



SUBMISSION

Preliminary assessment of Gas Transmission Access Code (GTAC)



Executive Summary

First Gas wants to establish a single set of terms and conditions for parties using the gas transmission system in New Zealand. Given the pace of change occurring in the energy sector, we think that these terms should be more flexible and enabling than the current transmission codes (the Maui Pipeline Operating Code, MPOC, and Vector Transmission Code, VTC).

On 8 December 2017, we proposed a set of arrangements in the Gas Transmission Access Code (GTAC) that we consider provided a better platform for future success and meet the objectives of the Gas Industry Company (GIC).¹ We believe that adopting the GTAC will result in a better utilised, more responsive, and more relevant gas transmission system.

The preliminary assessment of the GTAC released in February 2018² concluded that it is not materially better than the MPOC and VTC. While this conclusion is disappointing, we are pleased that the assessment recognises the significant progress made to date. This is reflected in the statement in the preliminary assessment paper that:

*“The GTAC proposes a coherent set of products that can operate across the entire transmission system. While we do not assess all aspects of the GTAC as improvements, we believe the design of the standard products is generally well-considered, generally well-supported by system users, and overall would allow gas to be delivered more efficiently and enhance competitive market arrangements”.*³

We hope that the preliminary assessment process can be used to funnel and focus attention on the remaining issues in moving to a single code – taking issues off the table, rather than adding more issues and complexity to an already challenging process. This submission therefore responds to the areas identified in the preliminary assessment as detracting from the materially better standard. We agree that some of these areas require further attention, while others we think should be reconsidered in the final assessment.

We consider that the four priority concerns raised by the GIC can be resolved

The preliminary assessment identifies four priority areas where the proposed arrangements under the GTAC detract from overall positive outcomes. These areas are listed in Table 1, along with our response on each area and reference to where more detail on this topic can be found in this submission. In summary, we agree that further work in each of these areas would improve outcomes for the gas sector. If there is sufficient stakeholder support for improving the GTAC, we believe that the issues identified in these areas can be resolved to create a materially better code.

¹ Set out in section 43ZN of the Gas Act and in the Government Policy Statement on Gas Governance

² Preliminary Assessment of Gas Transmission Access Code (GTAC), 13 February 2018, Gas Industry Company, <http://www.gasindustry.co.nz/dmsdocument/5889>.

³ Page 20 of the Preliminary Assessment.

Table 1: Summary of First Gas response to four main areas detracting from materially better

Topic	Preliminary assessment finding	First Gas response	Sub. ref
Transmission incentive charges (overruns/underruns)	Incentive charge structure in non-congested situations appears likely to encourage inefficient behaviour by pipeline users.	Agree. Incentive charges need to strike the right balance between the accuracy of nominations and the administrative effort involved. GTAC incentives can be recalibrated to maintain (rather than increase) incentive charge revenue. This is potentially achieved by changing the incentive charge applied to underruns.	Section 3.1
Liabilities	Aspects of the liability provisions are less certain in their effectiveness, undermining the incentives on pipeline users to act prudently.	Agree. These provisions should efficiently provide recovery for loss arising from the actions of other transmission system users or First Gas. There are a range of options that can deliver that outcome and we are keen to explore with the industry which option works best.	Section 3.2
Interconnection terms	Shippers and interconnected parties do not have sufficient certainty regarding the terms of interconnection agreements.	Agree. The interconnection terms specified in the GTAC (section 7.13) are currently drafted in a way that provides direction to interconnection negotiations, rather than certainty on terms. More specificity on terms would provide greater certainty and may help to resolve other issues raised by stakeholders (such as the formulation of Target Taranaki Pressure, receipt point nominations processes, injection peaking, etc). This could result in a base set of common and essential terms of interconnection specified in the code, while other terms are bilaterally negotiated in each interconnection agreement (ICA).	Section 3.3

Topic	Preliminary assessment finding	First Gas response	Sub. ref
Park and loan	The regulatory treatment of park and loan revenues is currently unclear. First Gas could face skewed incentives in the allocation of line pack flexibility if park and loan revenues are outside the transmission revenue cap.	Agree. We have written to the Commerce Commission seeking confirmation of our view that both ERM charges and park and loan revenues are part of the balancing regime provided as a part of the regulated gas transmission service. Under the Input Methodologies ⁴ this would see both charges treated as recoverable costs/credits, removing any financial incentives to allocate line pack flexibility across different products.	Section 3.4

We have mixed views on the other red arrows

We have mixed views on the other areas identified by the GIC as detracting from overall positive outcomes. We agree with the GIC's assessment in eight of those areas, and disagree in the other five. These disagreements arise because we think that GIC has assessed the GTAC as having an impact that is actually similar to MPOC/VTC (nominations, PRs, hourly overruns, TTP), and where we think the GIC has not correctly characterised incentives under the GTAC (ERM charges). Our response to each of these areas is summarised in Table 2.

⁴ *Gas Transmission Services Input Methodologies Determination 2012* (consolidating all amendments as of as of 28 February 2017, Commerce Commission).

Table 2: Summary of First Gas response to other areas detracting from materially better

Topic	Preliminary assessment finding	First Gas response	Sub. ref
Nominations	GTAC nominations system creates an increased workload overall, with costs.	Disagree. The preliminary assessment does not accurately characterise the additional effort required to implement the GTAC nominations system. Additional workload needs to be properly compared to the nominations workload shippers carry out today to determine their daily gas requirements and comply with existing codes. We also see the GTAC workload as the flip side of the coin to moving to a more flexible, daily transmission product. Given their role under the GTAC, nominations need to have high degree of integrity – otherwise we are concerned that parties will use nominations to minimise transmission charges (rather than book the capacity that they need). Finally, nominations are integral to the flexibility of the GTAC. Rather than a once a year capacity booking process shippers are able to book capacity, and manage capacity risk, on a daily basis – allowing dynamic management of capacity risk exposure.	Section 4.1
Priority Rights (PRs)	PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs, they have no effective means of reducing their demand.	Disagree. We acknowledge that mass market shippers may have less ability control their customers' demand than other larger loads. However, the result under the GTAC will be the same as not having reserved capacity under the VTC (i.e. overruns 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.	Section 4.2
Supplementary Agreements (SAs)	GTAC section 7.1 only requires First Gas to evaluate a request against criteria, not to publish its analysis or justify its decision to enter into a SA.	Agree. We think it would be useful to publish information relating to SAs. This would include the supporting information required from parties seeking a SA, as well as any analysis carried out by First Gas (but would not include confidential or commercially sensitive information).	Section 4.3

Topic	Preliminary assessment finding	First Gas response	Sub. ref
Hourly overruns	Hourly overrun charges are only payable by parties shipping to dedicated DPs on standard TSAs, but the monies collected will be rebated to all shippers using DNC. Shippers using SAs or IAs may incur transmission incentive charges, but not qualify for any rebates.	Disagree. This result is also delivered under the MPOC and VTC. If revenue arising from non-standard contracts exceeds forecast revenue, this surplus is applied to reduce standard tariffs only in subsequent years (and if revenue is less than forecast, then standard prices are increased to recover the shortfall).	Section 4.4
Agreed Hourly Profiles (AHPs)	GTAC does not require consistent application of AHPs (including at receipt points). Allocating flexibility via AHPs may also be unfair – since other flexibility services (e.g. ERM, park and loan) are priced.	Agree. The template receipt point ICA includes the same concept (called Agreed Injection Profile) but this currently sits outside the GTAC. The process of engaging on the common and essential terms of interconnection will provide a further opportunity to discuss the application of agreed profiles at receipt points. This process also provides an opportunity to reconsider whether parties should pay for hourly (intraday) flexibility.	Section 4.5
TTP	We have seen no evidence supporting a change to the TTP or justifying a relaxation of the management standards.	Disagree. The GIC's analysis identifies excursions outside of the TTP range for almost 10% of the time. These excursions occur for the reasons set out in the GTAC, and the GTAC drafting therefore better reflects reality. First Gas has no intention to change the actual management of TTP. The process of engaging on the common and essential interconnection terms will provide an opportunity to discuss this further.	Section 4.6
Metering requirements	The absence of a completed Metering Requirements document, or an appropriate process for development of that document, is a concern (especially since the 9-month interval before special tests is worse than under the MPOC (60 days) or VTC (90 days)).	Agree. First Gas will release a process for determining the metering requirements under the GTAC, which will include seeking the views of interested parties on issues such as the timeframes for special tests. The new requirements will cover the technology and accuracy improvements that have occurred with newer technology and will therefore improve on current arrangements.	Section 4.7

Topic	Preliminary assessment finding	First Gas response	Sub. ref
ERM charges	GTAC may provide an opportunity to simply run a mismatched position and avoid cash out.	Disagree. ERM charges work in combination with a cost to causer pass-through of balancing costs. By design, this provides less certainty to transmission users of the total costs of excess running mismatch, which include both a certain ERM charge and an uncertain balancing charge. So, while ERM charges can be compared to a market benchmark, an arbitrage decision would need to consider the potential for balancing cost pass-through, which is more difficult for shippers to predict.	Section 4.8
Rebate of transmission incentive charges	Proposed rebate mechanism would not favour larger shippers in the long term, although the marginal incentive on a smaller shipper [to avoid incentive charges] will be stronger.	Agree. The merits of immediately recycling transmission incentive charges are finely balanced. This will be reconsidered if a decision is made to continue the GTAC work programme.	Section 4.9
OBAs	Some aspects of the GTAC relating to OBA Parties (but not directly related to energy allocation) may cause Interconnected Parties to avoid choosing OBA as an allocation method.	Agree. This issue arises from the conflation of interconnection terms and allocation under the MPOC. We think this can be resolved if interconnection is clearly separated from the allocation of gas. The process of engaging on the common and essential interconnection terms will provide an opportunity to discuss this further.	Section 4.10
Curtailment	Shippers should use their best efforts to comply with OFOs, but it is unreasonable to expect that can always comply.	Agree. Section 9.5 of the GTAC requires shippers to comply with OFOs “ <i>in the shortest practicable time</i> .” We believe this provides better balance than the VTC, which says “ <i>immediately</i> ”. The process of engaging on the common and essential interconnection terms will provide an opportunity to discuss this further.	Section 4.11

Topic	Preliminary assessment finding	First Gas response	Sub. ref
Termination and confidentiality	Aspects of the termination and confidentiality arrangements have a negative impact on Shippers when compared to the MPOC and VTC and are not a reasonable change.	Agree. If parties are concerned about the prospect of First Gas allowing the GTAC to expire, then a better way to handle termination would be to adopt the current MPOC termination provisions (i.e. termination only in the event of being supplanted by materially better arrangements). We also agree that aspects of the confidentiality arrangements relating to defining confidential information and confidentiality undertakings could be revisited.	Section 4.12
Missing arrangements	The absence of a wash-up agreement, balancing tolerances, and metering requirements creates uncertainty.	Agree. Developing these arrangements can be incorporated into any work programme if the GTAC is to be resubmitted to the GIC.	Section 4.13

What changes would First Gas like to see in the final assessment?

We think that the GIC assessment process would provide a better basis for progressing the GTAC if the following three changes are made in the final assessment:

- **Greater recognition of the benefits of moving to a more flexible capacity product.** We believe that a common daily capacity product provides much greater flexibility for our customers and that has real value in providing a better platform for upstream and downstream competition. The preliminary assessment rates this improvement as “moderate”, but we think it should be “substantial”. The industry has spent the last 8 years debating how to resolve the risk of contractual congestion occurring under the VTC, and the same problem is experienced in other countries (including on the east coast of Australia). The GTAC directly resolves this problem, which we think the preliminary assessment does not sufficiently recognise. This may be symptomatic of a methodological issue in not appropriately classifying and weighting the relative importance of different elements of the code.
- **Explicit identification of trade-offs (where a red arrow is needed to deliver a larger green arrow).** All parties agree that no set of code arrangements will be perfect. In many cases this is because the approaches used to get a big win will inevitably have a downside. It would be helpful for the final assessment to identify where this may be the case, so that any future industry efforts on the GTAC do not focus on areas that are inherent to the design of the GTAC. This would allow the industry to instead focus on the red arrows that can be fixed without sacrificing any of the benefits of the GTAC.

- **Removal of red arrows where the same outcome is delivered under the existing codes.** We have identified the following three areas where the preliminary assessment has a red arrow for an outcome that (while potentially undesirable) is substantially the same as that delivered under the MPOC or VTC:
 - ***Mass market shippers paying overrun charges when their load cannot or will not respond to price signals.*** Reserved capacity under the VTC delivers this result and charges shippers for overruns, even though mass-market customers may not be able to reduce their consumption to bring usage in line with their shippers' reservation.
 - ***Transmission incentive charge revenue earned from SAs and IAs is not recycled to those parties.*** Any additional revenue earned from incentives is currently rebated against the standard tariffs charged under the MPOC and VTC. The GTAC improves the alignment between payment and rebate by including OBA party rebates (which the MPOC excludes).
 - ***Asymmetric balancing charges for Excess Running Mismatch (ERM).*** The ERM charges specified in the GTAC codify existing cash out incentive fees under the MPOC (10% for negative imbalances that are cashed out, 3% for positive imbalances that are cashed out). This asymmetry therefore currently exists, and works reasonably well in reflecting the asymmetric consequences of negative and positive imbalances. Both the GTAC and MPOC allow these charges to be made symmetrical on short notice if the asymmetry creates problems.

