



23rd June 2017

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Dear Ben

Gas Transmission Access Code Development: Emerging Views

Contact Energy Limited (Contact) thanks First Gas Limited (First Gas) for the opportunity to make submissions on its latest Gas Transmission Access Code Development paper.

The paper focuses on the first four major elements of the code; Access Products, Pricing, Balancing and Allocation. Contact provides feedback on each of these topics below.

1. Access products

First Gas proposes Daily Nominated Capacity (DNC) as the main access product with Priority Rights (PRs) as a mechanism to provide firm capacity rights.

- 1.1 It is proposed that the DNC will be made from a receipt pool to every Delivery Point. Without the draft nomination section of the code it is difficult to assess if these nominations are the same nominations that cover gas title transfer. If they do not then it appears that another set of nominations will need to be loaded into the system for that purpose. This does not minimise transactions. If they do then it is assumed that the nomination will be made from each Receipt point and therefore there seems little point in defining receipt zones.
- 1.2 Currently gas nominations made for gas transmission are made to delivery zones. This is due to a better accuracy when aggregating small delivery points. Contact doesn't hold or calculate individual gas gate take on each day but looks at the overall share at a major gas gate offtake and deducts known large gas gate shares from that major gate with the residual demand then calculated using market share. The only time we look to calculate individual gas gate volumes is when making the annual capacity booking and again at that time the estimation is on historical downstream reconciliation data. To make a daily calculation by delivery point would require more modelling resulting in less accuracy and likely incur more overruns due to that inaccuracy. While we understand that these nominations are for capacity rather than gas delivery on the Maui pipeline we believe there is little value in a capacity nomination to the delivery point except where there is potential capacity constraints/congestion. This is covered under 1.3.
- 1.3 The proposal offers auctions every 6 months for PRs in order to give Shippers firm capacity rights. Contact believes that First Gas is in the best position to understand capacity constraints and periods of congestion. And as such should be transparent about which pipelines this is likely to occur on and when. When congestion/constraints are potentially expected then that pipeline should have PRs offered. This allows for better information, more efficient processes and minimised transactions on the whole pipeline system.

Further Contact believes that First Gas should look to ensuring there are demand response products available on the pipelines identified as potentially congested. These could be in the form of interruptible contracts.

1.4 PR's are only a 6 month right. For a business that is looking to invest in gas this timeframe of certainty will be inadequate for the investment decision. As an industry looking to grow and promote gas use this provides a barrier. If as suggested above First Gas looks to only providing PR auctions on pipelines that have capacity constraints then this additional pricing mechanism will send the appropriate investment signal and any new use on that pipeline can be accessed with a view to capacity expansion costs.

1.5 The draft code allows for the trading of PRs between shippers. However this is limited to 5 tranches. Contact would like to understand the limit imposed.

2. Pricing

The proposal covers pricing for DNC, PRs, overruns, incentive charges, park and loan, and cash-outs.

2.1 The proposal states that overrun charges are seen as an incentive to nominate accurately. Contact sees this better managed by the incentive charge which is also a tool to manage better nominations and is the primary balancing obligation.

2.2 We believe the overrun charges included in the allowable revenue are estimated by First Gas. This estimation process by its nature is likely to introduce another factor which swings the revenue over or under the cap and results in wash-ups the following year. As such this tool to incentivise nomination accuracy is better left to the incentive charges allowing the DNC fee to cover the allowable revenue.

2.3 In addition the pricing of overrun charges are by delivery point yet the DNC fees are by delivery zone. As stated above Contact gains much better accuracy in nominating at a delivery zone rather than delivery point because of the large retail customer base it has, compared to say large end user delivery points providing daily metering data. When DNC is by delivery point this leads to less accuracy and higher overruns. This may then lead to parties over nominating capacity to avoid overruns which then leads to inefficient market signals and incorrect nomination accuracy incentives.

2.4 If First Gas limits PRs to only those few pipelines that have or are expected to have congestion then the need for point to point DNC is not required. That is not to say that on those pipelines where capacity may be an issue that nominations by delivery point can be mandated.

2.5 It is also unclear when an overrun is a nomination for a mismatch correction. This again adds to the argument that overrun charges should be dropped and incentives to correct positions are better dealt with under the balancing incentive scheme.

3. Balancing

3.1 First Gas propose to balance the pipeline as a whole rather than at discrete balancing pools. Contact sees this as practical and efficient for both shippers and First Gas.

3.2 Contact agree that First Gas should explore the possibility of offering 'park and loan' services.

4. Allocations

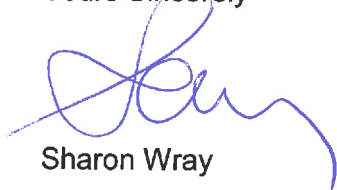
Contact would like to see more detail on how the allocation of gas under an OATIS replacement would work. The current process of D+1 works well and any replacement that provides the same or better level of accuracy, on a timelier basis and at a cheaper cost would be welcomed.

5. Process Update

Within section 5 of the paper First Gas comments on the procurement process of the IT system. Contact is concerned that the timeframe for this is very tight and may not be achievable. Contact would also encourage First Gas to investigate if any new system includes shipper capability/portals. We see this as a way of increasing nomination and modelling efficiency and reducing costs across the industry. To that end Contact would be happy to help with user testing.

Contact is happy to discuss any of the points made above and looks forward to further workshops in order to progress the development of these concepts.

Yours Sincerely



Sharon Wray

