



3 October 2018

Angela Ogier  
Transmission Commercial Manager  
First Gas Limited  
By email

Dear Angela,

**Re: GTAC Consultation**

**1 Introduction**

- 1.1 Greymouth Gas New Zealand Limited ('GGNZ') is committed to the long-term future of the natural gas industry in New Zealand and to the improvement of transmission access arrangements to support that future.
- 1.2 GTAC should not be considered in a vacuum – matters such as domestic and international carbon policies, political sensitivity to energy pricing, and the position of natural gas as a transitional fuel are all factors relevant in its assessment.
- 1.3 Ultimately, industry will judge the success of the GTAC not on whether the GIC approves it, but on whether it (and First Gas ['FG']) facilitates and supports the growth of New Zealand's natural gas market as well as its transitional role in New Zealand's energy future.

**2 Is the GTAC ready for submission to GIC?**

- 2.1 FG has asked submitters to advise whether they consider GTAC is ready for submission to GIC. GGNZ considers that the current GTAC process has come to a conclusion and there is no additional value to be gained from further engagement between FG and stakeholders. The next logical step, therefore, is for GTAC to be submitted to GIC. However, GGNZ considers that the GTAC is not sufficiently or materially better than current arrangements to warrant GIC approval.
- 2.2 GGNZ considers the FG approach to the current GTAC process has been more consultative than the initial process. FG has been more willing to review stakeholder comments, albeit on minor issues.
- 2.3 However, "materially better" is the bar and GGNZ does not consider that "minor improvements"<sup>1</sup> to the 2017 GTAC are sufficient to vault that bar. GGNZ considers the FAP findings indicated that material improvements were required.

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<sup>1</sup> Page 6 of the First Gas Stakeholder Consultation document

### **3 Structure of this submission**

- 3.1 GGNZ's approach in this consultation has been to set aside drafting or trivial matters, and focus on high and medium-level issues, the sum of which are both material and a cause for concern. GGNZ has also taken a fresh look at the proposal with regard to the FAP (and gaps in the FAP), rather than through the lens of successive FG work programmes.
- 3.2 GGNZ's answers to FG's specific questions are included at Appendix 1 of this submission.
- 3.3 GGNZ considers that the points raised in this submission should be addressed by FG. If they are not addressed, GGNZ's submission to the GIC will be that the GTAC and its supporting arrangements are not materially better than the current arrangements and should not be approved.

### **4 Structural inefficiency and unfairness**

- 4.1 Aspects of the GTAC's structure are inefficient and/or are unfair or may cause unfairness:

- a) *Asymmetry of term*

The GTAC has a fixed term of 10 years, with a compulsory review at 8 years. ICAs contain clauses that continue the provisions of the GTAC if the GTAC expires without replacement. This means that transmission access terms are indefinite for interconnected parties but finite for shippers. This asymmetry of term is unfair on shippers and inefficient for the industry. While the ICAs provide certainty for interconnected parties, shippers (and their end users) also require certainty for investment.

Although a 10 year term is a significant improvement on the annual rollover of the VTC, it is a significant deterioration from the MPOC which, combined with the overall impact on fairness and efficiency between the parties, should prevent a finding that the GTAC is "materially better".

- b) *Uncertainty of term and terms*

The finite term and compulsory review after 8 years creates a level of uncertainty as to transmission arrangements that is not present under the MPOC, or even the VTC. Further, during the course of the FG consultation on the GTAC, some issues have been answered with the statement that if some parts of the GTAC do not operate as intended, or if parties remain unhappy with them, the change request process can be utilised. This risks creating long-term uncertainty as to access terms. Moreover, the IT system may have embedded some aspects of the GTAC which will then be difficult to change without capital expenditure, which will give FG the ability to exercise a power of veto.

While the GIC's assessment process can only compare against the status quo, it must assess against the Gas Act principles and the Government's Policy Statement on Gas. GGNZ considers that the untested nature of the proposed arrangements is relevant to this assessment. While GGNZ welcomes innovation,

GGNZ has seen no evidence that other tried and tested arrangements (other than auto nominations) have been considered and, if they have, the reasons for dismissing them. The risk of unintentional consequences from the operation of untested arrangements weighs negatively.

c) *Inefficient “meshing” of shippers and interconnected parties*

GGNZ agrees that a connection between shippers and interconnected parties has been achieved and that core and essential terms have been set out in the two ICA schedules. However, the manner in which this has been achieved is inefficient and risks confusion and misalignment over time.

Some rights and obligations of interconnected parties remain in the GTAC and are incorporated into the ICAs by virtue of clause 1.3 of the ICAs. Amendments to the GTAC that affect the ICAs are deemed to be incorporated into the ICA, and a new version of the ICA is only required if one party requires it. Further, there are some aspects of the GTAC applying to Shippers that are contingent on obligations contained in the ICA – e.g. an OBA is active only after an interconnected party gives 40 Business Days’ notice to Shippers and FG.