Next steps in the process

We have asked stakeholders for their views on how best to move forward if the final GIC assessment of the GTAC concludes that it is not materially better than the current codes. Our preference is to work with stakeholders on the areas the GIC assesses as detracting from materially better. However, this will require stakeholder support and commitment to succeed. Once we have considered stakeholder submissions, we intend to update industry on proposed next steps.

Table of Contents

Executive Summary.....	2
Table of Contents	10
1. Introduction.....	12
1.1. Contents of this submission	12
1.2. Contact details.....	13
2. Comments on assessment methodology.....	14
2.1. Gaining more clarity on how different elements of the assessment influence the decision.....	14
2.2. Other suggestions for improving the methodology.....	15
3. Main areas identified as detracting from materially better	16
3.1. Transmission incentive charges (overruns/underruns)	16
3.2. Liabilities.....	23
3.3. Interconnection terms.....	24
3.4. Park and loan incentives	26
4. Other areas identified as detracting from materially better	29
4.1. Nominations.....	29
4.2. Priority Rights	29
4.3. Supplementary agreements	31
4.4. Hourly overruns	31
4.5. Agreed Hourly Profiles (AHPs).....	32
4.6. Target Taranaki Pressure (TTP)	33
4.7. Metering requirements	33
4.8. ERM charges.....	33
4.9. Rebate of transmission incentive charges	34
4.10. OBAs	35
4.11. Curtailment	36
4.12. Termination and confidentiality.....	38
4.13. Missing arrangements	39
5. Process and next steps.....	40
Appendix A: Completed submissions template.....	41

Appendix B:	Letter to Commerce Commission on treatment of park and loan.....	46
Appendix C:	Open letter on Ahuroa Gas Storage Facility.....	49

1. Introduction

This submission responds to the GIC's preliminary assessment of the Gas Transmission Access Code (GTAC). We aim to help inform the final assessment of the GTAC, so that the GIC's assessment work can be of greatest use in developing future code arrangements. We think that the assessment process could be of real value in helping to funnel remaining issues in moving to a single code. We want to ensure that the final assessment provides the best basis for moving to a single code.

In this submission, we identify specific areas where we agree or disagree with the assessments made by the GIC. Given that we have "held the pen" throughout the GTAC development process to date, it is not surprising that we agree with the positive elements of the GTAC identified by the GIC (the green arrows). We do not devote much attention to those areas in this submission. Instead, we focus on the areas that the GIC has identified as detracting from the materially better standard for adopting the new arrangements (the red arrows) and some of the difficult design choices made in the GTAC.

1.1. Contents of this submission

We think that the GIC has done a thorough job of understanding the proposals made in the GTAC, comparing those to the existing arrangements under the MPOC/VTC, working through stakeholder concerns about changes across different areas of the code, and evaluating the merits of the proposals given the concerns raised. We acknowledge that this is not an easy task, and we commend the GIC for the clear and logical way it has worked through the various issues.

We have asked stakeholders for their thoughts on process

We think that the assessment of the GTAC could provide a constructive basis for focusing future industry discussions on code arrangements. This would involve directly addressing the concerns identified in the assessment, without reopening the other elements of the proposed code that improve outcomes relative to the MPOC/VTC.

The process of revising and finalising the GTAC is unlikely to succeed without the support and commitment of industry participants. We have therefore asked stakeholders for their views on next steps in the process, and how they would like to see any future work carried out. This also allows parties to reflect on the amount of resource required to successfully conclude this process, and whether that commitment is warranted alongside their other priorities. We also hope that our openness to hear stakeholder views helps to create buy-in to the process that is ultimately adopted for moving forward.

This submission focuses on the substantive issues raised in the preliminary assessment

Given the objective that we have for the assessment process, it is important that the final assessment reflects a robust testing of the GIC's thinking and analysis. We have therefore focused this submission on the substance of the preliminary assessment. While parties (including First Gas) will not agree with every element of the GIC's final assessment, we see considerable value in having the assessment from an independent decision maker of where changes need to be made.

The next section of this submission provides some observations and suggestions on the methodology used in the assessment. Our response on the substance of the preliminary assessment is then divided into two parts:

- **Main areas identified as detracting from materially better (section 3).** This section sets out our response to the four areas of concern that have a strong impact on the GIC's overall assessment (transmission incentive charges, liabilities, interconnection terms, and park and loan incentives).
- **Other areas identified as detracting from materially better (section 4).** This section traverses 13 other areas where the GIC has either identified a red arrow (grouped together in Appendix G of the assessment paper) or highlighted as a significant issue in Appendix A of the assessment paper.

We have also completed the submissions response template in **Appendix A** of this submission.

1.2. Contact details

For any questions regarding our submission, please contact either:

Ben Gerritsen
General Manager, Commercial and Regulation
Ben.Gerritsen@firstgas.co.nz
021 911 946

Angela Ogier
Transmission Commercial Manager
Angela.Ogier@firstgas.co.nz
021 143 5602

2. Comments on assessment methodology

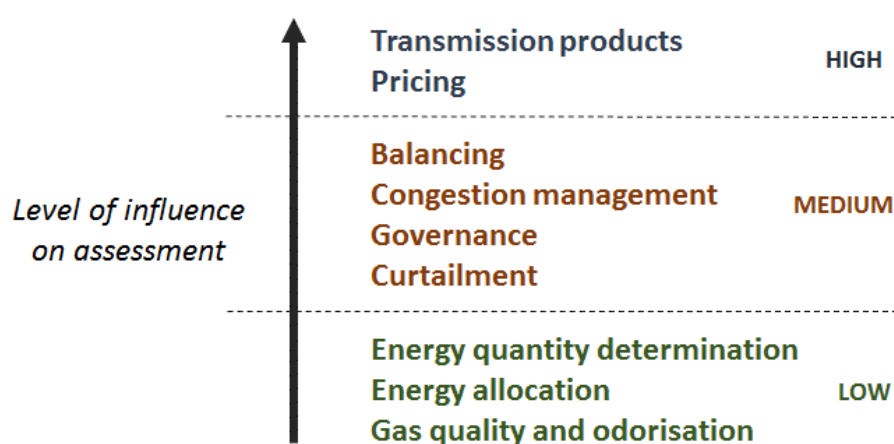
We think the methodology applied by the GIC is fundamentally sound and fit-for-purpose. It establishes a clear basis for making a decision on whether the GTAC is materially better, without being overly formulaic. We accept that an element of judgement is required to make the assessment, and while we would make a different judgement, we accept that the GIC has been given the decision-maker role in the GTAC process.

We found the bottom-up analysis (section 3 of the assessment paper) more valuable than the top-down analysis (section 4 of the assessment paper). This probably reflects the fact that the various elements of the code drive the outcomes and it is the outcomes that should be assessed against GPS objectives rather than the individual elements of the code themselves. We don't have strong views on whether the top-down analysis should remain in the final assessment, but we do consider that the decision could stand on the bottom-up analysis alone.

2.1. Gaining more clarity on how different elements of the assessment influence the decision

We agree with the GIC's view that the assessment inevitably involves an element of judgement as to whether the "materially better" threshold has been reached. We also agree that trying to express that judgement in terms of a ratio of green to red arrows is unhelpful. However, we think it is worth being more explicit about the relative influence that various elements of the code have on the overall decision. In our view, the components of the bottom-up analysis can be divided into the three groups shown in Figure 1, each with a different degree of influence over the overall decision.

Figure 1: Suggested degree of influence over regulatory decision



The GIC may have a different view on where each component should sit, and it would be good to understand that in the final decision. This might help to reconcile the views of different stakeholders and expert advisors. For example, the preliminary assessment draws a different conclusion than Sapere, which found that the GTAC is materially better than the existing codes.⁵ This may be because Sapere placed relatively more emphasis on the benefits of more flexible gas transmission products than the GIC.

⁵ *Costs and benefits of adopting the Gas Transmission Access Code*, 8 December 2017, Sapere Research Group, <http://gasindustry.co.nz/dmsdocument/5816>

2.2. Other suggestions for improving the methodology

We have three suggestions for improving the application of the framework in the final paper:

- **Tailoring the counterfactual used to assess the GTAC.** The preliminary assessment compares each element of the GTAC against both the MPOC and the VTC. We think it may be useful to identify areas where one code has greater relevance or importance than the other, and to weight the final assessment in that area against the most relevant code. For example, the counterfactual for assessing downstream allocation is primarily the VTC, whereas the MPOC provides a more relevant counterfactual for receipt point interconnection.
- **Explicitly recognising trade-offs.** Everyone acknowledges that no set of code arrangements is perfect and there are trade-offs involved in any design choice. We think it may be useful to identify situations where a red arrow is simply the price paid for a larger green arrow. This would help us to know which red arrows can be addressed in isolation, and which are more closely linked to other beneficial aspects of the proposed arrangements
- **Ensuring consistency between the costs and benefits that are assessed.** We are concerned that the GIC hasn't adopted internally consistent treatment of costs and benefits in all cases. For example, the costs of transition are included (leading to a modest red arrow in transmission products). However, it seems to us that many of these costs will relate to the change to a new transaction management system (only some will result from the design choices made in the GTAC itself). The benefits of having a new transaction management system (replacing OATIS) are not part of the preliminary assessment. In any event, we are confident that these costs will be outweighed by benefits – a view that seems to be confirmed by Vector's assessment that the payback period for any transition costs is around 5 years. In other words, if the GTAC lasts longer than 5 years, the transition actually provides a benefit in reducing present value costs and should be a green arrow.

3. Main areas identified as detracting from materially better

The preliminary assessment singles out four areas of concern that the GIC considers appreciably degrade its overall assessment of the GTAC. This section provides a First Gas response on each of those areas. We think each area can be addressed through reworking aspects of the proposed code arrangements, although the process and timeframes for resolving the concerns will vary.

3.1. Transmission incentive charges (overruns/underruns)

The preliminary assessment concludes that the transmission incentive charge structure in non-congested situations appears likely to encourage inefficient behaviour by pipeline users – detracting from the efficiency improvement that would otherwise occur.

We agree that incentive charges need to be set to strike the right balance between the accuracy of nominations and the administrative effort involved in getting nominations right. The preliminary assessment anchors this balance on the proportion of revenue currently collected from incentive charges (overruns under the VTC). We think that GTAC incentive settings can be easily recalibrated to deliver that outcome and this section provides our analysis of how that could be achieved. However, we caution that the actual revenue earned will differ from the modelling (since we are redefining the base product offered and therefore nomination behaviours), so it will make sense to review this balance in the future.

Getting the right level of incentives

We did not have a specific target level of incentive revenue in mind when designing the incentive structure and levels, given that the amount of incentive charges paid will depend on the decisions made by shippers. We did, however, agree with shipper submissions throughout the development process that incentive charges of 20-30% of total revenue would be too high.⁶ The preliminary assessment uses current VTC incentive charges (around 5% of total revenue) to ground its analysis, and finds that by increasing this to around 9% of total revenue, GTAC incentives will be less efficient.

While the right baseline for this analysis is unclear, we agree that if incentives are set too high (or low) then the behaviour of parties responding to those incentives will be inefficient.

- If incentive charges are too high (as found by GIC), parties will put too much effort into avoiding incentive charges
- If incentive charges are too low, parties will not put sufficient effort into avoiding incentive charges and the information value received from nominations will be low.

Role and value of nominations

We have previously set out what we see as the operational value of nominations,⁷ although the GIC finds that unpersuasive. The GIC concludes that the value of nominations would need to be in the millions of dollars⁸ to justify estimated level of incentive payments. We disagree with that conclusion since the incentive payments are not a cost – they are simply a distribution of our allowed revenue. It is very difficult to see how the impacts of distributing incentive charges could possibly amount to millions of dollars per year.

⁶ See Nova Energy Presentation, 24 August 2017, <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/complete-draft-gtac/>

⁷ See First Gas Presentation, 25 August 2017, <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/complete-draft-gtac/>

⁸ Preliminary Assessment of Gas Transmission Access Code (GTAC), p 108, 13 February 2018, Gas Industry Company, <http://www.gasindustry.co.nz/dmsdocument/5889>

In any event, if further work on the GTAC progresses, we agree that it would be worth engaging not only on the financial costs to shippers of inaccurate nominations (which is the GIC's main concern), but also the administrative cost to shippers of making nominations and the value to First Gas of having nominations.

The preliminary assessment notes that shippers are not unduly concerned about the administrative cost of nominations. That is likely because shippers already nominate for their daily gas supply requirements (with most nominations made via OATIS), so the incremental effort would be to relate those upstream nominations to zones where the gas will be transported.

We also believe that a system that relies on nominations for capacity booking needs to have a high degree of commercial integrity. While capacity nominations are common throughout the world, most systems rely on capacity reservations for commercial integrity, with nominations playing a scheduling function rather than a commercial one. Since GTAC nominations have both scheduling and commercial implications, we need to ensure that any flexibility provided in the nominations regime is not used to avoid transmission charges – which is why we have resisted calls to apply a tolerance to overrun/underrun charges. While a tolerance is intuitively appealing (since all parties acknowledge that nominations will not be perfect), this would provide a tool for parties with highly predictable demands to systematically underpay for transmission.

Recalibrating GTAC incentive charges

Since GTAC incentives apply to a fundamentally different product (DNC rather than annual capacity), it is difficult to assess the strength of incentives. The GTAC recognises this uncertainty by having provision for First Gas to adjust the strength of incentives if they are found to be inefficient (section 11.4).

