

16 April 2018

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

Dear Ian

GTAC Preliminary Assessment Paper – Cross-submission

This is First Gas' cross-submission on the GTAC Preliminary Assessment Paper. We are confident that the Preliminary Assessment Paper, submissions and cross-submissions will provide a good basis for the GIC to make an informed assessment of the proposed Gas Transmission Access Code (GTAC). We also hope that the submissions and contributions made by stakeholders to this process help to provide a clear pathway for the GTAC to achieve the materially better standard. First Gas thanks stakeholders and the GIC for their continued time and commitment to this process.

We have attached a completed cross-submission template that responds to the specific questions posed by the GIC. We have also attached a letter from the Commerce Commission regarding the regulatory treatment of park and loan revenue. In this cover letter, we summarise a framework that is relevant to our responses to SQ6, SQ10, and SQ21. This framework recommends that the responsibility for decisions should fall to parties with the incentives, information and capability to make good decisions. We have applied this framework to allocating decision-making responsibilities in the GTAC.

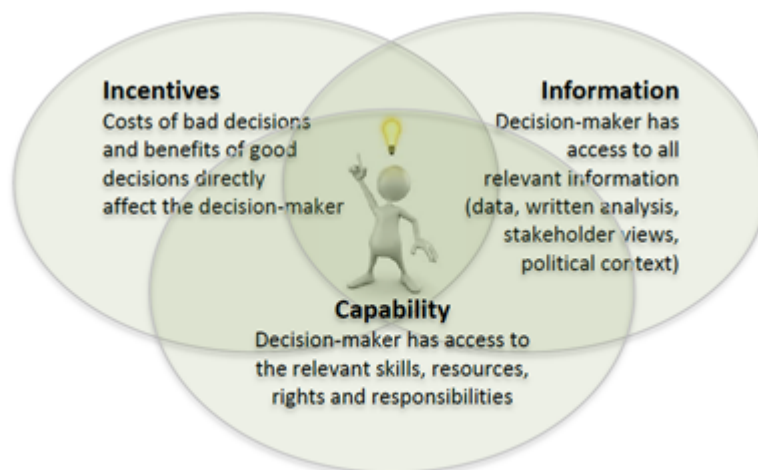
Framework for analysing decision-making discretion

During the process of developing the GTAC, several parties queried the discretion given to First Gas under the GTAC (and existing codes) to make decisions. While each area of discretion was discussed during workshops, concerns remain that First Gas may not appropriately exercise discretion and should be more tightly constrained in certain areas. The cross-submissions template highlights specific concerns about the level of discretion in setting balancing tolerances (SQ6 and SQ10) and setting specific maximum hourly quantities (SQ21).

We see the discretion given to First Gas as being integral to our ability to do a good job as system operator. That requires us to allow parties to gain benefit from the flexibility of the gas transmission system (since flexibility is one of its major benefits), while also ensuring that the system maintains high levels of reliability and everyone gets their gas.

We think that the framework presented in the following diagram is a good way to think about whether discretion is appropriate. This framework suggests that a good decision-maker will be invested in the results of the decision, and will have the information and capabilities to consistently make good decisions.

Figure 1: Decision-making framework



Source: Adapted from Irwin, Timothy C. 2003. "Public Money for Private Infrastructure: Deciding When to Offer Guarantees, Output-Based Subsidies, and Other Forms of Fiscal Support." Working Paper 10, World Bank, Washington, DC

Applying this framework to decisions under the code, the GIC has noted that First Gas is bound by the GTAC (and the existing codes) to act impartially. This provides clear incentives not to favour any particular party when making decisions. However, it may not provide comfort that First Gas is best placed to exercise discretion. We think it is more important that First Gas has good information on the functioning of the pipeline (via nominations, SCADA feeds, and other sources) and has the specialist capabilities to make decisions on system tolerances. We believe that First Gas also has strong reputational and commercial incentives to make good decisions. If the flexibility of the system is either under- or over-allocated, then we will struggle to demonstrate the value to system users that is required to drive utilisation of the gas transmission system.

Treatment of park and loan revenue

Following the GIC's preliminary assessment of the GTAC, First Gas sought assurance from the Commerce Commission regarding the treatment of park and loan revenue. The Commerce Commission has confirmed that park and loan revenue should be treated as recoverable costs/credits in the same way as other balancing charges. The response from the Commerce Commission is attached.

