GREYMOUTH GAS

14 December 2016

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Gas Industry Company Limited

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General Manager Commercial and Regulation
First Gas Limited

Dear Ian and Ben,

RE: Gas Transmission Access: Single Code Options Paper

This letter covers Greymouth Gas New Zealand Limited's ("Greymouth Gas") general comments on First Gas Limited's ("FGL") above paper ("SCOP2"). Specific questions are answered in the attached appendix.

Timing

FGL's target for signing a new code has slipped from 30 September 2017 to the end of 2017. It seems sensible at this early stage to adjust timing expectations.

There will come a point in time when Gas Industry Company Limited ("GIC") will need a deadline so that it can begin a regulatory process for all or part of the work if one is required. However, any deadline should not be able to be used as a "stick", and should be realistic so as to give FGL and the industry ample time to agree on a design and implementation framework.

FGL cannot expect industry or Greymouth Gas to provide unlimited quantities of time, cost and resource into this process in 2017.

Supporting Arrangements

Greymouth Gas is concerned that issues it raised in SCOP1 are materialising, e.g.:

First, it appears that no legwork is being done by the GIC in terms of potential regulatory changes required to give effect to what is needed in the new code. While there is some logic to this (because the design of the new code is not yet known), it does introduce potential for the GIC's process to delay FGL's process.

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For example, if D+1 is retained and the pilot arrangement is properly incorporated into the code, GIC may find it legally difficult to continue to circumvent the regulated allocation process by declaring the D+1 allocations as special allocations. The very nature of those special allocations was that they were, and are, for the duration of the D+1 pilot period. If D+1 becomes the future-state, and not just a temporary workaround, then there would be nothing special about those special allocations.

This is GIC's risk to manage.

Second, Greymouth Gas considers that FGL should spend time canvassing options for supporting arrangements rather than jumping straight into detailed design for these in Q2 / Q3 2017.

While matters such as transparency, assignment, prudential requirements etc. should be straightforward, it would seem imprudent for things like balancing and transmission pricing to be finalised without first considering the options. If FGL's process fails, it would leave the GIC (from a regulatory perspective) on a back-foot as all reasonably practicable options probably would not have been considered.

Industry has no choice but to buy into FGL's process for supporting arrangements because FGL is determining the process. However, some recent history on historical processes identifies some key learning:

- A GITAWG process achieved good success, but ultimately was only able to achieve a small subset of what FGL is proposing to achieve with its supporting arrangements, and they achieved that in a time period about three times longer than what FGL is proposing.

- A lot of the historical angst on balancing was because a party basically went ahead with its preferred option, rather than properly canvassing all options and fully engaging with industry.

- Even the 2009 ICD process failed, and this was partly because the high-level wasn't nailed properly before detailed design was progressed.

The risk in FGL's new code process is that hidden issues or commercial differences will only surface when FGL proposes a detailed design. In this sense, while FGL will be holding the pen, it does not have the right to bypass a proper negotiation or consultation process.

Greymouth Gas recommends that FGL does a SCOP3 in Q1 2017 that scopes high-level options for supporting arrangements.

Transmission Access

This is actually quite easy. If the issue is:

- Security – then all options are same. Flow to demand works because of congestion management. Congestion management (or other such new demand management tools) will also be required under the other options. Through the work of the GITAWG, the congestion management concept / discussion is already quite far advanced.

- Cost / Efficiency – then flow to demand easily wins because there is no inefficiency (i.e. overs / unders between capacity and demand). Also the capacity problems of ~5 years ago will go away, whereas under the other options priority access will need to be designed for even if a pipeline is not at capacity (to properly mitigate a run on capacity). Further, operationally and opex-wise, all options are similar.[1]

- Simplicity – the flow to demand easily wins because it is easy. The other options would require a lot of shipper intervention, when all that most end-users really want is just to turn on the tap and get gas.

When one factors in FGL's objectives for the new code, then option 3 – flow to demand (a variant of common carriage) – is the only option that can be progressed given we are at the SCOP2 stage of the process.