We think it is useful to distinguish between three objectives for incentive charges:

- **Balance.** Do the charges encourage the right behaviour and avoid creating value from systematically over- or under- nominating?
- **Fairness.** Are any shippers unfairly targeted by the way that incentives are set or the level of incentive charges given their customer mix?
- **Efficiency.** Is the overall revenue from the incentive at an appropriate level that balances the value of the incentive with the administrative cost of minimising charges?

A change is needed to provide balanced incentives

It has always been important to First Gas that the incentives to overrun and underrun are balanced. The underrun fee was introduced to the GTAC to avoid an incentive to systematically over-nominate to avoid overruns, which may otherwise drive a wedge between nominations for gas and capacity (and therefore increase administrative costs). The charges also each have a distinct purpose. Overrun fees ensure that users pay for all the capacity they used on a day, which is important given there are no annual capacity reservation fees. Underrun fees prevent bookings from sterilising capacity for other users of the pipeline, helping to ensure efficient capacity allocation.

The relevant fees are specified in the GTAC as:

$$\begin{aligned}\text{Overrun} - F &= 2 \times \text{DNC} \\ \text{Underrun} - F-1 &= 1 \times \text{DNC}\end{aligned}$$

We had understood that this achieved the objective of a balanced incentive. However, the analysis presented in the Preliminary Assessment Paper has shown that, when combined with the cost of daily capacity, the incentives are not balanced. When a shipper nominates they are already incentivised to use up to their nomination and if even if they do not use all this capacity they are required to pay for it. Hence, this unused capacity should be added when considering the symmetry of the incentive. First Gas accepts this analysis.

We believe that this can be corrected by having a 2x difference between overrun and underrun fees. The tables and graph below demonstrate this symmetry. Note that for consistency with the graphs in the

Preliminary Assessment Paper, underruns are shown to the right of the graph (which is framed in terms of the deviation of the nomination from the flow).

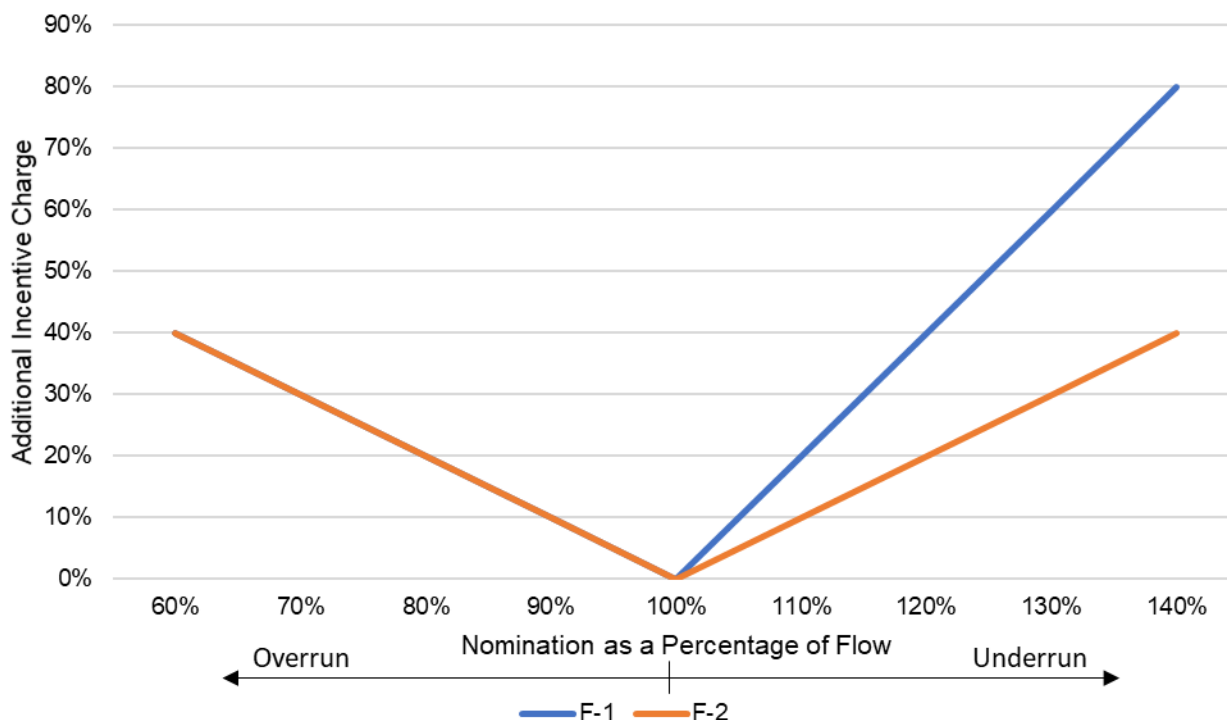
Table 1: Current DNC incentives (Underrun = F-1)

Gas Flow	Nomination (DNC = 1)	Overrun Fee (DNC x 2 = 2)	Underrun Fee (DNC x 1 = 1)	Total Fee	\$/GJ
10	6	8	-	14	1.40
	7	6	-	13	1.30
	8	4	-	12	1.20
	9	2	-	11	1.10
	10	-	-	10	1.00
	11	-	1	12	1.20
	12	-	2	14	1.40
	13	-	3	16	1.60
	14	-	4	18	1.80

Table 2: Recalibrated DNC incentives (Underrun = F-2)

Gas Flow	Nomination (DNC = 1)	Overrun Fee (DNC x 2 = 2)	Underrun Fee (DNC x 0 = 0)	Total Fee	\$/GJ
10	6	8	-	14	1.40
	7	6	-	13	1.30
	8	4	-	12	1.20
	9	2	-	11	1.10
	10	-	-	10	1.00
	11	-	-	11	1.10
	12	-	-	12	1.20
	13	-	-	13	1.30
	14	-	-	14	1.40

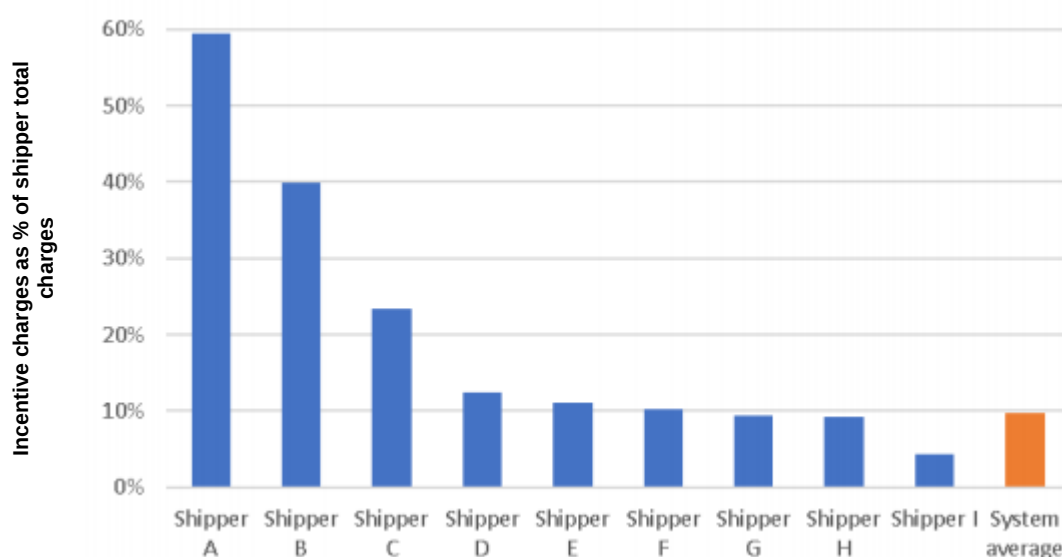
Figure 2: DNC incentives (current and recalibrated)



Proposed incentive charges are fair

The second consideration is whether the charges are unduly targeted towards a certain group of shippers or individual shippers. The analysis presented in the Preliminary Assessment Paper showing GTAC incentive charges as a percentage of total transmission charges paid by each shipper is given in the following graph (see Preliminary Assessment Paper Appendix A, Figure 6). This analysis is based on the current settings of F for overruns and F-1 for underruns.

Figure 3: Modelled GTAC incentive charges using D+1 allocations as nominations

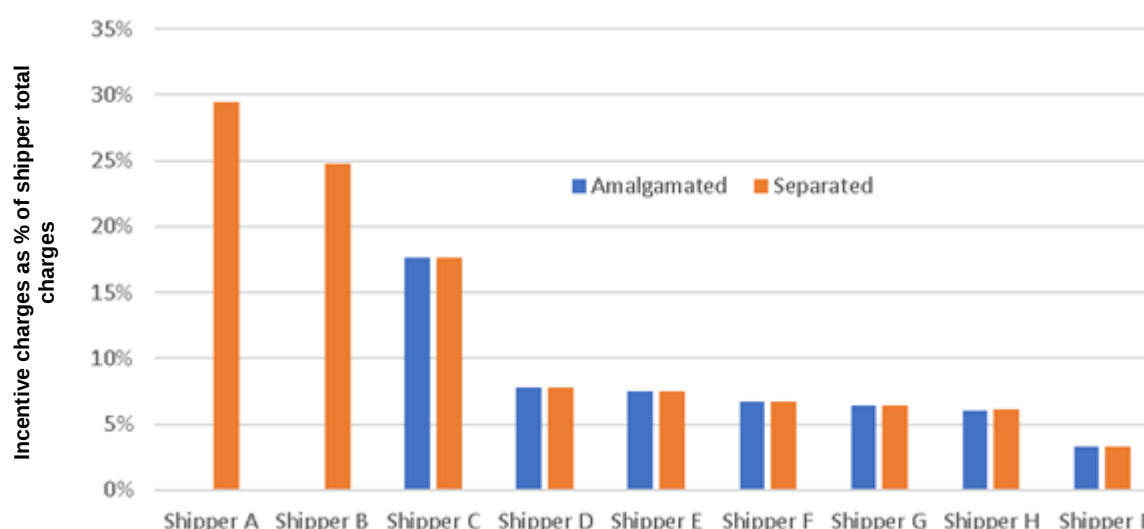


This graph raises the concern that certain shippers (particularly Shipper A and Shipper B) were being unfairly targeted by the incentive charges. We therefore sought clarification on the modelling from the GIC (and Concept Consulting). This revealed that Shipper A and Shipper B in the graph above are not actually

shippers, but are small retailers that use a 'white label' service provided by another shipper (while still receiving a D+1 volume). This resolves the concern since these parties will be protected from the level of charges indicated in the graph above by their arrangements with their shipper.

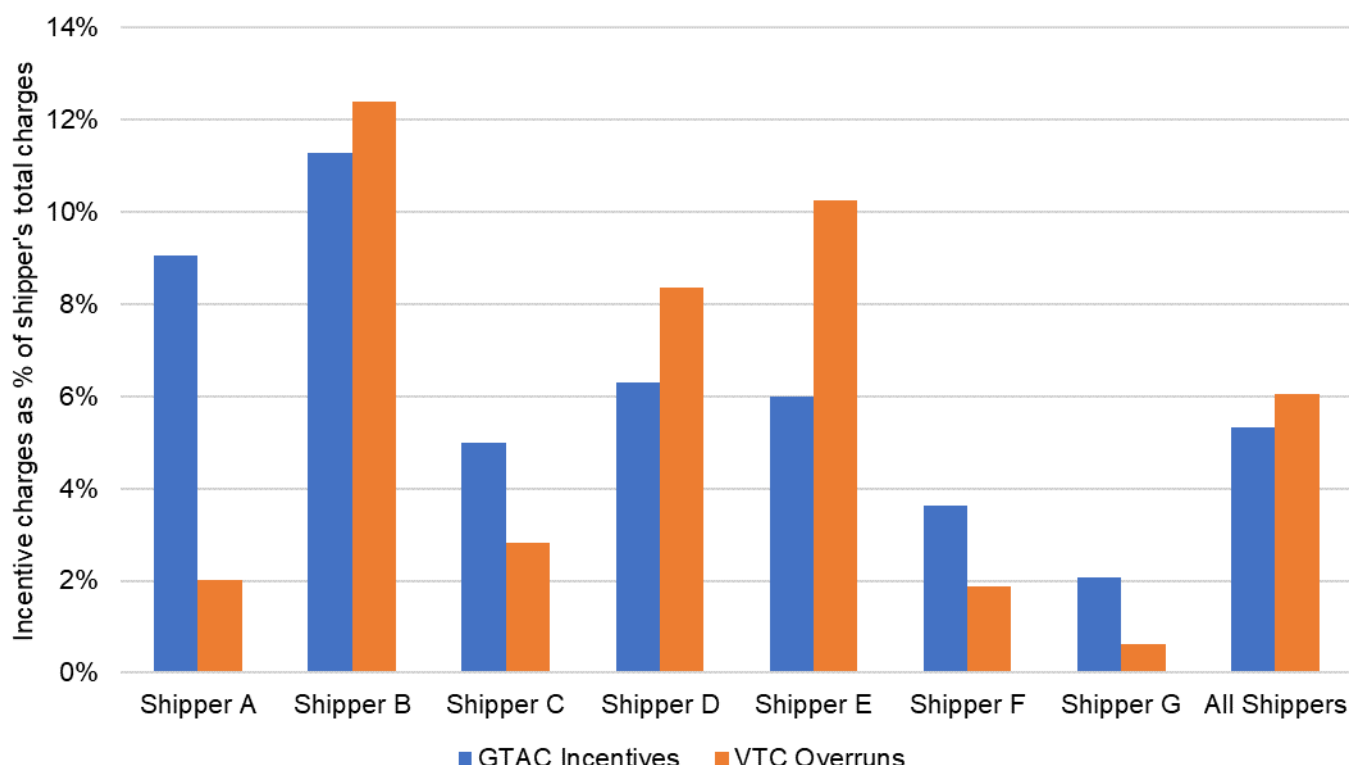
A revised version of the graph was produced by Concept Consulting that included Shipper A and Shipper B volumes in the volumes of their contracted shipper, which is shown below. This graph has also been adjusted to reflect new settings of F-2 for underruns. As a result, the incentive charge proportions are much lower than the previous analysis, with five out of seven shippers tightly grouped around 5-7% of their total transmission charges.