Please contact me on 04 979 5361 if have any queries on the matters raised in our submission.

Yours faithfully

Ben Gerritsen

General Manager Commercial and Regulatory

Attachment A: Completed cross-submissions template

Attachment B: Letter from Commerce Commission regarding treatment of park and loan revenue

Appendix A: Completed GTAC cross-submission template

Cross-submission prepared by: First Gas Limited

Ben Gerritsen, General Manager Commercial and Regulation

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SUPPLEMENTARY QUESTIONS	
SQ1:	<p>If there are matters raised in submissions you would like to comment on, that are not addressed in the questions below, please provide your views here.</p>
	<p>Cross-submitter's views:</p> <p>First Gas has now received confirmation from the Commerce Commission that park and loan revenue falls within our regulated business and should be treated in the same way as other balancing charges. A letter confirming this position is attached to this cross-submission as Appendix B.</p>
SQ2:	<p>Methanex Q3, p6: "We disagree that peaky usage should be discouraged only in connection with congestion... the unpredictability of gas throughput and limited line pack capacity... [are why] peaking limits (which apply universally) are imposed to govern behaviour on the Maui Pipeline under MPOC, even though congestion is not a factor. It is also the reason why Methanex is particularly concerned regarding the approach taken in the GTAC of making line pack freely available to users which is also applied in an inconsistent and discriminatory manner."</p> <p>Do you think peaky usage should be discouraged, even when capacity is not scarce, and why?</p>
	<p>Cross-submitter's view:</p> <p>We think it is worth distinguishing between two concepts: transmission capacity and gas energy. As we understand it, the GIC preliminary assessment finds that the GTAC is right to discourage peakiness in the use of transmission capacity only in the event of congestion. In our view, this is correct and is a material improvement on capacity reservation systems used in the VTC (and elsewhere) which discourage peaky usage, even where spare transmission capacity exists.</p> <p>Methanex's concerns about peaking appear to relate to gas energy, i.e. the GJ of gas available in the system to maintain deliverability, meet fluctuations in demand, and provide resilience to help manage unplanned outages. It is understandable that Methanex combines concepts of capacity and energy, since those concepts are combined in the MPOC. Given the wider application of the GTAC, we think that a clear distinction is needed. The availability of transmission capacity in parts of the transmission system (such as the BOP system) will differ materially from the availability of gas (this is less stark on the Maui pipeline where the physical characteristics of the pipeline mean that capacity and energy are more closely related).</p> <p>Given that Methanex's concerns relate to the peaky use of gas energy (and not transmission capacity), we agree that more thought needs to be given to how line pack flexibility is allocated amount users. At a minimum, this will involve determining the quantity of gas available for running mismatch tolerances, so</p>

	<p>that parties have more certainty about the operating parameters under the GTAC. Other topics such as AHPs and AIPs could also be subject to further discussion and debate, depending on their relative priority alongside other topics. We disagree with the statement that the GTAC makes line pack freely available to users given the universal application of ERM charges for the use of line pack beyond tolerances.</p>
SQ3:	<p>Vector Q3: "The determination of whether a Delivery Point will be congested is normally made by First Gas by 30 June each year. We would be surprised if a Delivery Point will potentially or actually be congested every day of the year. We therefore question whether applying a 10 times incentive fee on days when there is a very low likelihood of congestion is efficient."</p> <p>For what reason(s) would an F factor of 10 (GTAC s11.4) be appropriate at times when a Congested DP is not congested?</p>
	<p>Cross-submitter's view:</p> <p>We think that higher overruns should only be charged during periods when congestion is expected (rather than for the entire year). The GTAC is currently drafted to deliver that outcome by providing for:</p> <ul style="list-style-type: none">) The identification of delivery point(s) that are expected to experience congestion and the period of forecast congestion once a year) An increase in F at those locations for overruns that occur during periods of forecast congestion. <p>If the current drafting does not achieve this outcome or is unclear then we are happy to consider changes.</p>
SQ4:	<p>Todd Q3: "Most of the 'Benefits of diversity' can be achieved with fewer than ten consumers of similar size. That is hardly a number that should 'hinder competition'."</p> <p>Regarding the proposed product or pricing design, do you consider that the benefits of diversity would mostly be achieved by shippers who have 10 or more customers? If not, what level of customers would be sufficient to yield the benefits of diversity?</p>
	<p>Cross-submitter's view:</p> <p>We do not have a view on how many customers would be sufficient to yield diversity benefits.</p>
SQ5:	<p>Shell Q5: "We consider that the removal of the ability to operate Displaced Gas Nominations (as defined in MPOC) has negative implications for gas trading, and this should be factored into the GIC's assessment."</p> <p>Given the GTAC does not have point-to-point nominations, do you consider that the absence of displaced gas nominations would bring any disadvantages such as adverse effects on gas trading, and why?</p>
	<p>Cross-submitter's view:</p> <p>Trades are executed in the receipt zone and alter the running mismatch of the shipper/OBA Party. They are therefore not linked to a point and the concept of a displaced nomination does not seem possible or valuable in the GTAC. We consider that the proposed regime is more flexible and will increase traded</p>

	<p>volumes in aggregate. Given that trades are no longer linked to a point, we would like to understand the necessity for a displaced nomination and whether the outcomes required can be accommodated within the GTAC trading regime through another mechanism.</p>
SQ6:	<p>First Gas Q6: "We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially."</p> <p>Do you think that the GTAC s2.6 obligation on First Gas to deal with Shippers impartially mitigates concerns around how tolerances would be set under s8.5(b)?</p>
	<p>Cross-submitter's view:</p> <p>Yes, although as explained in the covering letter to this cross-submission, we believe that incentives, information and capability all support First Gas being best placed to determine how much line pack is available for balancing tolerances.</p>
SQ7:	<p>Methanex Q6: "In general terms, we don't believe that GIC has sufficiently assessed changes made in the GTAC regarding physical balancing arrangements, particularly in regard to the implications of FGL relaxing its obligations in regard to managing pipeline pressure and line pack (section 8.5/8.6 in particular), and its diminished responsibilities to pro-actively undertake balancing actions when the pipeline approaches the acceptable limits (including through operation of Section 8.6)."</p> <p>Do you consider that the GTAC would relax the obligations on First Gas to manage pipeline pressure and, if so, is that detrimental?</p>
	<p>Cross-submitter's view:</p> <p>We do not consider that the GTAC will relax First Gas' obligations to manage line pack within appropriate limits. We think that the GTAC has a clearer approach than the existing codes to:</p> <ul style="list-style-type: none">) Promoting primary balancing, including through line pack notices and ERM multipliers when acceptable line pack limits are breached; and) Undertaking secondary balancing actions where needed, and directing the costs of that activity to the parties creating the need for secondary balancing. <p>The current system of automatic cash-outs under the MPOC puts First Gas in the position of buyer/seller of last resort on a regular basis. This is an additional cost for industry and greater flexibility will be more efficient by ensuring that secondary balancing is undertaken when required rather than on an automated basis.</p>
SQ8:	<p>Shell Q6: "The burden of proof should not be on submitters to prove that the ERM mechanism is worse, it should be on the GTAC proposer to demonstrate that it is better than the current system of daily balancing, and in accord with good gas practice that has been proven elsewhere."</p> <p>Overall, do you consider that the ERM mechanism, coupled with back-to-back balancing, is likely to improve on, or be worse than, the current balancing arrangements (MBB, coupled with the Balancing and Peaking Pools)?</p>

	<p>Cross-submitter's view:</p> <p>We agree with the GIC preliminary assessment that the ERM mechanism, coupled with back-to-back balancing, is likely to improve on current balancing arrangements. As stated above, the current balancing system all too often puts First Gas in the position of buyer/seller of last resort. We understand that parties trade against our cash-out, and we are forced to accept the consequences on a daily basis in an effort to maintain reliable supply.</p> <p>We think the increased flexibility in the GTAC will mitigate against this risk. Parties must trade against the ERM charge and the likelihood of a primary balancing trade, which is more difficult to predict.</p>
SQ9:	<p>Trustpower Q6, 8.11.3: "... the proposal will provide sustained upward pressure onto market prices by incentivising market offers to be \$0.60/GJ ABOVE the last trade, while bids will only be \$0.20/GJ BELOW the last trade."</p> <p>Do you consider that the ERM fees will distort the market price of gas compared with the status quo?</p>
	<p>Cross-submitter's view:</p> <p>The ERM charges are based on the historic transaction charges associated with cash-outs on the Maui system. The fees specified replicate the cost to cash-out independent of pricing on the market. The risk of parties trading against a balancing incentive already exist under the MPOC.</p> <p>The view above also assumes that all buyers assume that parties only trade to avoid imbalance on the pipeline system. Trading occurs for many reasons and therefore it is simplistic to attribute all upward price pressure to imbalance trading.</p>
SQ10:	<p>First Gas Q7: "We agree that the single balancing regime across the system will have significant benefits in terms of efficiency. We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially."</p> <p>Do you consider that the requirements for First Gas to be impartial (eg GTAC s2.6 and 2.7) should dispel concerns about the uncertainties of how ERM tolerances will be allocated?</p>
	<p>Cross-submitter's view:</p> <p>We agree with this position and refer to the covering letter to this cross-submission.</p>
SQ11:	<p>Greymouth Q14, item 2: "We consider that a change in transmission products and access terms should require a reassessment of the basis and terms on which non-standard pricing terms are offered to end-users – policies that may have been appropriate under current codes may no longer be fit for purpose under the new arrangements."</p> <p>Do you agree with Greymouth, that the Supplementary Agreements should be reassessed in light of any change from the current access arrangements to new access arrangements?</p>