Currently Uncanvassed

If one takes a contents page from the current codes and matches that with topics currently scoped in SCOP2, then there are some chapters that have not currently been canvassed, e.g. general liabilities.

If some of these other things are going to be easy, it would be good to at least have them noted in the process. Such an approach would also scope out early whether there are any potentially contentious supporting arrangements.

Summary

Greymouth Gas reminds FGL that we (and others) need to be taken on this journey, and that shipper buy-in is a risk that FGL also needs to manage.

Yours sincerely,

Chris Boxall
Commercial Manager

[1] Which FGL confirmed at the 5 December 2016 workshop.

TEMPLATE FOR SUBMISSIONS

Question	Response
Objectives for the Gas Transmission Access Code	
Q1: Do you agree with the objectives proposed in this paper? Are there any other objectives or outcomes that we should be aiming for that are missing?	FGL's objectives are okay except 'minimise the cost of transporting gas' should be changed to 'maximising efficiency' as that seems to be the gist of 2.8.1 through 2.8.3. GIC's objectives are not of great value because all the Gas Act and GPS objectives are relevant.
Q2: Which objectives do you see as most important?	FGL's objectives – particularly simplicity. On that point – FGL's comment in 2.9.3 that simplicity is likely to favour conventional, proven approaches is wrong and it reads like a pre-determined view. Simplicity is simply likely to favour simple approaches, be they conventional or innovative.
Q3: Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?	Yes.
Scope of the Gas Transmission Access Code	
Q4: Do you agree that the five other legal or subsidiary instruments presented above are all relevant to establishing the boundaries of the new code? Are there any other legal or subsidiary instruments that are missing?	Yes, but maybe TSAs are missing.
Q5: Do you agree with the way that we have described what should sit inside the code, and what should fall outside? Are these particular elements of the arrangements that we have described as sitting outside the code that you consider should be covered by the code (or vice versa)?	Please refer to our submission on SCOP1 here.

Question	Response
Q6: Are there any other elements to the scope of the code that we should consider?	This question is better asked on a continuous basis throughout the process, and will be easier to answer when individual elements are itemised.
Overview of options for the access regime	
Q7: Are there other code options that you believe should be considered in the process of developing a new code in addition to those described above?	No – but strictly from the perspective of creating three high-level recipes which can then be refined and commercially negotiated. Yes – if the question is to be interpreted by the GIC retrospectively (in the future) vis-à-vis whether FGL has canvassed all reasonably practicable options because that is not the case.
Q8: Are there particular lessons from international experience that you consider First Gas should seek to learn from when designing and implementing the new access code?	Yes – Sir Ed first conquering Mt Everest shows that Kiwis can keep it simple, forge our own path, and innovate to succeed.
Q9: How much focus do you think should be placed on ensuring that transmission access arrangements facilitate further development of the wholesale gas market? Are there particular features of a new access code (in addition to short term availability of capacity) that are important?	Some. If the second question refers to contractual capacity then it reads like a pre-determined view. It must therefore refer to operational capacity, which is as important as other elements.
Option 1: Menu of capacity products	
Q10: Do you have a view on whether the priority right product should be designed as an option (subject to nominations) or a fixed property right?	Not at this stage of the process.
Q11: Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?	If there is contractual capacity then priority rights will need to be designed and administered, even if there is no need for them – so that the system can quickly deal with emerging issues and prevent a run on capacity or priority rights.

Question	Response
Q12: Do you have any views on the broad features of the priority right product, such as the length on the contract, the frequency of booking rounds, etc.?	Yes – it is complex.
Q13: Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?	Yes – shippers do nominations already to a greater or lesser extent. These arrangements could be extended if FGL sees merit. However, nominations and cycles are one area where there is potential for improvement if an IT system can deliver greater utility.
Q14: Do you have any preferences on the allocation methodology at receipt points and delivery points (OBAs, rules based approaches, or a combination of different approaches)?	Not at this stage of the process.
Q15: Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?	Yes – they are all particularly concerning as they perpetuate inefficiency (the difference between demand and capacity) and are complex.
Option 2: Daily nominated capacity	
Q16: Do you have any views on how scarcity should be signalled if a daily nominated capacity option was developed?	Not at this stage of the process.
Q17: Are there any elements of the daily nominated capacity option that you consider should differ from capacity nominated as part of a menu of capacity products (option 1), such as the frequency and timing of nomination cycles, and the role of nominations?	Not at this stage of the process.
Q18: Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?	Same comment as for Option 1.
Option 3: Flow to demand service	

