



18 January 2019

**Ian Wilson**  
**Senior Technical Adviser**  
**Gas Industry Company Limited**  
By email and By courier

Dear Ian,

**Re: Preliminary Assessment of October 2018 Gas Transmission Access Code (GTAC) – Consultation Paper issued 5 December 2018 (PAP)**

## **1 Introduction and Summary**

- 1.1 The PAP identifies GTAC issues which have not been properly identified or characterised, or have not been identified at all.
- 1.2 Greymouth Gas('GGNZ') proposes that any new code apply to the whole transmission system and is concerned that First Gas' approach so far will result in a code that is not fit for purpose. GGNZ submits that the GIC must not approve the GTAC as "materially better" for the purposes of the MPOC unless it is *functional*. That is, that the concepts it represents can be implemented.
- 1.3 Issues we consider deny a "materially better" assessment include:
  - a) The GTAC does not include any equivalent/s to the clauses in the VTC and MPOC which codify the rights of persons meeting certain conditions to become Shippers, and (in the case of the MPOC) interconnected parties.
  - b) The GTAC does not allocate Stratford 3 deliveries, whereas the VTC does. That is up to 10 PJs (about 5% of NZ's production) cannot be allocated.
  - c) The GTAC does not require First Gas to publish real-time Maui Pipeline welded point OBA estimated running mismatch data, whereas the MPOC / BGIX do. This comes at a time when the Minister has written to GIC and Industry directing improved transparency.
  - d) There are three other "substantial" red arrows that we consider have been missed from the analysis: balancing tolerances, peaking, and Ahuroa. There are also a number of other "moderate" and "modest" red arrows that we consider have been missed.
- 1.4 We consider there are also important matters that require regulatory involvement – including overall tariff levels, anti-competitive and discriminatory pricing, cash out pricing

(the Commerce Commission should determine these issues), information disclosure requirements and downstream reconciliation – that must be subject to a co-ordinated Government approach to ensure the new transmission code arrangements are pro-competitive, equitable and functional before the new code goes-live.

## **2 Rights to ship and interconnect**

- 2.1 Under both the MPOC and the VTC, parties meeting certain criteria have the right to become shippers with an equivalent provision for new interconnections under the MPOC – see clauses 2.5(a) and 2.12 MPOC and 2.7(f) VTC. There are no equivalent provisions in the GTAC.
- 2.2 These are rights that are fundamental to the operation of the transmission system. Their omission from any new code is of the most significant detriment and must on its own warrant a finding that the GTAC is materially worse.
- 2.3 Future counterparties (new shippers and interconnections) should not be left wondering about the competitive intentions of the current pipeline owner or its approach to new shippers and interconnections. The code can be expected to apply for at least one decade and the regulators and industry must ensure it properly represents and codifies the basis on which the transmission system is intended to operate.

## **3 Stratford 3 Allocations**

- 3.1 Under the VTC, Stratford 3 Delivery Point is exempt from the DRR, and deliveries get wholly allocated under section 6.5(b) via an Allocation Agreement.
- 3.2 Under the GTAC, GIC determines that the three options for downstream allocation are DRR, OBA and Allocation Agreements. However, none of these allocation methods can apply to Stratford 3 under the GTAC, i.e.:
  - Stratford 3 Delivery Point is exempt from the DRR.
  - GSNZ, the interconnected party at Stratford 3, has advised that it cannot elect an OBA because it is not a gas producer.
  - An allocation agreement is only available at a Dedicated Delivery Point<sup>1</sup> (which is a point that supplies a single consumer of gas), but there are at least two consumers in the Stratford yard (and up to four).<sup>2</sup>
- 3.3 GGNZ raised this matter with GSNZ and First Gas in November and First Gas has had ample time to withdraw the GTAC, re-consult, and resubmit it – but chose not to do so.
- 3.4 GGNZ considers this to be more than a definition error – we consider it (and the other issues raised in this submission) result from a very intensive and fast-moving code

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<sup>1</sup> Refer to s6.12 and 6.13 of the GTAC, and Schedule 4, section 2.1.

<sup>2</sup> With reference to part (b) of the definition of consumer in the Gas Act, Waihapa and Ahuroa have compressors, and query whether Stratford and TCC peakers can also be supplied from Stratford 3.

creation process contemporaneously with other industry changes in asset ownership in 2018.

- 3.5 It may be that these issues require changes to the DRR and if that is the case, this should be done before the GTAC is approved. At the very least, work must be undertaken to ensure there are no other reconciliation issues that have been missed.

#### **4 Transparency**

- 4.1 Under the MPOC / BGIX, First Gas publishes real-time OBA estimated running mismatch data whose inputs are flow and nominations. Under the GTAC, section 8.15 expressly prohibits First Gas from publishing intra-day estimated running mismatch positions including for OBA parties. Industry will therefore be prevented from accessing operational imbalance positions when this data is available today on the BGIX – the data is important real-time information.
- 4.2 In the Minister's 25 July 2018 letter to GIC, the Minister says "I am concerned, in light of the recent outage at Pohokura, the [information disclosure] requirements may be insufficient and that if information is not required to be disclosed in a timely manner it may have a material impact on the wider market for gas". In its response, GIC "agrees that good information is important for the effective and efficient operation of the gas industry [noting that] markets work best when all parties have access to information that enables them to make informed decisions".
- 4.3 GGNZ considers that removal of existing material transparent information is a "substantial" issue. These matters should be dealt with at the same time as part of a co-ordinated approach.

#### **5 Other Issues**

- 5.1 Tariff levels and cash out pricing mechanisms are core commercial issues for the GTAC. These require Commerce Commission involvement, so are not dealt with in detail here.
- 5.2 Peaking is a "substantial" issue where GIC has identified that 27% of New Zealand's gas demand could game prices by 20%. On revenue of \$120m/pa, multiplying this across gives revenue of \$6m/pa that can be gamed. How is this fair and efficient?
- 5.3 Ahuroa is a "substantial" issue where GIC has made a number of assumptions including that GSNZ is unlikely to offer temporary use of Ahuroa. In reality, GSNZ has allowed at least two parties temporary access and another has term access. What's more, if ERM is \$1/GJ and GSNZ prices temporary access cheaper than ERM, then FG can incentivise parties to use Ahuroa for temporary access / balancing purposes, thus boosting FG related company unregulated revenue by potentially millions of dollars.
- 5.4 GGNZ considers GIC should undertake its own review and assessment of the impact of Ahuroa rather than relying on assurances from First Gas.
- 5.5 GGNZ's responses to GIC's specific questions are set out in the Appendix to this submission.

## 6 Conclusion

- 6.1 The areas outlined above have not been properly factored into the analysis. While there are some apparent fixes, there are also many matters which need to go back to design and options assessment stage.
- 6.2 We consider the proper course is for the GIC to make a finding in its final assessment paper that the GTAC is materially worse not "materially better".
- 6.3 GGNZ further proposes that current and potential participants have the right to a properly constituted regulatory hearing where these issues (and the concerns and issues raised by other parties) and tariff pricing issues can be aired amongst regulators and experts.

Yours sincerely



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