	<p>Cross-submitter's view:</p> <p>The MPOC does not allow Supplementary Agreements. Most Supplementary Agreements under the VTC are renewed and reconsidered on an annual basis. First Gas has 25 Supplementary Agreements with shippers, and only 8 of these agreements will potentially carry over into the GTAC regime. The revenue earned under these surviving contracts totalled around \$10 million in 2016/17. We think it is important to honour these existing agreements and do not consider that their existence presents any significant issues for the GTAC.</p> <p>We are reassessing how all existing Supplementary Agreements (not just those that might carry over to the GTAC) fit with the transmission products under the GTAC. For example, many agreements were made to address issues with annual capacity reservations where the fundamental nature of the end user was highly seasonal. Such agreements will not be needed under the GTAC due to the nature of the DNC product. Conversely, new situations may arise under the GTAC that are best addressed through SAs.</p> <p>First Gas is using this year's price setting process to open a dialogue with shippers about Supplementary Agreements under the GTAC. This will include agreements that survive past the end of the year. It is hoped that this will allow any adjustments to take place over two years (rather than one). This transition may be difficult for some agreements, but is not impossible. We see this process as a way to ensure any transition minimises impacts on shippers and end-users.</p> <p>We agree that there needs to be policy published on Supplementary Agreements and this will help to demonstrate that the obligations and requirements in section 7 of the GTAC will be met.</p>
SQ12	<p>Methanex Q14, p3: "Lack of transparency due to the non-disclosure of those agreements [SAs] has made it impossible to determine the level of impact they have on the rights of MPOC users during the GTAC consultation process. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC. GIC comments that GTAC is an improvement over existing codes by reducing information asymmetries and in so doing reducing barriers to competition. We contend that in this respect there is a substantial reduction in the level of transparency that is currently enjoyed by MPOC users."</p> <p>Do you consider that the confidential nature of non-standard pricing and other terms of existing SAs would raise more concerns under the GTAC regime than under the current access arrangements?</p>
	<p>Cross-submitter's view:</p> <p>The information provided in response to SQ11 should help parties evaluate the impact of existing SAs. Future SAs will be disclosed as per section 7.6 of the GTAC and therefore the issue of non-disclosed terms is limited. First Gas believes that the disclosure requirements under the GTAC will be beneficial in building trust with stakeholders and demonstrating First Gas' commitment to growing system utilisation.</p>
SQ13:	<p>Shell Q18: "No party considering entering into gas transmission or interconnection arrangements should be expected sign an agreement which states there are circumstances where the party can be "deemed not to have acted as a Reasonable and Prudent Operator". Such a determination should be</p>