Figure 4: Revised figure 6 of the Preliminary Assessment paper



For the second point, the Concept analysis did not reveal if the incentives unfairly targeted certain sectors of the industry. First Gas therefore undertook modelling to understand if the spread of incentive was evenly targeted across the industry. The resulting spread of potential GTAC incentives charges (based on 2016 VTC revenue at allocated gates) is shown in the graph below. Compared to the status quo, there is a similar variability of overrun and underrun fees as a percentage of overall revenue. Within this group are shippers serving mass markets with low exposure to incentive charges, as well as those serving commercial and industrial customers with high exposure to incentive charges. From our analysis, it does not appear that the incentive charges target a particular group. Rather, exposure to incentives is more likely to depend on the risk appetite and individual business models of different shippers.

Figure 5: First Gas analysis of GTAC overruns on VTC allocated gates

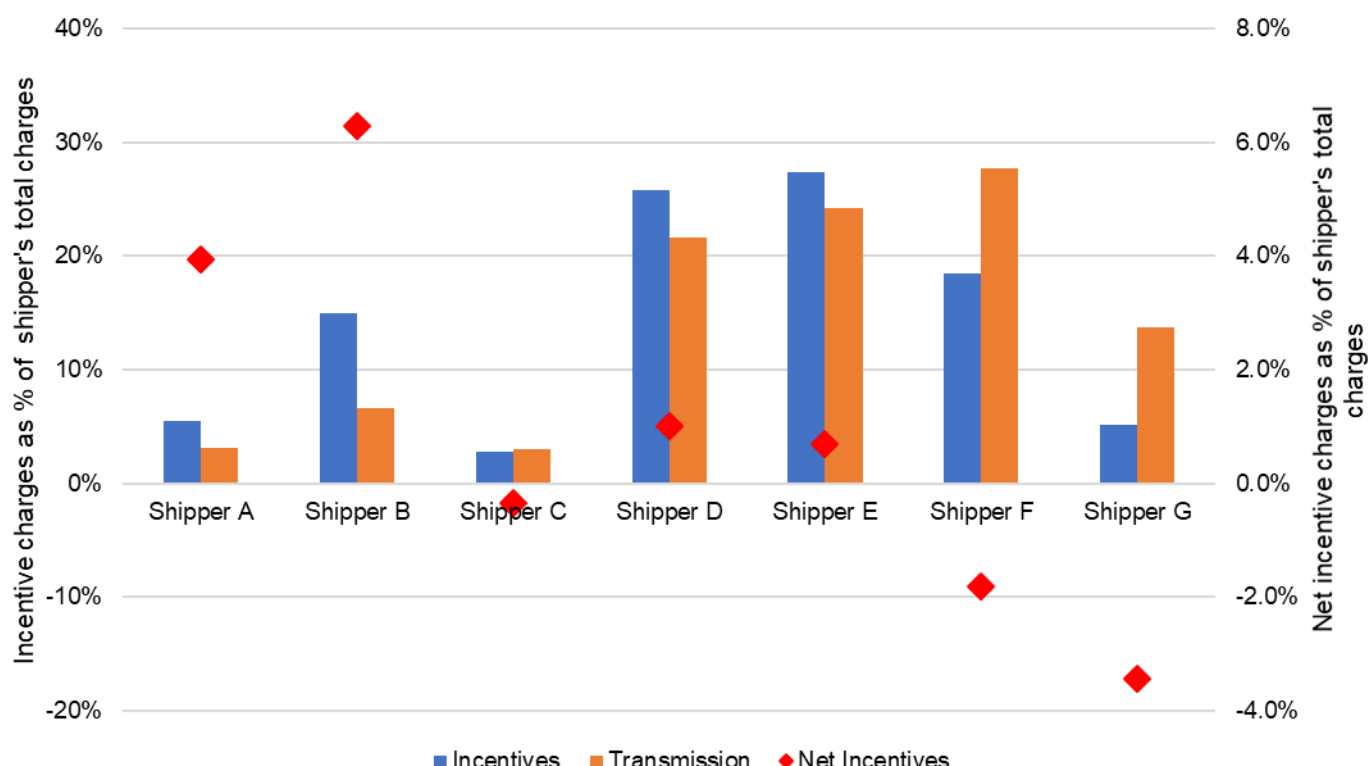


Efficiency effects should consider the effect of rebates

Looking at the overall scale of incentives shown in Figure 5 above, we find that they are in line with the current level under the VTC. However, we think that the overall scale of incentives also needs to factor in the rebate of incentive charges (whether immediately or with a lag when setting future prices).

This effect of rebates is specifically analysed in Figure 6 below, with net incentive charges (after rebates) shown on the right-hand axis. This shows that while Shipper A pays around 5% of incentive charges, it also pays 3% of all DNC charges and therefore receives a rebate that effectively discounts total incentives to 4%. The effect is most stark for larger shippers (such as Shippers D and E) which pay a higher proportion of total transmission charges as incentives, but also receive a greater share of rebates due to their high proportion of DNC charges (reducing net incentives to around 1% of total charges). In terms of total scale, the incentive charges being recycled in this manner are around \$6 million per annum and therefore these transfers between shippers are a maximum of \$100,000 to \$200,000 per shipper over the year.

Figure 6: Net impact of overruns on shippers following rebates



Some parties might wonder whether the value of the incentive charge is watered down through the recycling of revenue in this way. However, the key is that the incentive charges are driven by the relative accuracy of a shippers' nominations, whereas the denominator used to apportion rebates is DNC charges. As a result, there is still an incentive to nominate as accurately as possible (given available information and administrative costs), since that will reduce a shippers' overall charges. In other words, Shippers F and G pay slightly less overall because they are able to maintain more accurate nominations.

Proposed incentive charges

While we have adopted and modified the analytical approach used in the preliminary assessment paper, we believe the results need to be interpreted carefully due to the significant differences between the VTC and the GTAC:

- Nominations for capacity under the GTAC are made for a daily basis, rather than on an annual basis. This should improve the quality of information available to shippers when nominating capacity by being able to take account of information that arises within a year (such as planned plant shut-downs, decisions to increase gas take a short notice, and other factors)
- Shippers will alter their business models to make accurate daily nominations. Our shippers are generally sophisticated, commercial players that have proven their ability to adapt to new arrangements.

We therefore continue to expect that adjustments to incentive fees may be required to increase the effectiveness of the incentives. While First Gas is able to adjust F up to 5 without a code change, adjustments to delivery zones would also influence the strength of incentives. Larger zones have a portfolio effect which allows shippers to diversify risk across a greater number of delivery points. First Gas will be able to revise zones once per year to fine tune incentives should certain shippers or market groups be adversely impacted. We see this flexibility as important and valuable.

3.2. Liabilities

The preliminary assessment found that aspects of the GTAC liability provisions are less certain in their effectiveness, undermining the incentives on pipeline users to act prudently – detracting from the efficiency and reliability benefits of the GTAC. Even if the liability arrangements are effective, the GIC questioned whether the new arrangements (and the resulting reallocation of risk) are an improvement on the MPOC and the VTC.

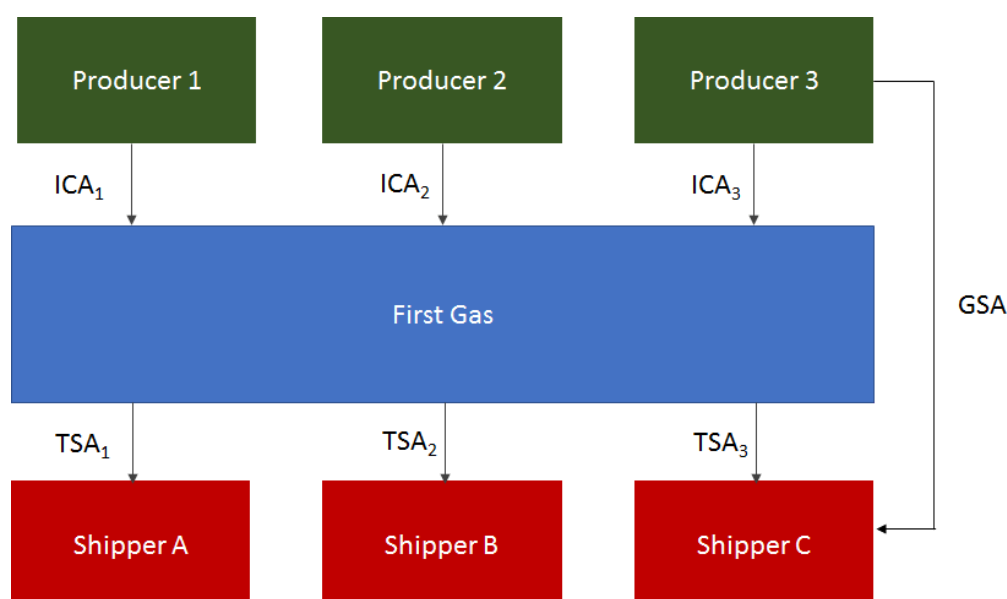
First Gas is open to reconsidering how the liability provisions should work. We think this process should canvas a range of options, and those options should be assessed against their ability to efficiently provide recovery for loss where another transmission system user or First Gas has caused that loss.

Objectives for the liabilities provisions

The liabilities provisions in the GTAC are important not only in providing direct accountability for loss between counterparties, but also in providing accountability for loss between parties that do not have a contractual relationship but are linked via the transmission system.

At the workshop on 1 March, the GIC presented the diagram shown in Figure 7, which we think accurately summarises the purpose served by code liabilities provisions. Loss to various parties connected to the transmission system can be caused by any other party, but not all parties are directly linked via contract. In the example shown, Shipper C may have difficulty recovering loss caused by Producer 1 from the injection of non-specification gas, since it buys its gas from Producer 3.

Figure 7: Overview of contractual relationships linking production, transmission and shipping



A key objective of the liabilities provisions in the code is therefore to enable parties to recover loss from other parties that are proven to have caused that loss. However, it is also important not to require parties that have not caused loss to face liability. First Gas is particularly exposed to this risk given its position in the contractual chain. Liabilities provisions should also be efficient to administer by not requiring more effort to enforce or involve more parties than is necessary.

Options for achieving these objectives

The subrogation provisions proposed in the GTAC (s16.12) (more accurately described as “step in” provisions) were designed to achieve the objectives set out above. However, several submitters raised concerns about the effectiveness of those provisions – particularly in deeming a party’s loss to be suffered by First Gas. The GIC agreed with these concerns in the preliminary assessment.

On reflection, the liabilities provisions in the GTAC were introduced late in the process and would have benefitted from more industry engagement and consultation. We are prepared to reconsider how those provisions can best achieve the objectives set out above, and welcome stakeholder input in that process.

We see at least three possible options for the liabilities provisions (there may be more):

- **Option 1.** Continue with a step-in type model (e.g. using the Contracts Privity Act or subrogation type provisions). This would need to resolve the issues identified in submissions and the preliminary assessment (which may be difficult).
- **Option 2.** Adopt an incentives pool type model (currently used in the MPOC for non-gas quality related losses). To our knowledge, the MPOC incentives pool has never been used, and therefore may result in an inefficient use of capital. It may also create a barrier to entry for prospective shippers.
- **Option 3.** Provide indemnities in the event of recovery (current VTC/MPOC for gas quality related losses). This is a simple way to link parties via the contractual chain through First Gas, but does not expose First Gas to liability if the party causing loss cannot be identified or the loss cannot otherwise be recovered (e.g. in the event of insolvency).

We query whether some parties think that the indemnities provided under the MPOC/VTC are wider than described in Option 3 above in providing an indemnity regardless of recovery from the causing party. This is not our interpretation of the current codes. For instance, section 12.7 of the VTC says that First Gas indemnifies a Shipper for loss caused by taking Non-Specification gas at a delivery point. That potentially makes First Gas a “Liable Party” if Non-Specification Gas is injected at any Receipt Point. However, section 12.7 is subject to section 23.3, part (e) of which says (in effect) that First Gas’ liability is limited to the money First Gas can recover from the interconnected party plus First Gas’ own liability (if any) for not being an RPO.

Other suggested changes to the liabilities regime

The preliminary assessment paper makes other observations on the liabilities regime, such as the fact that liability caps have not been adjusted for inflation, and that it may be worth reconsidering automatic exclusions from the RPO standard for failing to inject specification gas (found in both the MPOC and GTAC) or failing to respond to OFOs. We are open to exploring how best to emphasise the importance of those responsibilities to shippers and IPs.

We would also like to better understand how insurance can be used to mitigate the risk of unrecoverable loss. As a regulated business, it is difficult for First Gas to take on additional liabilities since the cost of insuring against those liabilities is not included in our current price-quality path. However, if pooling risk and insuring against loss would lower total industry costs then this can be proposed to the Commerce Commission before our price-quality path is next reset.