The combination of these factors means that, although technically “meshed”, rights and obligations of all parties connected to the transmission system are disjointed and will be misaligned over time. This has resulted in a confused set of arrangements.

Disappointingly, the opportunity to simplify and shorten the arrangements has also been missed as a result, with the two ICA schedules containing large tracts of identical or almost-identical provisions to those contained in the GTAC.

Also missed was the opportunity to ensure all parties to the transmission system – including those interconnected parties currently without an ICA – became parties to a rationalised set of arrangements. It may be that regulation is required to rectify this position (which appears both unnecessary and burdensome).

Overall, the structure of the ICA arrangements has worsened efficiency, particularly when compared to the MPOC. Comparison to the VTC should not be made in a vacuum – if the GTAC were simply a replacement for arrangements on the ex-Vector pipeline, GTAC could be called an improvement. However, parties to the VTC had the benefit of the TP Welded Point (Vector) being party to arrangements that included all Maui welded points, where the majority of receipt points are located. This will no longer be the case under the GTAC.

d) *Inefficiency and worsening of supporting arrangements*

Some matters which are now included in supporting arrangements outside the GTAC are contained within the VTC or the MPOC and may therefore only be changed using the respective change request processes. Under GTAC, these matters may be changed by FG at its discretion. This is much less certain for parties, and materially worse than the current arrangements. Examples include:

Inside VTC and/or MPOC	Outside GTAC
Overall tolerance allowance is expressly provided for in the MPOC as	Overall tolerance allowance sits in Balancing SOP.

the sum of tolerances.	
Pricing tariff principles are inside the MPOC.	Pricing principles are now deferred to the ComCom's guidelines, which also gives FG discretion.
Welded Points are listed in the MPOC.	Delivery Points and Zones are to be set at FG discretion outside the Code.
Maximum Allowable Operating Pressure is defined in the MPOC.	This will sit outside the code.
IT requirements are specified.	Nothing.
ICA / TSA templates are part of the MPOC.	ICA / TSA templates sit outside the code.
Metering requirements sit inside the MPOC.	These now sit outside the code.

Further, some key supporting arrangements are incomplete, e.g. PR auction rules and park and loan. Their absence creates less certainty than if those documents were completed.

e) *Potential barriers to entry*

GGNZ is concerned that the use of delivery zones may create barriers to entry. A shipper wishing to enter a delivery zone in which it does not currently have any customers cannot offset any over/underruns against other customers. It is therefore unlikely to be able to compete against incumbent shippers in that delivery zone who do have a portfolio within which such offsets can be made. See appendix 2 for an example.

f) *Supplementary Agreements create two classes of capacity*

The MPOC and VTC both have one capacity model each. It is therefore a concern that the GTAC proposes to have two capacity models – DNC + PR, and Supplementary Capacity (which may take the form of reserved capacity). Not only is this worse and more complex than the status quo, it also goes against the principle of fairness, even if it accords with the preference and priority clauses. If industry needs to adapt to DNC + PR, i.e. day-ahead certainty of capacity, then why should some end-users (or new end-users) get capacity akin to reserved capacity? Or shouldn't this be contestable to other parties who may want it? GGNZ does not support a dual class of capacity.

g) *Inefficient and unfair tolerances*

Having tolerances linked to data that changes all the time, and retrospectively amending tolerances for the purpose of recalculating incentive charges, is very inefficient.

The FG published .xls workbook showed that larger Shippers and Interconnected Parties get a larger share of tolerances. This is less fair than the MPOC (which has similar tolerances for all parties), and it gives a preference to larger parties.

## 5 Potential negative impacts on end-users

- 5.1 GGNZ considers that GTAC will negatively impact end-users during congestion, particularly mass-market and smaller commercial customers.

- 5.2 The principle of incentivising behaviour through price applies to parties that can meaningfully react to those incentives. While mass-market shippers may be able to obtain priority rights to manage congestion, there are several issues that suggest that mass-market and smaller customers should be excluded from congestion management:
- a) *Priority rights do not offer the same portfolio “flexibility” as capacity reservation*  
The FAP found that mass-market retailers were no worse off under GTAC than under VTC because priority rights gave them the same ability to provide a portfolio buffer as capacity reservation does, and that the VTC also contains overrun fees.  
  