	<p>determined by the facts. Any necessity for such a “deeming” is indicative of a flawed design in the liability provisions.”</p> <p>Do you consider that the proposed provisions deeming a party not to be an RPO are significantly worse than provided for in the current codes?</p>
	<p>Cross-submitter’s view:</p> <p>First Gas maintains that the wording in the GTAC is materially the same as that in the MPOC (a point with which Shell disagrees). However, First Gas is keen to understand the impact of these provisions to better understand the issue. We also welcome input on provisions that would give certainty for First Gas in claiming damages from a party causing losses to other parties. We suggest that a focused workshop or workshops on the topic of liabilities would be the best way to progress this issue.</p>
SQ14:	<p>There are some strongly contrasting views on whether the nominations workload would significantly increase the administrative burden for stakeholders. For example, Greymouth Q2: “We consider the potential impact on end-users of punitive fees for incorrect nominations has been underestimated. The workload on those end-users whose shipper agreements delegate nomination obligations to them will increase significantly.” And, in contrast, Genesis Q15: “We agree that once the upfront capital cost of the systems upgrade is paid for, the ongoing staffing costs associated with nominations should not be material.”</p> <p>Do you consider that the proposed nomination arrangements would significantly increase or decrease the administrative burden for stakeholders?</p>
	<p>Cross-submitter’s view:</p> <p>No comment.</p>
SQ15:	<p>There are some strongly contrasting views on whether the proposed balancing arrangements would increase or decrease spot market activity. For example, Shell Q6: “There is no basis for the GIC’s assertion that the GTAC proposal for balancing has the “potential for increased activity in the spot market”. With the reduced incentive for shippers to balance, the GTAC proposal will likely reduce the activity on the spot market.” And, in contrast, Todd Q6: “Todd agrees with the discussion of the various aspects of the GTAC balancing arrangements. In terms of the assessment, it agrees that the tolerance terms could be improved, but believes the overall efficiency gain is in fact a very material improvement on current arrangements. The likely incentive for greater trading on the emsTradepoint gas market is one aspect of that improvement.”</p> <p>Do you consider that the proposed balancing arrangements would likely increase or decrease the spot market trading your business might engage in?</p>
	<p>Cross-submitter’s view:</p> <p>First Gas believes that many aspects of the GTAC will incentivise greater trading, and the balancing regime is one positive feature. The current balancing regime relies on purchase/sale of gas by the TSO via cash-outs and then a balancing transaction depending on pipeline conditions. ERM charges will encourage shippers to balance their own position directly, which will increase volumes on the market as shippers combine their balancing requirements with other gas trading needs.</p>

SQ16:	<p>There are some strongly contrasting views on whether the proposed requirements for parties to demonstrate the need for a Supplementary Agreement (SA) would likely result in more or less SAs. For example, First Gas Q14: "The assessment seems to miss the importance of requiring parties to demonstrate the need for an SA." And, in contrast, Genesis Q14: "We note that supplementary agreements may be more necessary than the GIC realises in its assessment. For example, Genesis may need to 'contract out' of the GTAC's hourly overrun charge regime to maximise gas throughput at Huntly."</p> <p>Do you think SAs are likely to become more prevalent under the proposed GTAC arrangements? For what reason(s)?</p>
	<p>Cross-submitter's view:</p> <p>We would expect to see many existing SAs lapse or terminate, since those agreements respond to existing annual capacity arrangements and will not be needed once a more flexible daily capacity product is available across the system. On the other hand, new SAs may well be required due to measures introduced under the GTAC (such as MHQ charges) and where the conditions set out in section 7 are met.</p> <p>The relevant question for the GIC's assessment is not whether the total number of SAs increases or decreases. Rather, the GIC should focus on whether the conditions for agreeing non-standard arrangements are fair and efficient, whether SAs are likely to increase system utilisation and drive down transmission prices, and whether the governance arrangements for SAs provide comfort and transparency.</p>
SQ17:	<p>There are some strongly contrasting views on whether the proposal would bring more excursions from the Target Taranaki Pressure (TTP). For example, First Gas Q19: "The GTAC drafting better reflects reality. As system operator, we endeavour to keep TTP within the range, but there are factors outside of our control that cause divergence. This therefore appears to be more an issue of contractual wording, rather than requiring any change in behaviour from First Gas as system operator." And, in contrast, Methanex Q19, p20: "In regard to there being frequent (but brief) excursions, we consider that the obligation to maintain pressure between 42-48 bar in MPOC does not infer strict observance but it does place an obligation on FGL to act in order to return pipeline pressure to the mandated range. This contrasts with the much weaker reasonable endeavours obligation in GTAC, which is further weakened by the TTP also being subject to the level of "aggregate ERM", which is at best an ambiguous modifier."</p> <p>Do you think the proposed arrangements put weaker incentives on First Gas to maintain the TTP, that could lead to more relaxed management and increased costs to interconnected parties?</p>
	<p>Cross-submitter's view:</p> <p>First Gas believes that the proposed GTAC terms reflect actual practice: that the TTP is largely achieved with brief excursions. We strongly consider that aggregate ERM (imbalance) is a relevant factor for our ability to maintain TTP. If First Gas disregarded the impact of imbalances (i.e. we sought to maintain TTP regardless of imbalances), then the system would be more vulnerable and less reliable.</p>