3.3. Interconnection terms

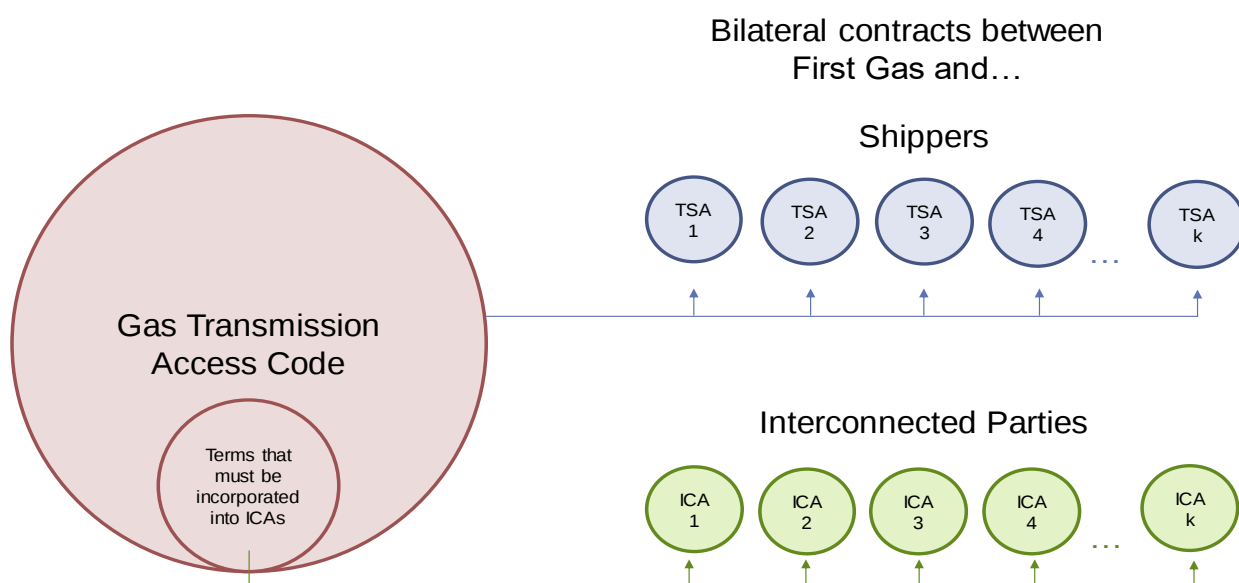
The preliminary assessment found that the GTAC does not give shippers and interconnected parties sufficient certainty on the terms of interconnection agreements. This is considered detrimental to efficiency and fairness.

We are happy to provide greater certainty on the terms of interconnection. As we have previously noted, we do not expect these terms to be controversial. If the GTAC work programme is progressed, we would propose to hold focused workshops to confirm the terms of interconnection that will apply under the GTAC.

Providing greater certainty on interconnection terms

Throughout the process of developing the GTAC, we have applied the conceptual approach to the relationships between the GTAC, TSAs and ICAs shown in Figure 8. We think this model has significant benefits over other possible approaches (such as codification of all shipper and interconnection terms together in the MPOC), by ensuring uniformity of “common and essential” interconnection terms, without drawing interconnected parties into issues that are only of concern to shippers.

Figure 8: Relationship between GTAC, TSAs and ICAs



Our interpretation of the preliminary assessment is that the GIC is comfortable with this conceptual model, but considers that:

- The scope of the terms to be incorporated into all ICAs (the small red circle in Figure 8) needs to ensure that parties are assured of a level playing field for interconnection; and
- The way those terms are specified needs to sufficiently precise so that parties cannot negotiate terms that adversely affect other system users (or otherwise do not mesh with other provisions in the code).

We accept that the interconnection terms specified in section 7.13 of the GTAC are drafted in a way that provides direction to interconnection negotiations, rather than certainty on the specific interconnection terms. We agree that more specificity would be helpful (to First Gas as well as interconnected parties).

Putting the A in GTAC

If there is sufficient industry support for continuing with the GTAC process, we would propose to:

- Engage on the interconnection terms that are common to all interconnected parties and essential to the efficient functioning of the transmission system (the common and essential terms of interconnection). We believe those terms could be distilled from existing ICAs (found in the template ICAs that First Gas has released and listed in Schedule 3 of the MPOC); and

- Engage on the best format for common and essential terms of interconnection. The preliminary assessment highlights that a range of contractual forms are possible, such as incorporating these terms into the GTAC or preparing a separate interconnection code. We can see merit in either of these approaches, and welcome views from other stakeholders.

We consider that the process of engaging on common and essential interconnection terms may also resolve other issues raised in consultation on the GTAC to date, such as:

- TTP (discussed further in section 4);
- Nominations processes at receipt points. The GTAC does not prescribe the detailed processes used at receipt points for producers to approve nominations. Those terms should be specified to the extent they are essential to the proper functioning of the transmission system;
- OFOs;
- Metering requirements. Both ICA templates require metering that complies with the “Metering Requirements for Receipt and Delivery Points” on the publications page of OATIS. This document will be released if the GTAC process continues (see section 4 below);
- Liabilities provisions (and ensuring these fit with the GTAC); and
- The relationship between allocation and interconnection (e.g. OBAs).

We agree with the preliminary assessment that the continuation of the few ICAs which pre-date the VTC does not raise any fundamental concerns. While First Gas would prefer these contracts to conform with the GTAC, we cannot unilaterally replace them. Due to concerns raised about what is (or is not) contained in those confidential ICAs, we have contacted the relevant interconnected parties and asked for permission to disclose those ICAs.

3.4. Park and loan incentives

The preliminary assessment found that First Gas could face skewed incentives in allocating total line pack flexibility if park and loan revenues fall outside the transmission services revenue cap. Given the uncertain status of such park and loan revenues, the GIC felt it could not rule out the possibility that the park and loan service terms would appreciably skew First Gas’ incentives, which would be detrimental to efficiency.

We have sought clarification from the Commerce Commission, and do not believe the regulatory treatment of park and loan revenue skew incentives. Our interpretation is that park and loan is part of the regulated transmission service and is classified as a recoverable cost/credit under the input methodologies.

Regulatory treatment of park and loan revenue

We agree with the GIC that if park and loan was not defined as part of the regulated service we provide then First Gas could face unhelpful incentives. We have previously engaged with the Commerce Commission on the treatment of park and loan revenues, and following the preliminary assessment we wrote to the Commission formally requesting clarification on the regulatory treatment that should apply (see **Appendix B**).

Our view is that the flexibility that comes from line pack (whether through allowing running mismatch or selling park and loan) is part of the regulated transmission service provided by First Gas. Accordingly, park and loan should be considered part of the regulated pipeline service that we provide, as defined in s55A of the Commerce Act.

We interpret section 3.1.3(1)(b) of the input methodologies as supporting this view by defining the charges arising from any code balancing regime as recoverable costs:

A recoverable cost is a cost that is... any cost, credit or charge, including a cash-out, arising from a balancing regime specified in a transmission access code that is in effect for a GTB, including costs, credits and charges for imbalances, mismatch and peaking.

Park and loan fits this definition since it is a charge for an authorised imbalance that is part of the balancing regime contained in section 8 of the GTAC. If the Commission and GIC agree with this interpretation then no incentive problems arise. First Gas is financially indifferent to providing line pack flexibility through running mismatch tolerance or park and loan.

Ownership of Ahuroa gas storage does not introduce any incentive problems

In addition to the regulatory treatment of park and loan, some stakeholders have raised the concern that First Gas might have incentives to push parties towards using Ahuroa gas storage rather than line pack for gas flexibility. The preliminary assessment considered whether the acquisition of the Ahuroa gas storage facility by Gas Services New Zealand (a related party of First Gas) is relevant to its assessment of the GTAC, and found that it did not.

We agree with this conclusion drawn in the preliminary assessment. The pipeline flexibility offered via mismatch tolerance and park and loan is fundamentally different from the type of flexibility that can be provided by Ahuroa. Pipelines can offer a short-term service to manage imbalances across short time periods (days) – with aggregate storage of around 40 TJ in our transmission system. In contrast, Ahuroa gas storage is only economic for longer time periods, such as between seasons or across years – with aggregate working storage of around 18,000 TJ. The lack of substitutability between the two services means that First Gas has no ability to drive customers towards using Ahuroa by changing the way it manages line pack.

Even if such incentives did exist, there are a number of safeguards in place to ensure that First Gas acts in the best interests of the industry as the provider of regulated transmission services. In the spirit of “open letters”, we wrote a letter dated 8 March 2018 explaining these safeguards and providing more information on how we see Ahuroa gas storage fitting alongside our ownership and operation of the transmission system. This letter is included in **Appendix C** of this document.

Regulatory treatment of Priority Rights auction revenue

While not raised in the preliminary assessment, it is also worth recording how we see priority rights revenue fitting into the regulatory regime. We note that Prices are defined in section 3.1.1(9) of the Input Methodologies as meaning:

- (a) *individual tariffs, fees or charges; or*
- (b) *individual components thereof,*

in nominal terms exclusive of GST for the supply of a gas transmission service, and does not include any tariff, fee or charge set by a capacity auction.

The reference to prices excluding “*any tariff, fee or charge set by a capacity auction*” is relevant to the treatment of PRs revenue. The effect of this exclusion is that prices for PRs do not need to be specified in our Transmission Pricing Methodology (TPM). This makes sense since we will not know the prices paid for PRs until an auction is held.

However, PRs revenue would still fall within the revenue cap set by our regulated price-quality path. This is because section 3.1.3(8)(e) of the Input Methodologies states that regulated revenue includes both revenue from prices and other regulated income. While PR revenue is not revenue from prices (as defined above), it is classified as other regulated income.

Summary of regulatory treatment of various capacity and balancing services in the code

The table below summarises which charges are treated as regulated revenue (either as prices set in the TPM or other regulated income earned), and which charges are recoverable costs charged under the balancing regime.

Table 3: Summary of regulatory treatment of MPOC/VTC and GTAC charges

	MPOC/VTC	GTAC	Regulatory treatment
Transmission capacity management charges	MPOC tariff 1	DNC	Regulated prices (TPM)
	MPOC tariff 2	Non-standard charges	
	CRFs	Daily overruns/underruns	
	Non-standard charges	Hourly overruns	
	Overrun charges	Overflow charges	
		PRs / CMCs	Other regulated income
Balancing charges	MPOC cash outs	ERM charges	Recoverable costs / credits
	MPOC incentive of cash outs	Park and loan fees	
	Balancing gas	Balancing gas	
	VTC BPP charges		
	MPOC peaking charges		

4. Other areas identified as detracting from materially better

This section provides our response to a number of other areas highlighted in the preliminary assessment, either in Appendix G of the assessment paper (the red arrows) or in Appendix A of the assessment paper (significant issues). Given that these are classified as “second order” concerns in the assessment, we respond relatively briefly on each topic.

There is a mix of areas where we agree with the comments made in the preliminary assessment, and areas where we disagree. We think it is helpful to identify these now both to inform the final assessment (we hope to persuade the GIC to reconsider its views), and to inform stakeholders on how we are likely to see each issue if the GTAC process moves forward.

4.1. Nominations

The GIC is concerned that the GTAC nominations system creates an increased workload overall, with costs. We see this as the flip side of the coin of moving to a more flexible, daily transmission product. Given their commercial and operational role, we think nominations need to have high degree of integrity – otherwise parties may use nominations to minimise transmission charges (rather than book capacity that they need). We also think that an understanding of the administrative cost of GTAC nominations needs to reflect the existing workload for nominating gas and transmission capacity on the Maui pipeline. Moreover, in comparison to the VTC where capacity is booked annually, the GTAC process allows shippers to manage capacity risk on a more dynamic basis.

We continue to think that nominations have value for both First Gas and shippers. Parties seem to agree that the use of zonal nominations under the GTAC is less complicated and involves less risk than capacity nominations to a delivery point. We also think the proposed changes to incentive charges discussed in section 3.1 of this submission would help to better position the role and significance of nominations - which is not to get them perfect, but to have good processes that deliver an accurate assessment of expected demand.

We are open to ideas on how to simplify nominations and reduce administrative cost and effort. For example, we are happy to consider automatic nominations for mass market customers (based on an algorithm), which the GIC points out is how the United Kingdom system operates. In exploring such options, we are also keen to preserve value in having one system and set of requirements for all shippers (regardless of who they serve).

4.2. Priority Rights

While the preliminary assessment finds that the GTAC makes substantial improvements in congestion management, it considers that PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs they have no effective means of reducing their demand. This point has been made by Trustpower throughout the process of developing the GTAC.

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.

We believe that the allocation of PRs under auction conditions ensures that capacity is allocated according to willingness to pay which is a fundamental premise of an efficient market. We understand the need for PR Auction terms that limit the ability of shippers to hoard capacity and these will be developed should the

GTAC proceed. We do not feel that mass market shippers are unfairly compromised in these arrangements if they value PRs accordingly.

Clarifying the nature of the Priority Rights product

While there has been considerable debate on the merits of PRs, there still seems to be some misunderstanding about how PRs will function. Under the GTAC, congested delivery points will be identified by the Transmission Services Operator before the start of each gas year. These are points where demand is likely to exceed the capacity of the network at any time (e.g. during the peak week) over the coming year. First Gas will then select from a range of capacity management options (investment, demand management, PRs) to ensure the ongoing deliverability of gas.

If PRs are offered at a congested delivery point, that product gives the acquiring shipper priority for capacity requests at that point during the time period when the delivery point is congested. The aim of this product is to:

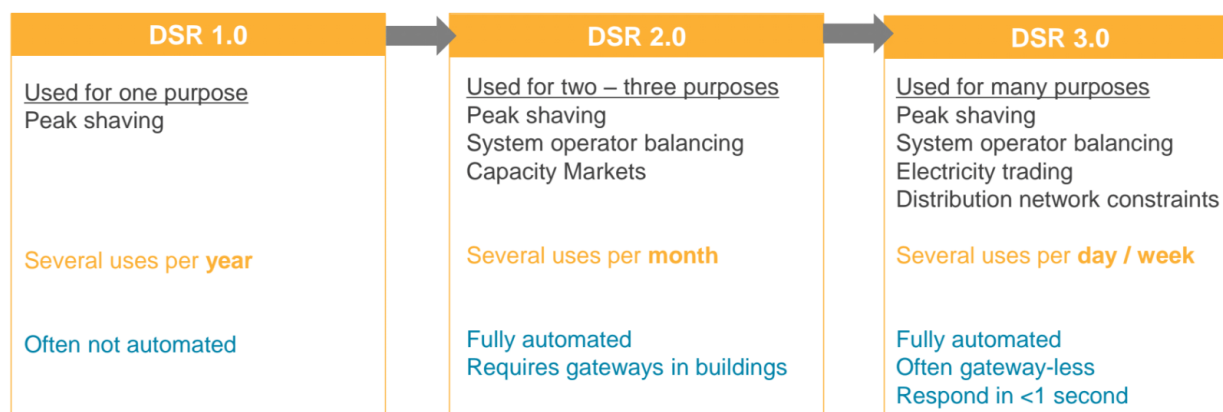
- Send clear signals about congestion on the network;
- Allocate scarce capacity to those customers that are most willing to pay; and
- Encourage the most efficient response to that congestion (whether investment or demand side response).

While detailed rules are yet to be developed for PR auctions, those rules will include provisions to ensure a level playing field among all shippers seeking to obtain PRs and to prevent capacity hoarding by auction participants. The rules are subject to consultation and approval by the GIC.

The role of Priority Rights in the broader GTAC congestion management regime

We agree with the preliminary assessment that the congestion management regime contained in the GTAC is much better than MPOC/VTC. A recent presentation at the Downstream Conference contains the illustration shown in Figure 9, which traces through the evolution of demand side response (DSR) in energy systems. In our view, the current codes enable uses of DSR that are consistent with DSR 1.0. In particular, the VTC has interruptible contracts that First Gas calls on infrequently as system operator. The GTAC enables uses of DSR that are consistent with DSR 2.0. This is achieved by requiring First Gas to identify and publish information on particular capacity constraints, and then decide how best to manage that congestion from a range of potential sources.

Figure 9: Evolution of congestion management (Demand Side Response, DSR)⁹



4.3. Supplementary agreements

The provisions in the GTAC relating to supplementary agreements (SAs) have not been the source of much tension to date. Stakeholders generally acknowledge that SAs can promote more efficient outcomes, and have generally agreed with the criteria for SAs proposed by First Gas. However, the preliminary assessment raises a concern that section 7.1 of the GTAC only requires First Gas to evaluate a request against criteria, not to publish its analysis or justify its decision to enter into an SA.

We think the preliminary assessment has missed an important aspect of the criteria in section 7.1 – that shippers are required to demonstrate that the criteria are applied. This is important to First Gas as the onus of proof clearly rests with the requesting shipper to provide compelling evidence that the criteria are fulfilled.

With this clarification in mind, we agree that publishing supporting information provided by shippers and any analysis by First Gas would improve the arrangements for SAs. This may require careful thought about how to deal with commercially sensitive information, but we think that should be able to be accommodated.

4.4. Hourly overruns

The preliminary assessment comments on two aspects of hourly overruns that are most relevant to fairness: that hourly overruns only apply at a subset of DDPs, and that hourly overrun charges are rebated broadly across the system.

Hourly overruns should be targeted at parties that can control their impact on the system

Several parties queried why hourly overruns apply at Dedicated Delivery Points (DDPs) and not at shared Delivery Points (DPs). The preliminary assessment finds that this is practical since causers can be identified at DDPs but not at shared DPs. This is correct, since currently we only have the required data on hourly delivery quantities and metered quantities at DDPs.

The Allocation Agent does not provide such data for shared DPs, as there is no need to do so under the current Codes. Materiality also argues against requiring allocated hourly quantities at all DDPs. The proposed limit of 200 GJ/hour eliminates most DPs - only about 40% of DDPs are likely to exceed that threshold.

The application of hourly overruns at DDPs also reflects risk and control. DDPs above 200 GJ per hour can have significant impacts on the transmission system. Placing incentives on those users to consider their

⁹ An EU Perspective on New Energy, Delta-EE, presentation at Downstream Conference 13 – 14 March 2017.

hourly quantities mitigates this risk to some extent. In contrast, even large shared DPs are unlikely to peak at significant scale. At a shared DP, there may be many users. Shippers may be unable to individually monitor (i.e. via telemetry) many or even all of them, or control their usage. DDPs have just one end-user, which controls the offtake of gas and therefore is able to reduce the effects of peaking.

Hourly overruns (like other incentive charges) need to be broadly rebated

The preliminary assessment notes that hourly overrun charges are only payable by parties shipping to dedicated DPs on standard TSAs, but the monies collected will be rebated to all shippers using DNC. We disagree that this reduces fairness relative to the current codes since:

- Rebating hourly overrun charges solely to the parties who pay those charges would weaken the incentive effect. For example, if a party expects to receive a 50% rebate of any charges paid, then the incentive charge would need to double to have the same strength as if the incentive did not exist. We have therefore opted for the most broad-based measure to rebate all incentive charges (DNC).
- Under the MPOC/VTC, all Shippers benefit from overrun charges under the revenue cap. Where revenue arising from non-standard contracts exceeds forecast, this surplus is applied to reduce standard tariffs only in subsequent years (and if revenue is less than forecast then standard prices are increased to recover the shortfall). As discussed below, we proposed to make this rebate process more rapid and transparent (but are open to reconsidering that aspect of the GTAC).

4.5. Agreed Hourly Profiles (AHPs)

The use of AHPs also raised some fairness concerns in stakeholder submissions on the GTAC and the preliminary assessment.

Application of AHPs at receipt points

The preliminary assessment notes that the GTAC does not require consistent application of AHPs (including at receipt points). We think that this issue has arisen because interconnection terms are not currently specified in the code (see section 3.2). The template GTAC receipt point ICAs do have similar provisions for agreed hourly profiles, which are called Agreed Injection Profiles (AIPs). Sections 5.4 – 5.11 of the Receipt ICA describe the functionality around an AIP, which is similar to the processes prescribed for AHPs.

We therefore consider that having agreed hourly injection profiles available via an ICA and specified in GTAC would resolve this concern.

Need to ensure that the allocation of flexibility via AHPs is fair and efficient

In its submission on the GTAC, Methanex raises the concern that the AHP gives away a valuable product (flexibility of injection/offtake) for free. We agree that AHPs (and AIPs) place a call on pipeline flexibility, which has value that can be allocated in a range of ways and interacts with other pipeline flexibility products (such as running mismatch and park and loan). However, we also acknowledge that it is important to incentivise the provision of information since hourly profiles are a valuable way for the TSO to assess system operations on an hourly basis.

The GTAC assessment process provides an opportunity to reconsider whether parties should pay for hourly (intraday) flexibility and First Gas is keen to hear stakeholder views on this topic.

4.6. Target Taranaki Pressure (TTP)

The preliminary assessment agreed with submissions made by Shell and other parties that the MPOC has less equivocal language than the GTAC on maintaining pressure between prescribed bounds (42-48 bar). The GIC also analysed the effect of the current MPOC provisions and found regular excursions from that range.

We think there is an inconsistency in the GIC's view: while the MPOC indeed uses "shall" in relation to maintaining the TTP, the GIC has seen the data and notes pressure "excursions outside of the range" for "almost 10% of the time". In other words, the MPOC makes a promise it can't keep: if IPs inject too much gas and/or Shippers take out too little (or vice versa), pressure may go outside the TTP (range). As system operator, First Gas cannot assure TTP is met in these circumstances. We therefore consider that the wording in the GTAC better recognises the reality.

We must emphasise that we do not intend to operate the system under the GTAC in a way that would prevent us from maintaining the TTP as at present. We also don't think that the wording in the GTAC would allow us to do so – since the wording more accurately reflects current reality

The GIC says that a supplier has provided information in confidence about two cost effects experienced by producers (increase production costs and less flexibility, and decrease in recoverable reserves). As per the logic above, such information is simply not relevant. Those costs are driven by operating practice – not how the provision is drafted in the code. That said, the TTP is most relevant to interconnected parties and can therefore be discussed further as part of discussing the common and essential terms of interconnection (see section 2.3).

4.7. Metering requirements

The preliminary assessment found that the absence of a completed Metering Requirements document, or an appropriate process for development of that document, is a concern.

First Gas has undertaken a review of its metering requirements under the VTC and MPOC. These documents have not been updated in a number of years and a technical assessment has been undertaken to understand their relevance to modern metering technology, new standards and international best practice. While an internal review has been undertaken, we need to explore where these requirements best sit in relation to ICAs and the code. Should the GTAC progress, the technical requirements will be presented for discussion alongside the development of interconnection requirements.

4.8. ERM charges

The preliminary assessment suggests that parties would compare ERM charges to bid/ask spread in wholesale market. As a result, if balancing gas is transacted at the mid-point of that spread, then parties will have the opportunity to run a mismatched position to manage their costs.

We agree that parties will compare all of the options that they have for balancing their injections and withdrawals across a day. If they are short gas on a day, the options include buying more gas from the wholesale market, notifying First Gas and accessing any line pack available for loan, or taking gas out of the transmission system and paying ERM charges. However, we think that the last of these options is less attractive than the preliminary assessment suggests. This is because the actual cost incurred by this strategy will depend on whether any physical balancing gas transactions take place on that day and the actual value of those transactions. There is therefore considerable uncertainty about the cost of that strategy.

We think that uncertainty is a good thing (in this case) since parties should be seeking to notify us of any imbalances (via park and loan) or managing their own position using the gas market or other gas contracts.

Some parties (like Vector) have suggested linking ERM charges and park and loan fees to the market using a similar structure as section 12.12 of the MPOC. While we accept the logic (given the substitutable nature of gas transactions and pipeline flexibility), there are good reasons to avoid such a direct link. Those reasons include:

- Avoiding the need for a default rule when market prices are not reflective of underlying gas availability; and
- Reducing speculative actions in the market in an attempt to manipulate pricing when a balancing action by the TSO looks imminent. This is a known issue with the current balancing system.

The preliminary assessment also raised a concern that ERM charges are asymmetric. This design reflects the asymmetric consequences of ERM – with negative ERM having security of supply issues that are much less likely to occur with positive ERM (such as breaches of the CC triggers). We note that the current MPOC charges are also asymmetric, and were used as the basis for ERM charges in the GTAC. Both sets of charges (GTAC ERM and MPOC incentive fees) can be aligned by the TSO with relatively short notice periods). We cannot see how this asymmetry is any worse than the status quo and do not think making these charges symmetrical will improve the GTAC for the reasons stated above.

4.9. Rebate of transmission incentive charges

The concept of rebates was first introduced into the GTAC for PRs. It is particularly useful in that context where First Gas would otherwise face the difficult task of forecasting the outcome of an auction process when setting its standard tariffs. PRs are also seen as a temporary tool for valuing scarcity, rather than a permanent feature of transmission revenue, which again supports a more immediate rebate during those periods where congestion exists.

The rebate concept and mechanism was later extended to ERM charges. The main benefit in rebating that charge was to improve fairness by enabling OBA parties that pay ERM to also access revenue that is recycled from those charges. Again, the use of rebates in that context is generally considered sound (although the preliminary assessment does not appear to explicitly acknowledge this improvement in fairness).

Finally, rebates were extended to transmission incentive fees (daily overruns/underruns, hourly overruns, overflow charges). This was the most controversial proposed application of rebates. A range of different concerns were raised, the most forceful being that rebates would favour larger shippers and discourage entry (Trustpower). The GIC concluded that the proposed rebate mechanism would not favour larger shippers in the long term, although the marginal incentive on a smaller shipper to avoid incentive charges will be stronger.

The merits of rebating transmission incentive charges are finely balanced

Having reviewed submissions and the preliminary assessment on this issue, we do not have a strong view that either the existing approach or the proposed rebate model is inherently better. We summarise what we see as the relative strengths of the existing approach and the proposed rebates model in the table below.

Table 4: Summary of the merits of different approaches to rebating incentive charges

Existing model	Proposed rebates
- Trusted and familiar. Reliance on existing regulatory processes for revenue cap compliance provides comfort (via audit assurance and Board certification) - Avoids any need for shippers to determine how rebates should be passed through, and any risk that rebates are not passed through by shippers - Provides greater flexibility to First Gas in determining where the benefit of higher incentive costs (or the cost of lower incentive charges) should be applied, via the pricing methodology	- Directly recycles incentive charge revenue at the time the charges are incurred, avoiding the risk that parties entitled to a rebate have exited the market - Avoids the need for First Gas to forecast revenue to be earned from incentive charges in a regulatory year - Could provide a stronger more immediate signal on performance against incentive, leading to improved performance (e.g. more accurate nominations) - Applies the same approach as proposed for recycling PR revenue, and therefore provides a consistent approach

The GIC also raised the concern that rebates would not apply to incentive charges paid under SAs or IAs. This is another case we see no change from the status quo, and the red arrow applied here is therefore not valid.

If the GTAC process proceeds, we think the approach to rebates should be subject to further engagement and discussion.

4.10. OBAs

The preliminary assessment raises the concern that some aspects of the GTAC relating to OBA Parties (but not directly related to energy allocation) may cause Interconnected Parties to avoid choosing OBA as an allocation method. This is primarily based on the submission made by Methanex.

We think that this issue arises from the conflation of interconnection terms and allocation under the MPOC, where OBAs are the only method of allocation available and are seen as an integral element of interconnection. The GTAC clearly has a different philosophy that gives interconnected parties more choice of allocation methods. We agree that the other arrangements in the code should not lead parties to prefer one form of allocation over another.

We believe this issue can be resolved if the terms of interconnection are clearly separated from allocation of gas. We think that the specific items raised by Methanex relate to interconnected, not allocation. For example, the rights for parties using an OBA to access AHPs or require an unscheduled metering tests are contained in the template GTAC ICAs. To characterise these issues as OBA issues potentially narrows down possible solutions.

The process of engaging on the common and essential interconnection terms will provide an opportunity to discuss this further. If stakeholders agree that these issues are better characterised as interconnection issues and appropriate terms can be drafted, the issue may be easily resolved.

4.11. Curtailment

The preliminary assessment highlights two issues in the area of curtailment – one relating to shipper compliance with OFOs, the other relating to the complexity of curtailment under the MPOC.

OFO compliance

The preliminary assessment raised the concern that shippers should use their best efforts to comply with OFOs, but it is unreasonable to expect that can always comply.

The GTAC, like the VTC, has a proviso in relation to plants that need a quantity of gas to shut down safely. We believe the GTAC has been misread: section 9.5 says: “Each Shipper shall use its best endeavours to comply with that OFO *in the shortest practicable time*.” We believe this is more balanced than the VTC, which says “*immediately*”.

The process of engaging on the common and essential interconnection terms should address these concerns by clarifying the expectations on shippers and interconnected parties.

Complexity of curtailment mechanisms

Concerns have been raised in some shipper submissions with the complexity of curtailment algorithms under the GTAC. We do not agree with this characterisation of curtailment under the GTAC for the following reasons:

- the “de-linking” of Receipt and Delivery Nominations (i.e. now gas/capacity, not gas/gas) with nominations predominantly being made to a distinct Receipt Zone and Delivery Zones;
- curtailment actions are at the receipt zone to be balanced by the shipper in the delivery zone or they will go into mismatch;
- curtailment is applied pro-rata in relation to the most recently approved nominated quantity; and
- the absence of the:
 - displaced gas nomination concept; and
 - use of gross historical usage and net historical usage in the curtailment process.

The following table outlines the treatment of curtailments under the GTAC.

Table 5: Treatment of curtailments under the GTAC

Situation		Approved Nominations
1	All nominated quantities (9.8)	Reduce nomination pro-rated to last approved nomination.

By comparison, the MPOC allows for several different types of nominations, such as daisy chain, pooled nominations (including the possibility to rank nominations to/from the pool) and displaced nominations. The MPOC also distinguishes between Category A Nominations (part of a Nominated Quantity within a shipper's Authorised Quantity) and Category B Nominations (part of a Nominated Quantity that is not either a Category A Nomination or a Nominated Quantity of Balancing Gas). The following table outlines how nominations are treated in different curtailment situations under the MPOC.

Table 6: Treatment of curtailments under the MPOC

Situation		Approved Nominations	Nominated Quantities for Balancing Gas	Category A Nominations	Category B Nominations
1	Provisional Cycle (8.23)	NA	1 st Priority	2 nd Priority: Pro-rated according to shipper's AQ holdings	3 rd Priority: Pro-rated according to shippers Net Historical Usage
2	Provisional Cycle with Pipeline Capacity Constraint (8.24)(a)	NA	1 st Priority	2 nd Priority: Pro-rated according to shipper's AQ holdings	3 rd Priority: Pro-rated according to shippers Net Historical Usage
3	Provisional Cycle with Welded Point Capacity Constraint (8.24)(b)	NA	1 st Priority	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage
4	Changed Provisional Cycle (8.25)	NA	1 st Priority	2 nd Priority: Pro-rated according to shipper's AQ holdings	3 rd Priority: Pro-rated according to shippers Net Historical Usage
5	Changed Provisional Cycle with Pipeline Capacity Constraint (8.26)(a)	NA	1 st Priority	2 nd Priority: Pro-rated according to shipper's AQ holdings	3 rd Priority: Pro-rated according to shippers Net Historical Usage
6	Changed Provisional Cycle with Pipeline Capacity Constraint (8.26)(b)	NA	1 st Priority	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage
7	Intra Day Cycle (8.27)	1 st Priority	2 nd Priority	3 rd Priority: Pro-rated according to shipper's AQ holdings	4 th Priority: Pro-rated according to shippers Net Historical Usage

Situation		Approved Nominations	Nominated Quantities for Balancing Gas	Category A Nominations	Category B Nominations
8	Intra Day Cycle with Pipeline Capacity Constraint (8.28)(a)	1 st Priority	2 nd Priority	3 rd Priority: Pro-rated according to shipper's AQ holdings	4 th Priority: Pro-rated according to shippers Net Historical Usage
9	Intra Day Cycle with Welded Point Capacity Constraint due to 15.2 Notice (8.28)(b)	1 st Priority	2 nd Priority: Pro-rated based on approved Nominations/Intra-Day Nominations	3 rd Priority: Pro-rated based on approved Nominations/Intra-Day Nominations	4 th Priority: Pro-rated based on approved Nominations/Intra-Day Nominations
10	Intra Day Cycle with Welded Point Capacity Constraint due to 15.1 Notice (8.28)(c)	1 st Priority	2 nd Priority	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage	Equal priority with Category B but pro-rated according to shipper's Gross Historical Usage

Underneath this complexity is the treatment of pooled and daisy chain nominations (see section 8.29 MPOC) and the question of whether there are any displaced gas nominations. Consequently, there are multiple MPOC scenarios with unique combinations of factors that need to be accommodated by OATIS. Given the “linked” nature of both daisy-chain and pooled nominations under the MPOC, OATIS undertakes an iterative process to balance nominations, which also leads to a demand on computing resources and has resulted in complexity in the coding.

We therefore agree with the preliminary assessment that the process for curtailing nominations is simpler under the GTAC in comparison to the MPOC.

4.12. Termination and confidentiality

The preliminary assessment raised the concern that aspects of the termination and confidentiality arrangements have a negative impact when compared to the MPOC and VTC and are not a reasonable change.

We think that the GIC's guidance in this area is useful, since the termination provisions in particular were not subject to much industry debate during the development process. We are certainly willing to consider a termination arrangement that is similar to the current MPOC provisions (i.e. termination only in the event the code is replaced by a materially better set of arrangements). We believe that the assessment process suggests such an approach can work.

The GIC also raises concerns that the confidentiality arrangements of the GTAC, while being superior to those in the VTC are inferior to those in the MPOC in terms of fairness. In particular, the MPOC allows the disclosing party to determine what is confidential information and that the MPOC requires a party receiving

information to execute a confidentiality undertaking. We consider these points that can be discussed further during the refinement of the GTAC.

4.13. Missing arrangements

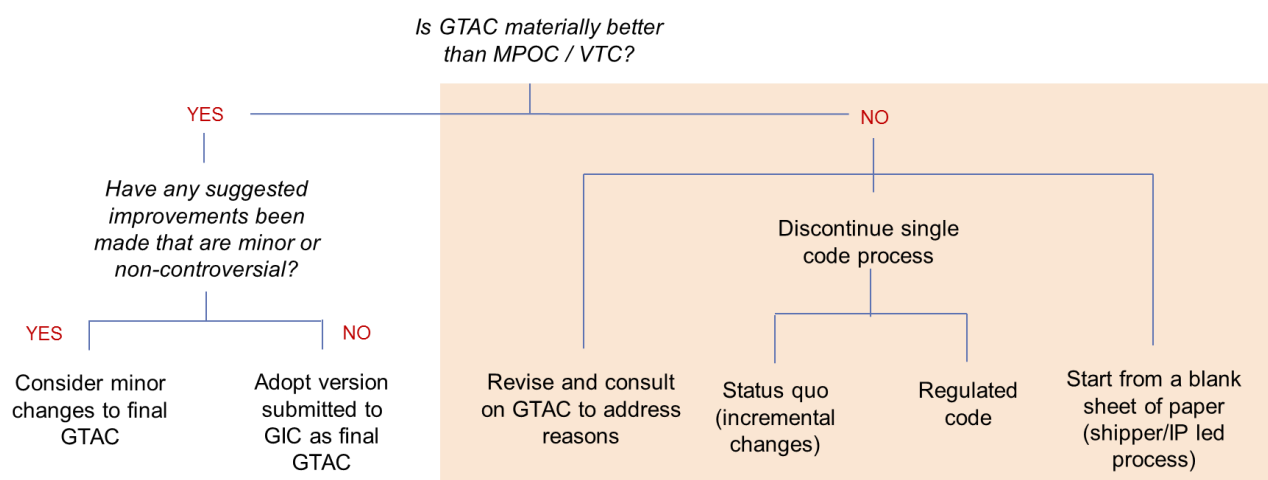
The preliminary assessment raised the concern that the absence of a wash-up agreement, balancing tolerances, and metering requirements creates uncertainty. We welcome this level of clarity on what particular pieces of the puzzle the GIC wants to see in place prior to adopting the GTAC. We are happy to include the development of these arrangements into any work future work programme if the GTAC is to be resubmitted to the GIC.

5. Process and next steps

In a memo dated 8 March, we set out the following pathways forward assuming that the final assessment concludes that the GTAC is not materially better than the MPOC/VTC. This figure identifies 3 possible pathways forward if the final assessment concludes that the GTAC is not materially better than MPOC/VTC.

- One pathway is to revise and consult on the GTAC to address the reasons the GIC concluded it is not materially better (i.e. the red arrows).
- Another pathway is to discontinue work on a single code. This could allow incremental improvements to be made to the existing codes, but may lead to a regulated code depending on the regulatory response.
- The final pathway is to start from a blank sheet of paper and revisit single code arrangements from first principles. Given the amount of rework that we think would be involved, First Gas would not be prepared to lead that process – so we have labelled that pathway as a shipper/interconnected party led process in the figure below.

Figure 10: Pathways forward if the GIC decides the GTAC is not materially better



We have asked stakeholders to provide their views on next steps in this process, specifically considering:

- How far away from the materially better standard the December GTAC do you think we are?
- What do you think it will take to re-engage and achieve materially better?
- Do you have any preferences on how the process should be run from here on in?

We will review stakeholder responses to these questions and propose some decisions on next steps. If there is multi-party support for a particular pathway, we may decide to progress the next steps in the process before the final assessment paper is released (given that a final assessment may not be released until late May).

Appendix A: Completed submissions template

Question	Comment	Sub ref.
Q1: Do you have any comment on our approach to the analysis?	Yes. We think there is need for greater clarity on how different elements of the assessment influence the overall decision. We suggest identifying which components of the code have high, moderate and low levels of influence on the overall decision. This would help to focus future efforts on the things that matter most in getting a single code adopted. We also suggesting tailoring the counterfactual used to assess the GTAC to reference the most relevant code on particular issues, explicitly identifying trade-offs in the assessment, and ensuring consistency between the costs and benefits that are assessed.	Section 2.0
Q2: Do you agree with our assessment of the GTAC gas transmission products?	We consider the improvements to transmission products under the GTAC are not adequately reflected in the analysis. For example, we are surprised to see only a moderate green arrow for efficiency improvements (rather than a substantial green arrow) given that GTAC products resolve the problems identified by the body of work in the gas industry over the past 8 years (most notably the PEA advice).	Section 3.1
Q3: Do you agree with our assessment of the GTAC pricing arrangements?	We agree that the GTAC pricing structure is more likely to promote efficient use of the pipeline. Again, we consider this to be a substantial improvement (rather than a moderate improvement) due to high flexibility, simplicity of charging, and reduced transaction costs due to simplified administration. We agree that trading in the Receipt Zone will act to encourage trading. Once an amendment is made to deliver symmetry in overrun/underrun incentive charges, we also believe that incentive charges will be set at an appropriate and efficient level.	Section 3.1
Q4: Do you agree with our assessment of the GTAC energy quantity determination?	The metering and testing requirements are currently under review and a revised set of arrangements will be produced over the next few months. The question of intervals between special meter tests can be dealt with during this process.	Section 4.7
Q5: Do you agree with our assessment of the GTAC energy allocation arrangements?	First Gas considers that an OBA is one type of allocation method available at an interconnection point. The concerns raised by Methanex and discussed in the preliminary assessment relate to interconnection, rather than allocation. The Wash-up agreement is considered to be a minor arrangement and will be addressed if the GTAC is taken forward.	Section 4.10