However, this overlooks the fact that there are no *underrun* fees in the VTC. Auto-nominations are not available at congested points, meaning that mass-market shippers will be exposed to underrun fees. Even if they obtain priority rights and nominate accordingly, if the mass-market underruns, those fees will be payable. This is not consistent with ensuring sustained downward pressure on delivered gas prices, and has no efficiency pay-off as those customers are not aware of the price signal, cannot respond to it, and are less likely to in any event. Asking mass-market customers to curtail on a cold winter night is unlikely to be acceptable.
  - b) *Forcing mass-market shippers to bid for priority rights may drive up consumer gas prices in congested areas*  
Mass-market shippers in congested areas will feel compelled to obtain priority rights to ensure gas delivery to customers. If they are competing for those rights with large end-users prepared to pay for certainty of delivery, the price for those priority rights will be driven up, raising consumer prices in an environment where delivered energy prices are already too high.
  - c) *Curtailment of mass-market shippers is unlikely to affect physical state of pipeline*  
If shippers of mass-market customers are issued with an OFO, they are unlikely to be able to physically comply with it, meaning the intended effect on the pipeline will not be achieved and those shippers (and their customers) will be exposed to penalty fees and (in the case of the shipper) be deemed to be non-RPO.
- 5.3 The aim of congestion management is two-fold – to manage congestion on the pipeline and signal the price of demand during congestion. Given the small percentage of usage attributable to these customers, and the fact that “price signalling” is likely to increase consumer gas prices without any change in consumer behaviour, GGNZ considers that these customers should be excluded from congestion management arrangements. If they are not, GTAC is materially worse than existing arrangements.
- 5.4 As to the impact on other end-users, GGNZ considers GIC should survey end-users (not those represented by MGUG or who have attended workshops) to see what smaller tiered customers think of the tighter nominations process both in terms of frequency and accuracy.

## 6 Workability issues

- 6.1 The FAP assessed the old GTAC basically as neutral for reliability, with moderate improvements cancelled out by moderate detriments.

6.2 While some of the moderate detriments have been addressed, these are likely to be neutral at best compared to the status quo. Of more concern is that during the process, further red arrows are likely:

a) *Energy Allocation and Wash-ups*

At a high-level, incorporating the current D+1 agreement (part of the VTC) into the new GTAC should make this neutral compared to the current arrangements. However, GGNZ considers it is materially worse at present because some issues remain, for example:

- (i) The removal of the industry agreement from section 6.11(a) of the GTAC means that the clause does not work as intended. The *daily* provision of data does not occur under the DRR but in accordance with the industry agreement. The DRR ratifies this daily process monthly in arrears via "special" allocations. Section 6.11(a) does not reflect this.

This also raises an issue with the wording of section 6.11 which refers to the "initial" allocation when in fact the parties should be agreeing to the "special" allocations that are anticipated by the industry agreement.

Further, DDQ is a zonal allocation, whereas section 6.11(a) requires a Delivery Point allocation. These concepts should be consistent.

- (ii) If, for the reasons outlined above, the industry agreement method of DDQs does not work, the default rule will apply. The default rule has less allocative efficiency than the current practice of declaring a non-Business Day, for example:

- TOU Shippers will not be afforded the benefit of known demand.
- TOU Shippers will have to wear the daily impact of weather and the like that typically affects mass-market Shippers only.
- Mass-market Shipper allocations, when unwound via the wash-ups, may increase the quantum of corrections.

- (iii) Section 2.2 of Schedule 8 of the GTAC makes application of wash-ups conditional on receiving a revised interim, final, or special file – but this is unusual. The success of the VTC is that it washes-up the previously determined special allocations to give effect to the interim / final allocations. As written, it is questionable whether there would be any wash-ups applied at all.

b) *Issues with Running Mismatch*

It is unclear what is being washed-up. E.g. Running Mismatch relates to Mismatch and Wash-ups. Mismatch relates to Daily Delivery Quantities, which relates to the section 6 allocations. Section 6.10 says that each of the initial / special, interim and final allocations relates to DDQ, which will change that and Running Mismatch. Wash-up is defined as being changes to DDQ. Query whether this is being double-counted and what exactly the effect of wash-ups is.

c) *Operability of curtailments*

GGNZ is concerned about curtailments. The MPOC has section 15.2, and otherwise has OBA points – so curtailments can be targeted. The VTC generally passes-on the curtailment in a specific BPP pool, like a welded party curtailing its shippers.

The GTAC, on the other hand, tries to curtail Shippers directly, rather than via a welded point. This does not work because FG says it will make curtailments based on estimated Shipper real time and end of day Running Mismatch positions based on the default rule which, generally speaking, will not be the allocation method on that day. Not only will this result in poor end-of-day estimates, but TOU Shippers' real time Running Mismatch is likely to be poorly correlated to one that is derived from the default rule. FG proposes to curtail on this basis (on a basis undefined in the GTAC). It does not make sense and may lead to disputes. At a minimum, there should be a mechanism for Shippers to say, and FG to accept, that they do not need to follow curtailments when their own estimates differ, acting reasonably, from FG. Further, it is unclear how trades will be estimated in real time. The MPOC and BGIX work because there are hourly flow and hourly nominations for the party directly receiving curtailments and running mismatch estimates. The GTAC does not have this.