SQ18:	<p>There are some strongly contrasting views in relation to gas quality. For example, Methanex Q9, p11: “We believe GIC is misrepresenting “passive” wording in GTAC for what is, a substantive reduction in FGL’s obligations to protect its customers from the prospect of receiving non-specification gas. In particular, we dispute that the provisions of [GTAC] Sections 12.8 and 12.11 are passive in absolving FGL of responsibilities and liabilities.” In item 40, p11, of its submission Methanex lists a number of instances where it considers the GTAC gas quality assurances are significantly less than those of the MPOC. This contrasts with the views of other submitters – eg Contact, Greymouth, MGUG and Todd – who agreed with the Preliminary Assessment that there would be “no noticeable change” in relation to gas quality.</p> <p>Do you consider that the Methanex is correct to say that the proposed arrangements would bring a substantive reduction in First Gas’ obligations to protect its customers for non-specification gas?</p>
	<p>Cross-submitter’s view:</p> <p>We agree with parties that see no noticeable change in gas quality requirements under the GTAC. Our response to the specific areas highlighted by Methanex that it claims change gas quality requirements is as follows.</p> <p>Methanex states:</p> <p>(a) Clear obligations placed on injecting parties in respect to compliance and monitoring in MPOC have been replaced by weaker obligations in GTAC; (MPOC 17.2(b) vs GTAC Section 12.2(b))</p> <p>We do not see the difference between these provisions. Each code places an obligation on the interconnected party to monitor gas quality.</p> <p>Methanex states:</p> <p>(b) GTAC specifically removes any obligation by FGL to monitor the quality of gas flows (Section 12.8). MPOC establishes clearly implied obligations from the general operation of the RPO standard and explicit obligations in respect to Section 17.6.</p> <p>The MPOC does not imply that First Gas must monitor specification, but rather that injecting parties will monitor quality. There is therefore no difference between the MPOC and GTAC on this aspect of gas quality.</p> <p>Section 17.6 of MPOC (notification of off-spec) should be compared with section 12.4 of the GTAC, rather than section 12.8. Under the MPOC, First Gas has an obligation to notify other parties if it ‘detects’ off-spec gas. Under the GTAC, First Gas has an obligation to notify other parties if it ‘becomes aware’ of off-spec gas. We fail to see a notable difference between these obligations. Neither is an obligation to monitor specification.</p> <p>Methanex states:</p> <p>(c) MPOC places specific obligation on the party responsible for injecting non-specification gas to mitigate (Section 17.7), missing in GTAC.</p> <p>The form of the obligation is necessarily different as the MPOC integrates interconnection terms into the transmission code. In the GTAC, section 7.13(c) (dealing with interconnection agreements) states that the obligations to ensure gas injected is on spec and to monitor gas quality in section 12.2 will apply to interconnected parties. Section 6.5 of the draft receipt point interconnection agreement published alongside the GTAC on 8 December 2017 contains</p>

