prices, and retailer policies and procedures on pass through costs are reflected in the invoicing.

14. Within the GTAC, we would suggest the broad objectives be placed ahead of the table of contents, labelled “Code Objectives and Guiding Principles”, and include:

a. Regulatory Objective: To promptly establish a new non-discriminatory gas transmission open access regime that facilitates safe, efficient, and reliable operation and use of the gas transmission system, including:

- i. Competition in the production and marketing of gas;
- ii. Efficient investment; and
- iii. Transparency of information.

b. Code Objectives

- i. Enable the use of gas
- ii. Minimise the cost of transporting gas
- iii. Keep it simple
- iv. Ensure flexibility
- v. Increase transparency

15. In addition to these overarching objectives, each section could also be prefaced by a purpose statement on what its provisions are broadly intended to achieve and the guiding principles used in determining these. The following are illustrative:

a. Section 2 - Transmission Services

- i. Provided to maximise physical capacity utilisation.
- ii. Maintaining line pack within safe operational limits.

b. Section 3 – Transmission Products and Zones

- i. To ensure that gas transmission products match with different gas contracting arrangements.
- ii. Simplify arrangements by grouping delivery and receipt points into natural operational and pricing zones.
- iii. Signalling potential congestion.
- iv. Signalling the value of scarcity.
- v. Protecting asset integrity and reliability.

c. Section 4 – Nominations

- i. To provide for accurate nominations up to and throughout the day to balance capacity with pipeline reliability and integrity.

d. Section 5 – Energy Quantity Determination

- i. To provide for accurate invoicing.
- ii. To provide for ability to manage operational line pack through user identification.
- iii. To provide full transparency on energy flows within the pipeline system to inform views on growth, congestion, and pricing.
- iv. To provide information on gas quality for monitoring conformance to the gas specification.

e. Section 6 – Energy Allocation

- i. To facilitate secondary trading of gas and transmission capacity.

- ii. To encourage primary balancing obligations.
- iii. To enable accurate and timely invoicing to end users by retailers.
- f. Section 7 – Additional Agreements**
 - i. To complement standard arrangements for encouraging greater use of gas whilst maintaining overall fairness in pricing to other users.
 - ii. To provide arrangements that mitigate investment risk taken by end users.
 - iii. To provide for arrangements to manage short term congestion.
- g. Section 8 – Balancing**
 - i. To ensure appropriate incentives for primary balancing obligations to manage pipeline integrity and reliability.
 - ii. To allocate balancing costs to causers of pipeline imbalance.
- h. Section 9 – Curtailment**
 - i. To provide for a hierarchy and mechanism to manage pipeline pressure in event of imbalances between receipt and delivery points.
 - ii. To ensure arrangements do not cut across or interfere with critical contingency measures.
- i. Section 10 – Congestion Management**
 - i. To provide an economically efficient mechanism for allocating scarce capacity.
 - ii. To provide transparency to the market on potential congestion and system growth.
- j. Section 11 – Fees and Charges**
 - i. Charges are service based and cost reflective.
 - ii. To provide transparency on charging arrangements
 - iii. To provide reasonable and clear incentives to maintain system integrity and reliability through accurate nominations.
- k. Section 12 – Gas Quality**
 - i. To provide clear arrangements for maintaining gas quality within the gas specification ensuring operational stability and overall safety of end users.
- l. Section 13 – Odourisation**
 - i. To clearly specify which parts of the network will be odourised to meet prescribed safety standards.
 - ii. To ensure that unodourised gas can be available to industrial processes that would otherwise be compromised by having odourised gas injected into their facilities.

16. Please feel free to contact me if you have any questions regarding this submission. The Major Gas Users Group is more than happy to meet with FG to discuss any specific questions or clarify any points made in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hale' or 'L Houwers', written in a cursive style.

Richard Hale/Len Houwers
Hale & Twomey Ltd/Arete Consulting Ltd
Secretariat for the Major Gas Users Group