## 7 Opportunities to improve safety have been missed

7.1 The FAP assessed the old GTAC as neutral for safety. GIC considers safety to be more significant to its overall assessment, which means that it would have provided an opportunity for "easy wins" on a materially better assessment. However:

- a) *Implementation of a more comprehensive gas quality monitoring and reporting regime has been deferred.* No material changes were made and this opportunity has been lost.
- b) *A token change has been made to odourisation spot checks.* Materially better should involve GIC reviewing removal of pipeline odourisation (rather than this being at FG election), and compulsory provision of odourisation reports to parties. The change made is modest and not compelling.
- c) *Pressure monitoring and reporting could have been improved, but there are no material changes.*

## 8 Conclusion

8.1 GGNZ continues in the view that the FG core aim should be a simplified set of arrangements which are a demonstrable improvement on current arrangements. FG's first attempt was declined as not materially better, and FG's evident focus has been on making "minor improvements" to get over the bar.

8.2 GGNZ considers that if FG remains unwilling to address the significant structural and operability issues identified above, GIC should take over the process and embark upon a regulated solution.

Yours sincerely

Chris Boxall  
Commercial Manager

## **Appendix 1: FG Consultation Questions**

- 1. Do you consider that the positive features of GTAC identified in the FAP are retained in the current GTAC draft that incorporates changes made during 2018?**

GGNZ generally agrees that the positive features identified in the FAP have been retained in the revised GTAC. There are some areas where GGNZ did not entirely agree with the FAP which are identified in this submission.

- 2. Do you have any concerns about how the three key issues identified in the FAP have been addressed in the GTAC?**

Yes. GGNZ is not convinced that the incentives charges encourage efficient behaviour in non-congested situations and GGNZ proposes that the GIC should rigorously analyse this.

Liabilities have largely been fixed – to the level of neutral (not materially better) vs. the current arrangements. As set out in this submission, GGNZ does not consider that the “meshing” of interconnected parties has been achieved fairly or efficiently.

- 3. Do you have concerns about how we have implemented the solutions from the workshops to address the other FAP findings?**

Yes. Parties agreed in good faith to engage in a consultation process that was not driven by a 2019 go-live date but which was to begin with a three-day workshop to determine whether a 2019 go-live date was a realistic target. FG implemented a work programme involving a series of three-day workshops requiring relentless consultation on multiple topics over a short timeframe. This has resulted in some parties disengaging from the process, and has prevented parties from being able to properly review the changes proposed.

GGNZ requests that industry be able to review all outstanding action points in the workshop on 16 October to see whether these have been addressed, as is required in the work programme and Independent Facilitator terms of reference.

- 4. [No question 4 was provided]**

- 5. Do you consider that the changes we've made together have the intended impact and retain the positive features of the GTAC identified in the FAP?**

Many of the changes and decisions were made by FG, not together. The changes improve (nomination cycles), retain (change request veto and information), or worsen (curtailments, pricing) the positive features of the GTAC.

- 6. Do you consider that our decision to not make certain changes to the GTAC has deteriorated access provisions in relation to the existing codes?**

The decision not to make certain changes is either neutral (gas spec, outage notification, rebates) or has deteriorated (SA structure and priority, incentives pool) access provisions in relation to the existing codes.

## Appendix 2: Barrier to entry example

The following example is intended to illustrate the barrier to entry point made in paragraph 4.1(e) of this submission:

- There is only Shipper A in a Delivery Zone, which has 1,000 GJ DNC for 10 customers, and 1,000 GJ DNC for 1 customer. Half the smaller customers have 50 GJ/d overs, and the other half 50 GJ/d unders. The large customer has 250 GJ/d overs.
- Shipper B is new to that Delivery Zone and wants to win supply to the 1,000 GJ/d customer from Shipper A. Here is what would happen:
  - o If the end-user stays with Shipper A, then:
    - FG would charge Shipper A for 'overs' of 250 GJ.
    - Shipper A may consider:
      - Pro-rating this amongst the causers, and the large end-user would pay for 125 GJ of 'overs', or
      - Charging / crediting parties anyway to the full extent (500 GJ 'overs', 250 GJ 'unders') even if the Shipper itself received charges of only 125 GJ 'overs'.
        - o There are efficiency issues with the latter, so GGNZ will assume the former for this example.
    - o If the end-user switched to Shipper B, then:
      - FG would not charge Shipper A for overs or unders.
      - FG would charge Shipper B for 'overs' of 250 GJ.
      - Shipper B may consider:
        - Pro-rating this amongst the causers, and the large end-user would pay for 250 GJ of 'overs', or
        - Subsidising some of the cost.
  - The large end user is likely to stay with Shipper A, all else being equal.