Preliminary Assessment of Gas Transmission Access Code (GTAC)

Cross-Submission Template

The table below identifies some matters that have been raised in submissions on Gas Industry Co's Preliminary Assessment paper on which we would value further information in cross-submissions. The table lists a number of supplementary questions – SQ1 etc – and invites cross-submitter views.

The supplementary question format points to where a relevant quote can be found ("eg Methanex Q3, p6" means we are quoting from page 6 of the Methanex submission) and asks a pertinent question (eg "Do you think peaky usage be discouraged, even when capacity is not scarce?"). You, as the cross-submitter, can decide whether you wish to comment on the quote, answer the question, or do neither.

Cross-submission prepared by: Major Gas User Group

SUPPLEMENTARY QUESTIONS	
SQ1:	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.

We wish to comment further on the rebate arrangements, in particular a position taken by Todd/ Nova that the consumer risks that MGUG have identified, are easily addressed and that the rebate arrangements under GTAC are superior to the current arrangements of adjusting prices 2 years after the costs have been incurred. Todd addresses the issue in its response to Q21.

The changing mix of Shipper volumes and market shares over time is also ignored in the discussion. Under the current arrangements, some gas consumers will pay higher rates and penalty payments than average this year, but may not benefit due to reduced gas demand in two years' time.

Another outcome of the current system is that Shippers, in order to cover their costs, need to pass through penalty costs to all consumers in the current period. They may do this through a margin in the gas price, or specifically itemised charges to larger customers. This is because they cannot rely on getting an offsetting reduction in transmission costs in future years. This requirement tends to obscure the underlying energy prices and costs involved in delivering gas to consumers. It can also be difficult for large consumers to compare prices if some prices are exclusive of penalties while others are inclusive.

By rebating fees within the month, penalties impacting shipping to seasonal customers such as mass market consumers will be rebated in those same higher demand months rather than being spread across a full calendar year. This means that the pricing signal for mass market consumers with peak winter demand will receive a more cost reflective price and greater economic efficiency ensues

There are three issues to raise in response:

1. Whether it is correct to assert that changing mix of shipper volumes over time is being ignored in the discussion (or whether it matters).
2. Whether the proposed arrangements alter the retailer behaviour around pricing to the consumer.
3. Whether rebating sends a clearer economic signal than the current arrangements of keeping incentive charges as part of the total revenue cap.

Changing Mix of Shipper Volumes.

We are assuming that Nova's comments here relate to the under and/or over recovery of total regulated revenue by FG.

The current arrangements do not adjust for fees and charges in two years' time other than the extent to which FG has under or over recovered its total revenue. This adjustment is made to the basic product fee, which is passed to all users in a transparent way. If FG forecasts its revenue with 100% accuracy for 12 months ahead, there is no further connection with the shipper's volume mix in two years' time. People pay for what they use, including incentive charges, no more or less. In an imperfect forecasting world, the shipper risk is symmetrical, and only relevant where they assume the incentive charges on behalf of the consumer via some "margin" on gas price. Whether they are "winners" or "losers" will depend on whether their gas demand is lower or higher than average vs whether there is an under or over recovery of total revenue. Where shippers purport to "pass through" incentive charges the forecasting risk is transferred to the consumer. In any case there has been no evidence to suggest the TSO has been poor in its forecasting accuracy in the past or that it will do worse in the future.

Of greater concern is that a rebate policy does not constrain FG from generating a greater amount of revenue from incentive fees, since there is no longer an incentive to keep them as cost reflective. Potentially a larger flow of money will be handed back to the shipper/ retailer, who are not obligated to return this to consumers who created this revenue in the first place. This leads to the second point.

Is Shipper behaviour altered under the proposed arrangements?

Todd quite rightly identifies that current practice in dealing with penalty or incentive charges with their customers is to either itemise those charges on the invoice, or build some margin on the gas price to cover their potential liabilities. The problem with this approach is that the retailer is able to arbitrage transmission costs without any transparency to the consumer. This will continue to be the case going forward, even with the proposed arrangements, but at a greater scale.