Question	Comment	Sub ref.
Q6: Do you agree with our assessment of the GTAC balancing arrangements?	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.	NA
Q7: Do you agree with our assessment of the GTAC curtailment arrangements?	We do not agree that the provisions are less fair than those under the MPOC and VTC which require immediate compliance with an OFO. However, this is a matter than can be discussed further with industry through the process of agreeing the common and essential terms of interconnection.	Section 4.11
Q8: Do you agree with our assessment of the GTAC congestion management arrangements?	We agree with the overall assessment that GTAC congestion management is better than in existing codes. We see this as an important enabler of demand side response, which will enable the gas industry to benefit as greater focus an attention is being put on DSR in other sectors (particularly electricity). We believe that the allocation of PRs under auction conditions ensures that capacity is allocated according to willingness to pay which is a fundamental premise of an efficient market. We do not feel that mass market shippers are unfairly compromised in these arrangements provided that they value PRs accordingly.	Section 4.2
Q9: Do you agree with our assessment of the GTAC gas quality and odourisation arrangements?	On odourisation, we agree with the GIC's assessment that the GTAC is very like the VTC. We note however that in the event First Gas wishes to cease odourisation, under the GTAC the notice period to Shippers is 18 months versus 12 months.	NA
Q10: Do you agree with our assessment of the GTAC governance arrangements?	We agree that the code change processes are improved through harmonisation and streamlining. We agree that the term of the contract could be reviewed to make the arrangements more efficient and welcome further dialogue on this point. We also agree that aspects of the confidentiality provisions could be reviewed. We agree that liability arrangements require review and will need to be addressed if the GTAC moves forward.	NA Section 4.12 Section 3.2
Q11: Do you agree with our top-down analysis?	We do not agree with all elements of the top-down analysis, we feel that many elements are worth further consideration. However, we have focused this submission on the bottom-up analysis, which we find more useful. That said, we understand where improvements can be made to the assessment using the top-down analysis if the GTAC moves forward.	Section 2

Question	Comment	Sub ref.
Q12: Do you agree with our overall assessment?	We do not agree with the overall assessment. However, we accept that an element of judgement needs to be applied in making this decision. The GIC has been given the role of decision-maker in this process, and we think the judgement has been applied in a reasonable and transparent manner	Section 2
Q13: Do you agree that with our analysis of ICAs?	We accept that the interconnection terms specified in the GTAC (section 7.13) are drafted in a way to provide direction to interconnection negotiations, rather than to provide certainty on the specific terms. If the GTAC moves forward, we will engage on the common and essential terms of interconnection (which we think will also help to clarify and address concerns on other topics such as TTP, OFOs, OBAs, and metering requirements).	Section 3.3
Q14: Do you agree with our analysis of SAs?	The assessment seems to miss the importance of requiring parties to <i>demonstrate</i> the need for an SA. This places an onus of proof on the party requesting an SA, which we think is important. We agree that there is a need for transparency in the information provided to discharge that onus of proof, and on the resulting terms and conditions of SAs. We note, however that this may require thought about dealing with commercially sensitive information.	Section 4.3
Q15: Do you agree with our analysis of nominations?	Nominations are important for the efficient running of the system and agree with the assessment that requiring universal nominations will require a minimal additional effort from shippers. We note that users are likely to be estimating their use to manage their contract position and that the additional cost will therefore be marginal. In terms of mass market shippers, we consider the proposal for a non-daily metered estimation and allocation system is worth further investigation.	Section 4.1
Q16: Do you agree with our analysis of daily overrun and underrun charges?	We accept that the asymmetry of underrun and overrun charges needs to be corrected. We believe that once the asymmetry is corrected, the nomination incentives will be balanced, fair and efficient. We do not accept that underruns and overruns are not required in uncongested zones. Without incentives for accurate nominations, First Gas would be at risk of systematic under-nominations by shippers to avoid DNC fees.	Section 3.1

Question	Comment	Sub ref.
Q17: Do you agree with our analysis of hourly quantities?	We accept that hourly profiles require further design in terms of interconnection points. The template receipt point ICA includes the same concept (called Agreed Injection Profile). The process of engaging on the common and essential terms of interconnection will provide a further opportunity to discuss the application of agreed profiles at receipt points. This process also provides an opportunity to reconsider whether parties should pay for hourly (intraday) flexibility	Section 4.5
Q18: Do you agree with our analysis of liabilities? In particular, do you have any particular comments on whether the proposed liability arrangements in relation to the injection of Non-Specification Gas better meet the efficiency, reliability and fairness objectives when compared to the MPOC and the VTC?	We agree that liability provisions should efficiently provide recovery for loss arising from the actions of other transmission system users or First Gas. We are concerned at the perception that the measures as currently proposed do not meet this test. There are a range of options to deliver that outcome and we are keen to explore with industry which option works best.	Section 3.2
Q19: Given that the current, tighter, drafting in the MPOC still results in excursions outside of the 42-48 bar gauge range, what is your view of the revised drafting under the GTAC?	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. In any event, we think that bringing the common and essential terms of ICAs to sit within the GTAC will allow a further opportunity for parties to debate the proposed wording	Section 4.6
Q20: Do you agree that comparing the ERM charges with bid/ask spreads is a sound method for testing the appropriateness of the quantum of those ERM charges? If not, what would be a more appropriate comparator?	We disagree as ERM charges work in combination with a cost to causer pass-through of balancing costs. By design, this provides less certainty to transmission users on the total costs of excess running mismatch, which include both a certain ERM charge and an uncertain balancing charge. So, while ERM charges can be compared to a market benchmark, an arbitrage decision would need to consider the potential for balancing cost pass through, which is much more difficult for shippers to predict	Section 4.8
Q21: Do you agree with our analysis of the incentive charge rebates?	We agree that the merits of immediately recycling transmission incentive charges are finely balanced. This will be reconsidered if a decision is made to continue the GTAC work programme	Section 4.9

Question	Comment	Sub ref.
Q22: Do you agree with our analysis of First Gas' discretion?	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.	NA
Q23: Do you agree with our analysis of public information disclosure?	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.	NA

Appendix B: Letter to Commerce Commission on treatment of park and loan

16 March 2018

Matt Lewer
Manager, Price-Quality Regulation
Commerce Commission
44 The Terrace
Wellington 6140

Sent via email: matthew.lewer@comcom.govt.nz

Dear Matt

Regulatory Treatment of Park and Loan Revenue

As you know, we have been working with industry on a new Gas Transmission Access Code (GTAC) for the past 18 months. The GTAC development process is in an advanced stage and the Gas Industry Company (GIC) has issued a preliminary assessment of the GTAC. This letter sets out how we intend to treat any revenue earned from providing a Park and Loan service under the GTAC, and asks the Commission to let us know if it disagrees with our interpretation.

Nature of Park and Loan services

One of the products offered under the GTAC is a Park and Loan service. This service provides the ability for Shippers and parties to an Operational Balancing Arrangement (OBA Parties) to:

- Park gas: Take less gas than they inject on a day, with the balance of gas temporarily stored in the pipeline; and
- Loan gas: Take more gas than they inject on a day, with the balance of gas temporarily borrowed from the pipeline.

Shippers and OBA Parties would apply in advance to First Gas (as Transmission Services Operator), who would approve such applications depending on prevailing pipeline line pack and other operational conditions. Such applications would be treated on a 'first come, first served basis'.

In addition to the Park and Loan service, Shippers and OBA Parties can overtake or undertake gas each day on an unapproved basis. Undertaking or overtaking gas results in an unbalanced position (Mismatch), and once Mismatch exceeds a specified tolerance Shippers and OBA Parties are charged for Excess Running Mismatch (ERM). In addition, Shippers and OBA Parties are liable for an allocation of Balancing Gas costs/credits where First Gas takes a balancing action.

We believe that introducing a Park and Loan service will improve code arrangements. The Park and Loan service benefits First Gas because the Shipper and OBA Party provides information about the scale and intended duration of any proposed Mismatch. We can therefore make a conscious decision to allocate short term flexibility to that party. The Shipper and OBA Party benefits by paying less for the Park and Loan service than it would pay simply by incurring ERM charges and Balancing Gas costs/credits.

Treatment of Park and Loan revenue

In its assessment of the GTAC, the GIC has raised the issue that the regulatory treatment of Park and Loan revenue is uncertain. The GIC is concerned that if Park and Loan revenue falls outside our

regulated activities, then First Gas may have incentives to push Shippers and OBA Parties into using that service (for example by limiting the amount of line pack available for Running Mismatch)¹.

Section 55A of the Commerce Act 1986 defines the regulated service in the following way:

*In this subpart, unless the context otherwise requires, **gas pipeline services** means the conveyance of natural gas by pipeline, including the assumption of responsibility for losses of natural gas.*

This definition does not explicitly include or exclude the provision of Park and Loan as a service. However, other balancing services (such as Running Mismatch, automatic cash outs, and taking balancing actions) have historically been treated as a regulated activity, even though they are also not explicitly addressed in the definition. We see Park and Loan as another tool in the balancing toolkit, and therefore as falling within the regulated gas transmission service that we provide.

The Input Methodologies for gas transmission businesses provide further guidance on how Park and Loan revenue should be treated. The definition of Recoverable Costs includes:

3.1.3 (1)(b) any cost, credit or charge, including a cash-out, arising from a balancing regime specified in a transmission access code that is in effect for a GTB, including costs, credits and charges for imbalances, mismatch and peaking.

We consider that Park and Loan meets the criteria in this definition. It is a charge for an authorised imbalance that is part of the balancing regime contained in section 8 of the GTAC. First Gas therefore proposes to treat Park and Loan charges as a recoverable cost/credit.

Conclusion

We would appreciate confirmation from the Commerce Commission that it agrees with our interpretation that Park and Loan services are part of the regulated gas pipeline service and that Park and Loan revenues should be treated as a Recoverable Cost. This confirmation would help to resolve one of the main items that the GIC identified as detracting from the adoption of the GTAC.

Please contact me on 04 979 5361 if have any queries on this matter.

Yours faithfully



Ben Gerritsen

General Manager Commercial and Regulatory

¹ Page 92, *Consultation Paper – Preliminary Assessment of the Gas Transmission Access Code (GTAC)*, 13 February 2018, GIC, <http://gasindustry.co.nz/dmsdocument/5889>.

Appendix C: Open letter on Ahuroa Gas Storage Facility

8 March 2018

Steve Bielby
Gas Industry Company
Level 8, The Todd Building
95 Customhouse Quay
Wellington 6143

First Gas Limited
42 Connett Road West, Bell Block
Private Bag 2020, New Plymouth, 4342
New Zealand

P +64 6 755 0861
F +64 6 759 6509

By email: steve.bielby@gasindustry.co.nz

Dear Steve

Ahuroa Gas Storage facility

In submissions on the proposed Gas Transmission Access Code (GTAC), some parties have expressed concern about the recent purchase of the Ahuroa Gas Storage facility (AGS facility) by a related entity of First Gas, Gas Services New Zealand (GSNZ). In the interests of transparency, we wanted to provide further background on the acquisition and to explain the safeguards that ensure that First Gas acts in the interests of the gas industry in its role as Transmission System Operator (TSO).

Overview of Ahuroa acquisition

On 20 December 2017, GSNZ agreed to purchase the AGS facility from Contact Energy. GSNZ will become owner of the AGS facility following completion of several conditions, such as transfer of the relevant mining permit and approval from the Overseas Investment Office.

GSNZ will provide unregulated gas storage services from the AGS facility. GSNZ will become an interconnected party to the transmission system (at the existing Stratford 3 bi-directional point), but will not be a gas producer, wholesaler, shipper, or retailer of gas. GSNZ will own the 'cushion gas' (around 6 PJ) and the mining permit for the reservoir. However, GSNZ will not take title to gas stored on behalf of customers. Other parties (including Contact Energy) will be responsible for shipping gas to and from the Stratford 3 bi-directional point and will maintain a storage balance within the reservoir. This division of roles and responsibilities fits nicely with our shareholders' investment mandate, which is focused on relatively low-risk, unlisted infrastructure.

The acquisition of the AGS facility is underpinned by a 15-year storage agreement with Contact Energy. Under the terms of the Gas Services Agreement with Contact (and any agreements with future customers), GSNZ will receive nominations for injection and withdrawal of gas from customers and will carry out those instructions.

Safeguarding the interests of gas transmission system users

In making this acquisition, we carefully considered the potential for First Gas to combine the operation of the AGS facility with the gas transmission system to improve efficiency and increase shareholder value. Given the vastly different nature of storage and flexibility provided by the transmission system and the AGS facility, we concluded that no such opportunities currently exist.

Even if we can identify opportunities in the future to integrate the AGS facility into the transmission system, we believe that the following contractual and regulatory protections are more than sufficient to protect the interests of gas users:

- **Separation of operations.** As described above, the operations of GSNZ in relation to the AGS facility are separated from those of the transmission system at an operational level. 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 those of other interconnected parties and we will simply be novating 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 Ahuroa 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 transmission system and linepack to monitor whether use of the facility is changing in ways that affect broader industry interests.
- **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 Ahuroa storage 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.

Conclusion

We believe that these safeguards give sufficient comfort to all transmission system users that any interactions between First Gas and GSNZ in relation to the AGS facility will be on the same terms as those of any other transmission system user.

We believe that Ahuroa provides a significant opportunity for gas users to improve flexibility in their gas supply arrangements. We welcome inquiries from parties seeking to use capacity of the AGS facility and we look forward to managing this important infrastructure asset in a way that benefits all users.

If you have any further queries on this matter please feel free to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'B. Gerritsen', with a stylized flourish at the end.

Ben Gerritsen

General Manager Commercial and Regulatory