	<p>provisions for mitigating the impacts of off-specification gas. Given the structure of the GTAC proposed in December, this is the appropriate place for these obligations.</p> <p>Methanex states:</p> <p>(d) MPOC places specific obligations on FGL to mitigate the effects of non-specification gas generally (Section 17.7). This is missing in GTAC, as Section 12.4 only requires FGL to make notifications to Shippers and Section 12.3 requires FGL only to mitigate its own Loss.</p> <p>We do not believe that this statement correctly characterises First Gas' obligations under the MPOC. Section 17.7 is an obligation on interconnected parties to mitigate effects of off-specification gas, rather than First Gas. The interconnected party has an obligation to assist First Gas in mitigating the effects of off-spec gas. While there is an implied obligation on First Gas this relies on the cooperation of interconnected parties.</p> <p>Under the GTAC regime, similar provisions to those in the MPOC are in section 6.5 of the receipt point ICA published alongside the GTAC on 8 December 2017. The wording is nearly identical to the MPOC and it is difficult to see that there is any change in terms.</p> <p>Methanex states:</p> <p>(e) The rights of Shippers to request confirmation of compliance with quality assurance is not procured by FGL in GTAC (Section 12.6), and requests in any event are limited to a 9 Month interval (Section 12.7).</p> <p>We agree that quality compliance requests are limited to a 9-month interval. This reflects changes in metering technology and the greater reliability associated with modern meters. It also reflects the reality that many meters are unable to be tested in New Zealand. The practicalities of removing meters for testing and the improvements in metering reliability have driven this change.</p> <p>We also need to consider that the party able to request a demonstration of compliance under the GTAC is the shipper. Under the draft delivery interconnection agreement published alongside the GTAC on 8 December 2017, interconnected parties are also able to request a demonstration of compliance. Under the MPOC this right is limited to welded parties. The GTAC therefore broadens rights in relation to the GTAC.</p> <p>Methanex states:</p> <p>(f) Under Section 12.11 of GTAC, FGL expressly excludes itself from any liability, except in the (unlikely) event it causes gas to become non-specification after it enters its pipeline. This means it has no liability when it contributes to a Shipper's Loss, including by not performing the limited obligations it does have in GTAC under Section 12 and as a Reasonable and Prudent Operator.</p> <p>The limitation of liability in section 12.11 needs to be read in conjunction with the liability provisions in section 16 of the GTAC. The limitation of liability provision in section 16.1 specifically ensures that First Gas is liable if it does not comply with provisions of the GTAC or act as a Reasonable and Prudent Operator. We therefore do not accept this interpretation of the terms of the GTAC.</p> <p>Methanex states:</p> <p>(g) Interconnected Parties have no rights or protections at all under Section 12.</p>
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	<p>We agree with this statement. Under the structure of the GTAC, these rights and protections are contained within the ICA. The proposed draft provisions of these agreements were released for review alongside the GTAC in December 2017</p>
SQ19:	<p>There are some strongly contrasting views on whether, if the Overrun (OR) and Underrun (UR) fees are balanced, the proposed level of OR/UR fees would still be a concern. For example, Todd Q16, p8: "As noted above, the formula applied in the GTAC is incorrect. Once corrected, and the value of F is no greater than 2, then these charges are much less (and probably one third less) than the levels projected by GIC because there would be no underrun fees applying. Many of the concerns about GTAC pricing would therefore fall away under this correction." And, in contrast, Genesis Q16: "We are concerned the daily over and underrun charges will increase costs to serve the mass market, which will be exasperated by lower incentive pool rebates. This does not reflect the flexibility the transmission system has been designed to afford."</p> <p>Do you consider that, if the OR and UR fees are balanced, the proposed level of OR/UR fees would still be a concern and, if so, why?</p>
	<p>Cross-submitter's view:</p> <p>We agree with Todd that amending the underrun fee to F-2 resolves issues with the incentive fee regime identified by the GIC.</p> <p>We are concerned with issues raised that mass market shippers will be more costly to serve. We are keen to investigate options for managing mass market shipper costs and risks (such as the option of automatic nominations raised by the GIC in its Preliminary Assessment).</p>
SQ20:	<p>There are some strongly contrasting views in relation to Priority Rights. For example, Trustpower 7.1.14, p7: "We are pleased GIC and other submitters recognise our concerns that: a) the PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs in either the primary or secondary markets they have no effective means of reducing their demand. b) it is also not fair that retailers may not be able to buy affordable PRs and so could become caught in a squeeze between their customers and the competing priorities of the network owner and/or other access seekers." And, in contrast, First Gas s4.2, p29: "While we acknowledge that mass market shippers cannot control their customers' demand, we do not believe that PRs are any more onerous than the existing codes. If a mass market shipper does not hold sufficient reserved capacity under the VTC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. If a mass market shipper does not hold PRs under the GTAC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. The key difference under the GTAC is in how the price of scarce capacity is set –with the PR price being set via an auction."</p> <p>Do you consider that the Preliminary Assessment gives undue weight to concerns that, if mass-market shippers may be unable to secure PRs, they have no effective means of reducing their demand?</p>
	<p>Cross-submitter's view:</p> <p>First Gas believes that priority rights will be an effective means of allocating capacity based on the market value of that capacity. As stated above, First Gas is concerned that mass-market shippers may have issues nominating for their</p>

	<p>customers, and the solution to that issue may help to resolve concerns about not being able to obtain PRs. However, we do think that the preliminary assessment incorrectly concludes that PRs lead to worse outcomes for customers that are unable to reduce demand. In contrast, PRs provide an option for those customers to secure capacity at a market determined price, rather than at an administered price (as per VTC).</p>
SQ21:	<p>There are some strongly contrasting views on whether the level of First Gas discretion is always appropriate. For example, Methanex Q22, p21: "We strongly disagree that FGL discretion is appropriate or fair in regard to providing tailored Specific HDQ/DDQ allowances and we are generally concerned that GIC has not considered this as an area which, on efficiency and fairness grounds, is materially worse than the status quo. Further, we consider the rationale set out in GTAC of 'striking a balance', at FGL's discretion, between the proper operation of the pipeline system against the commercial requirements of particular end users to be entirely inappropriate." And, in contrast, First Gas Q22, p45: "We agree with the analysis of First Gas discretion. We believe that the areas of discretion identified strike the right balance for a transmission system operator."</p> <p>How have submitter views on First Gas discretion altered your opinion?</p>
	<p>Cross-submitter's view:</p> <p>We agree with the GIC's assessment. First Gas considers that the system operator requires discretion in setting specific HQ/DQ ratios to balance the needs of all pipeline users and allocate capacity in the system. As explained in our covering letter to this cross-submission, we believe First Gas is best placed to make these decisions given its incentives, information and capability.</p>
Q22:	<p>There are some strongly contrasting views on whether the proposed arrangements will provide more transparency. For example, Shell Q23, p11: "In terms of the commitment to publish information, we agree that the GTAC is not as open as MPOC, to the extent that we consider that the GTAC is materially worse than MPOC. In contrast to MPOC, GTAC does not commit to publish in real time: •The then-prevailing hourly Scheduled Quantity (SQ) established for each receipt or delivery point (or delivery zone in GTAC); •The metering quantity for each hour at each receipt point or delivery point (or the aggregate delivery quantity in each delivery zone in GTAC); •The imbalance between scheduled and actual flow at each major receipt or delivery point." And, in contrast, First Gas Q23, p45: "We believe that the publication of interconnection agreements is significantly more transparent than the current VTC. Publication of running mismatch positions is more transparent than either current Code. Moreover, changes suggested to publish reasons for SAs will further increase transparency."</p> <p>In light of the submissions, how do you consider the proposed arrangements compare in relation to transparency to the current arrangements?</p>
	<p>Cross-submitter's view:</p> <p>First Gas is happy to consult on the publication of the above data.</p>

12 April 2018

Ben Gerritsen
General Manager Commercial and Regulatory
First Gas Limited
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Bell Block
Private Bag 2020
New Plymouth, 4342

By email

Dear Ben

Regulatory Treatment of Park and Loan Revenue

Thank you for your letter of 16 March regarding the regulatory treatment under Part 4 of the Commerce Act 1986 (Act) of potential 'Park and Loan' revenue.

As you are aware, I am unable to provide any view on the appropriateness of the Gas Transmission Access Code (GTAC), or any other commercial arrangements currently being considered by First Gas, or the treatment of any such arrangements under the Act. Similarly, we are unable to offer any view as to whether a Park and Loan service described by you will improve the GTAC and/or the service offering to your customers.

However, you have asked us to provide clarity on the regulatory treatment of a Park and Loan service and its associated revenues should you decide to proceed with this option.

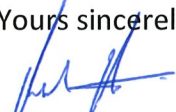
You rightly note that section 55A of the Act defines "gas pipelines services", but does not specifically provide for how these services may be delivered. We agree with your assertion that balancing services have historically been treated as regulated revenue despite not being specifically mentioned under section 55A.

While decisions regarding the application of the Input Methodologies are ultimately for Commissioners, based upon the description provided by you of a potential Park and Loan service, our staff view is that this would be a type of balancing service that should be regarded as regulated revenue in the same way as revenue from other balancing services offered by First Gas.

For these reasons, we agree with the assessment included in your letter of 16 March that a Park and Loan service, as described by you, would be regarded as a recoverable cost by us for the purposes of regulating pipeline services under Part 4 of the Act and as defined in clause 3.1.3(1)(b) of the Input Methodologies.

I trust the above provides the confirmation you seek in your letter of 16 March, but should you have any further questions please do not hesitate to contact me.

Yours sincerely



PP **Matthew Lewer**
Manager, Regulation Branch