Arbitrage opportunity exist because there is a strong element of caveat emptor in the retailer pricing structure. Whilst it is often implied that transmission pricing is simply passed through, there is no basis for assuming that this really is the case. Even the most sophisticated gas user will be unlikely to have full view of the retailer's actual transmission costs incurred in its portfolio, and the retailer isn't obliged to share this information. Furthermore an even greater majority of market consumers are not well versed in the intricacies of transmission arrangements, including pricing. They may well accept the retailer's assurance that transmission costs "will be passed through" (if mentioned at all). However they are unlikely to be in a position to check whether their retailer is actually doing this in a way that they understand what "pass through" means.

For example there is nothing to prevent the retailer from treating the customer as a single customer at its metered point rather than part of a portfolio on a zone, and excluding the customer from the benefits of the retailer portfolio. A customer may be "transparently" charged for various incentive charges based on their site meters without realising that the cost to the retailer is actually different. Similarly the "margin" on gas price is not really explained to the customer and may well be expected include a significant safety margin for the retailer to cover the liability that they are assuming on behalf of their customer behaviour. A retailer may also offer one customer different pricing to secure their business meaning that its other, less price sensitive customers end up subsidising more price sensitive customers in the portfolio. These customer pricing practices will continue to be the case under the proposed GTAC and we wouldn't expect any alteration to shipper/retailer behaviour. Customers will continue to be invoiced based on itemised charges, or have a margin added to their gas price for the retailer to absorb their risk, with the same level of opaqueness on the retailer's actual transmission cost.

What will be different is that the scope and size of those incentive charges will now be potentially much greater. Whereas MPOC has few additional charges beyond the transparent product charge (and balancing charges), and VTC penalties are primarily related to overrun on an annual MDQ, the GTAC regime makes incentive charges a daily occurrence and therefore more material to the process of charging and accuracy of invoicing. With the same (lack of) transparency as to the customer's ability to verify these as true pass through costs, the potential outcome is that the proposed arrangements will simply act as a greater wealth transfer from consumer to retailer/shipper.

Also with incentive charges no longer capped under the rebate mechanism, the scale of potential asymmetric pass-through increases. The size of this asymmetry will depend on the policies of the individual retailer, and also on the retailers energy portfolio mix (the extent that it is involved in promoting electricity, LPG, broadband, etc). Effectively the retailer's gas customers could be contributing to their retailer's market expansion.

Is a rebate scheme more economically efficient?

Ignoring the issue of transmission arbitrage described above, which clearly isn't economically efficient, Todd assert that rebating charges provides a clearer economic signal to seasonal users.

It is difficult to follow this argument. The main reason is that the GTAC provides for a daily product fee that doesn't alter depending on the season. Users simply pay for what they need. Incentive fees are effectively penalties on not correctly nominating for your actual demand. We wouldn't see consumers as being any better or worse on their nomination habits within a year.

Furthermore rebates to causers sends a weaker economic signal then current arrangements where incentive fees are not rebated.

In Summary

We don't support the proposed rebate arrangements and nor do we agree with Todd's position on rebates as a positive feature of the proposed arrangements. Whilst they may be a positive feature for shipper/ retailers, and for FG who avoid the difficulties of forecasting consumer nomination behaviour, they are generally not a positive feature for consumers.

1. Shipper/ retailers will retain their ability to arbitrage transmission fees.
2. The scope for incentive fee increases is greater under the proposed arrangements.
3. The scale of the arbitrage revenue increases because of lack of incentives on FG to keep them cost reflective.

Todd's view reflects a retailer centric view of the world whereas the proper assessment is against consumer outcomes as both the Gas Act and Commerce Act demand. We think the rebate idea falls well short of meeting the objectives of those pieces of legislation.

SQ2:	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." *Do you think peaky usage should be discouraged, even when capacity is not scarce, and why?*
No we do not generally agree that peaky usage should be discouraged but this depends on what Methanex was envisaging as being the problem with peaky usage. We see some distinctions between seasonal peaking demand and intraday peaking. One of the advantages of the proposed GTAC is that it doesn't discourage seasonal gas demand, particularly on the VTC system where users have to pay for unused capacity through the MDQ Capacity Reservation Fee. To the extent that the GTAC encourages a wider load diversity and increased demand to make better use of the existing asset this is a good outcome for all users. We do appreciate that there will be some users, particularly gas fired peaking plants with relatively large intra-day fluctuations, who could cause potential curtailment issues for other users on the system. However we think the GTAC has the ability to deal with these on a case by case basis. Firstly we would expect that any new demand with this type of profile will be modelled into the calculation of existing transmission capacity to determine whether further investment in transmission capacity is required (presumably paid for by the new load). Secondly, to the extent that peaking charges can be structured to be cost reflective, these will also act as an incentive on controlling peaking behaviour.	
SQ3:	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." *For what reason(s) would an F factor of 10 (GTAC s11.4) be appropriate at times when a Congested DP is not congested?*
	Cross-submitter's view:
SQ4:	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'." *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?
	Cross-submitter's view:
SQ5:	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." *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?*
	Cross-submitter's view:
SQ6:	First Gas Q6: "We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially." *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)?*
	Cross-submitter's view:
SQ7:	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)." *Do you consider that the GTAC would relax the obligations on First Gas to manage pipeline pressure and, if so, is that detrimental?*
	Cross-submitter's view:
SQ8:	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." *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)?*
	Cross-submitter's view:

SQ9:	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." *Do you consider that the ERM fees will distort the market price of gas compared with the status quo?*
We don't have an informed view on this risk but we do see a strong possibility that ERM mechanisms have the potential to interact with the gas trading market in an unanticipated, and undesirable way, particularly where the market isn't sufficiently deep or liquid to mitigate adverse gaming behaviours. We would suggest that the GIC gets objective advice on the potential of this risk.	
SQ10:	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." *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?*
	Cross-submitter's view:
SQ11:	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." *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?*
We do not see this as a real problem. It appears, from FG's statements, that there are relatively few existing SAs that will carry over into the new arrangements. For new SAs we support the general criteria that FG have suggested for awarding or renewing SAs. We expect that provisions would be based on the new code. Lastly we assume that transparency of SAs, and reasons for awarding them will act as a control on the appropriateness of the terms.	
SQ12	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."

	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?
	Cross-submitter's view:
SQ13:	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 determined by the facts. Any necessity for such a "deeming" is indicative of a flawed design in the liability provisions." *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?*
	Cross-submitter's view:
SQ14:	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." *Do you consider that the proposed nomination arrangements would significantly increase or decrease the administrative burden for stakeholders?*
We do see that there is a potential for an increased administrative burden, even for users who currently nominate daily under the MPOC regime. The increased burden doesn't arise from the nomination requirement itself, but rather what the new code arrangements will demand from consumers through its incentive arrangements. Generally the proposed arrangements and incentive charges place a higher standard on nomination accuracy. This will require greater diligence on behalf of end users to nominate more accurately (if the intraday cycles allow them to do so). This on the surface may seem like a good thing, except that FG hasn't demonstrated why the higher accuracy is required (particularly where it just rebates those incentive charges anyway). So while costs to consumers go up to invest in better systems there is no demonstrated commensurate benefit to support this. Secondly the administrative workload could also increase if invoices require closer scrutiny. This is particularly around confirming, reconciling, and checking the opaqueness in retailer incentive charges passed through to end users.	
SQ15:	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." *Do you consider that the proposed balancing arrangements would likely increase or decrease the spot market trading your business might engage in?*
As in our response to SQ9 we would value an independent view on trading market risks from parties with experience in trading market incentives and behaviour.	
SQ16:	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." *Do you think SAs are likely to become more prevalent under the proposed GTAC arrangements? For what reason(s)?*
We don't hold a firm view on this simply because SAs are a matter between FG and its direct shipper customer. We accept the principle that there are circumstances where an SA is justified and will be beneficial to the overall market. We take some comfort in that SAs would be transparent, including the reasoning for awarding these. We also acknowledge that SAs can vary some, but not all, terms of the standard arrangements. In a number of cases the variation would be quite minor with no impact on the wider market. Our test for whether the level of SAs is a concern is the degree to which they can cumulatively undermine the equitable arrangements for standard users in the market.	
SQ17:	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." *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?*

	Cross-submitter's view:
SQ18:	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. *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?*
	Cross-submitter's view:
SQ19:	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." *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?*
We have a more general concern about the concept of over and under run charges applying both without a tolerance, and the level of the penalty not being cost reflective. We think this is more material than being concerned about the balance between over and under run incentives.	
SQ20:	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." *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?*
	Cross-submitter's view:
SQ21:	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." *How have submitter views on First Gas discretion altered your opinion?*
	Cross-submitter's view:
Q22:	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." *In light of the submissions, how do you consider the proposed arrangements compare in relation to transparency to the current arrangements?*
	Cross-submitter's view: