GREYMOUTH GAS

6 December 2017

Ben Gerritsen
GM Commercial and Regulation
First Gas Limited
By email

Dear Ben,

RE: GTAC Action Item E – D+1 Allocations

D+1 has rightly been included in the GTAC because the GTAC is not workable without it or something similar.

However, the proposal falls short in a number of respects, particularly in its failure to incorporate all aspects of D+1 into the GTAC. The GTAC should not proceed without substantial redrafting of these provisions.

High-level

- There are some sensible changes proposed in this paper, such as daily provision of information, Allocation Agreements at Dedicated Delivery Points, and the adoption of D+1.

- However, there are also some poor changes proposed which could be show-stoppers in their own right:

    - Agreement on wash-ups should be included in the GTAC, not carved out to an ancillary agreement yet to be determined. The purpose of the GTAC process is to achieve a comprehensive and coherent set of access arrangements. Leaving such significant aspects out of the code altogether is a major flaw.

    - The GIC will not be able to look very favourably at all on the inclusion of D+1 in the absence of a Wash-up Agreement and pan-industry and GIC agreement if those are not executed by the time First Gas sends the final GTAC to the GIC.

    - The fall-back allocation mechanism may apply 100% of the time and we do not think that it is a fair or properly-scoped mechanism. We propose some alternatives.

Detail

- Sections 1.1(a), 6.9, 6.10, and 6.11 do not work because Daily Delivery Quantity is not a defined term in the GTAC.

- Section 1.1(a)(i) in the definition of Wash-up should also deal with "special allocations" – i.e. these should be permitted where those special allocations are effectively a post-final allocation, but these should not be permitted if, for example, the special allocation is the quasi-initial allocation because that special allocation is the control or first set of as-billed numbers from which wash-ups determined in subsequent allocation cycles may well be calculated. We suggest more wording is used in this clause.

- Section 1.1(a)(ii) in the definition of Wash-up misses the point that in addition to Metering errors or the miscalculation of energy quantities, adjustments are required to square up purposefully allocated special (initial) allocations with subsequent allocation cycles. I.e. it is not just for mistakes or errors, but to give effect to the mechanics of D+1.

- Section 1.1(b) in the definition of Wash-up should have protection similar to (a) earlier in the clause insofar as who is able to adjust a previously determined Receipt Quantity and on what basis.

- In section 1.1, the definitions of Wash-up and Wash-up Agreement are problematic because there is no certainty in the Code about how Wash-ups affect parties and it is currently (in the absence of a Wash-up Agreement) entirely at First Gas' determination. The models of volumetric, financial and hybrid, and whether Wash-ups are applied on a forwards or backwards basis, have a material impact on everything to do with how Parties balance. Further, if there needs to be industry agreement between all GTAC parties about how Wash-ups work then this should either be put in the Code, or be made a pre-requisite that is required before the Code goes-live – otherwise the GIC will need to note that the Code does not contain any certainty or written policy about the effect of Wash-ups.

- Query whether section 6.9 should refer to Dedicated Delivery Point rather than Delivery Point for completeness.

- Section 6.10 is good, but we suggest it is made clearer that this is the methodology applicable to interim allocations, final allocations and non-initial special allocations only.

- The lead in to section 6.11 is messy. We suggest it says something like 'Each Shipper agrees that at each Delivery Point where the DRR apply its "initial allocation" (irrespective of whether that allocation is overridden by a "special allocation") (with both allocation terms as defined in the DRR), Daily [Delivery] Quantity for each Day will be determined:'.

- Section 6.11(a) is incomplete and problematic for a number of reasons:

    - It implies that a new agreement needs to be executed and supplied to First Gas each Day in arrears.

- It should specify some further basic requirements of the agreement, including:
  - Who supplies First Gas with the data,
  - The time of a Day by when that data must be received by First Gas,
  - What happens if any, some, or all of the data is incomplete or inaccurate,
  - For Shippers to supply relevant information to make the model work, and
  - For any new Shipper to be deemed to be a signatory to the agreement.

- The requirement for a pan-industry agreement including the GIC is good and may give GIC the necessary mandate for it to perform special allocations to give effect to the D+1 model. However, such an agreement should be a pre-requisite in the MPOC that is required before the Code goes-live. Alternatively GIC would need to disregard section 6.11(a) in its GTAC assessment unless the pan-industry agreement is executed by the time First Gas tables the final GTAC to the GIC for review.

- The flip side of the point above is that simply having D+1 included in the GTAC should not, in and of itself, justify a special allocation nor allow the GIC to bypass the proper process for determining special allocations under the DRR. This is because the GTAC could be approved on the back of an aggregate assessment yet could include D+1 that is worse than status quo. Alternatively, GIC should introduce an added test in its assessment of the GTAC such that D+1 on its own should be materially better than the status quo, for it to be able to approve the GTAC as a whole. In essence, what the GIC needs to manage carefully is predetermination of r51.2 of the DRR.

GGNZ wants a daily allocation methodology to be in the code. However, we will not consider committing to a pan-industry and GIC agreement without gaining comfort over at least the detail of that agreement, the detail of the Wash-up Agreement, and that the allocations minimise our exposure to Overrun / Underrun and ERM Charges compared to alternative allocation options. First Gas has not supplied any written detail as yet that may help us or others in this regard.

- Section 6.11(b) should also come into play if the required data is not provided within the required timeframes, or if there are material inaccuracies with the data.

- The fall-back allocation methodology in section 6.11(b) is problematic because:

  - It is similar to that previously proposed (and discarded) by First Gas in its Emerging Views paper from May 2017 – and its re-proposal now bypasses the intervening negotiation and consultation period and process.

  - Apart from discarding that pro-rated DNC allocation, First Gas did not address allocation points made by GGNZ in our 23 June 2017 letter on that paper referred to above. Our key point was that we think the allocation methodology will be much more inaccurate vs status quo D+1 as we would be exposed to mass market swing (or the inherent inaccuracies of mass market nominations) to which we are not currently exposed (and therefore the $s and GJs going

through wash-ups would be high). At the time we called for a real-time trial period to test our hypothesis and analysis, but this did not happen.

- The fall-back allocation model has not really been analysed. The *primary* industry analysis of this allocation model should not occur during GIC's assessment of the GTAC. In August 2017, GIC published a report in which a gas-gate market share allocation (albeit basing market share on the previous months' initial allocations) was the worst of all allocation options. While we do not expect a pro-rated DNC model to be as extreme, we are concerned that any type of un-targeted gas-gate scaling approach will not be commercially workable given the Overrun / Underrun and ERM regime in the Code.

An acceptable solution would be to allocate a Shipper its DNC, or to allocate Shippers with AG1/AG2 end-users its DNC, and Shippers with AG3+ end-users a gas-gate scaled share of the remainder based on their DNC. We are open to either of these, and either one would obviate the need for D+1.

- Section 6.12 is good; however, there should be a corresponding amendment to the definition of Allocation Agreement as at the moment the definition precludes the use of the new section 6.12.

- Section 6.13 should refer to Dedicated Delivery Point.

- It is not clear, but we assume that the old sections 6.12 to 6.16 of the GTAC will be retained and will become sections 6.14 to 6.18 of the GTAC.

- The form and substance of Allocation Agreements should be included in the Code either as a schedule or with requirements set out in section 7.

- Section 8.15 of the Code should also have some changes proposed. In the absence of changes, industry has no certainty as to when Running Mismatches (including Cash-out quantities) will be supplied to it which is the whole point of D+1 in the first place. The issue is that section 8.15 relates to Mismatch and Running Mismatch which pertain to Delivery Quantity which refers to Gas determined in accordance with section 6. However, the proposed mark-ups to section 6, if section 6.11(a) intends to replicate the current special allocations process, technically still happens after month-end and not on the next Day. In essence, the drafting needs to adequately capture more of the key bits and pieces from the MBB D+1 Agreement which works well because, notwithstanding that D+1 is ratified by month-in-arrears special allocations, Running Mismatch under the VTC relates to the pro-forma allocated quantities. This may also be the intention of the agreement referred to in section 6.11(a) of the Code, however, in the absence of that agreement, this is unclear.

- We assume that the corresponding change to section 5.6 of the Code has been made to give effect to the change proposed in schedule two.

- In schedule two, frequency of publication of gas composition data pursuant to section 5.9 of the GTAC should also now be done on each Day to ensure that the calculation of HDR and DDRs is accurate.

Conclusions

GGNZ is frustrated because we raised D+1 in SCOP1 and SCOP2 in October and December 2016. Instead, First Gas took time scoping principles during this period – two of which (simplicity and transparency) seem to have fallen by the wayside. Then in mid-2017 a pro-rated DNC model was proposed but quickly discarded by First Gas. And now, four days before the final GTAC, First Gas includes mark-ups for D+1 and a fall-back pro-rated DNC model which are, not surprisingly, deficient.

First Gas is stuck because without D+1 or another fair allocation methodology, the Code is poor (which is why we argued for D+1's inclusion). But with an incomplete and unfit D+1 and fall-back proposal, it calls into question the very nature of the bespoke DNC + PR model (vs. having a simple flow on demand model) from a commercial workability perspective.

The inadequacy of this proposal once against demonstrates the need for more time to be given to the GTAC process to ensure that the end result is comprehensive, resilient, and fit for purpose.

Yours sincerely

Chris Boxall
Commercial Manager