Question	Response
Q19: What information do you think it would be realistic for shippers to provide as forecasts for managing the transmission system under a flow to demand service option?	A book-built nomination on either a gas gate or pool or aggregate basis – either backed into customer nominations or based on an algorithm that they would use to purchase gas.
Q20: What information would you require from First Gas to provide you with confidence in security of supply both in the short and long term under this approach?	A congestion management product will be essential, although a lot of the leg work has been done by GITAWG. If a new code is signed by the end of 2017, then it should be remembered that that need only contain the recipe. There will be sufficient time in 2018 for FGL to give effect to congestion management contracts before the new code goes live.
Q21: How dynamic do you think pricing should be under a flow to demand service approach?	No comment at this stage of the process.
Q22: Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?	Yes – it is particularly valuable in that it seems to best align with FGL's objectives. It also makes things the most simple for shippers and end-users and it seems to be the only practicable option to progress.
Link between access options and system characteristics	
Q23: Do you believe that the new code access arrangements should reflect the physical constraints on the transmission system? If so, which option does this support in your view?	The new code should provide solutions to the physical constraints on the transmission system such that gas is used by its highest value use (from an end-user perspective), and that no intermediary shippers can play games with competitive arrangements. Option 3 is clearly superior in this regard.
Q24: Do you have any views on how capacity on the system should be defined and priced (i.e. between points or between zones or between points and zones), and why?	Not at this stage of the process.

Question	Response
Q25: Of the options described in this paper, which do you prefer and why?	Option 3 – because it is the most simple, the most transparent, the most efficient, best enables the use of gas and best ensures flexibility.
Code governance	
Q26: Do you have any preference on the legal form for the new code, and who should be counterparties to the new code?	Not at this stage of the process.
Q27: Are there particular code change processes or features that you consider important or valuable for the new code?	Yes – proper regard needs to be had for the different participants – producers, the TSO, shippers, end-users, NZ Inc. etc.
Balancing, linepack management and allocation	

Question	Response
Q28: Do you agree with the comments on balancing and linepack management above? If not, why not?	No – for these reasons: - 5.12 – this doesn't have regard for the fact that demand is lumpy and it puts forth FGL's view that the balancing framework should be tightened more than it currently is. It also tightens the current interpretation of the VTC which sets zero as a conceptual goal over a longer period of time, rather than strictly on a daily or hourly basis. - 5.14 – this statement seems to correlate slightly with a concurrent FGL proposal to make amendments to interim D+1 / balancing arrangements. The last sentence in 5.14 is not correct because FGL contributes to imbalance due to its fuel gas and UFG arrangements, and, let's not forget, FGL owns the line pack. - 5.15 – this looks into detailed design without considering the high-level options. - 5.17 – same comment as above plus the GIC's MBB review was deficient as it did not consider costs – further, it implied that a system other than MBB would be optimal. - 5.20 - 5.24 – this is delving into detailed design again, but the best way of giving effect to 5.19 might be to generate a fee based on end-user load factors provided there are appropriate incentives across the supply chain. - 5.25 – the first sentence here is not correct.
Q29: Are there any particular arrangements for balancing and linepack management that are not discussed in this paper that you consider critical to include in the new code?	Yes – no high-level options have been considered. The reasonably practicable ones are MBB (status quo), MBB (with tweaks), B2B, ILONs, and a load factor fee of some sort. Also – for a heading that talks about allocation, it is strange for there to be no discussion on D+1. The D+1 pilot arrangement will need to be firmed up or dropped.

Question	Response
Non-standard Agreements	
Q30: Do you agree with the comments on non-standard agreements above? If not, why not?	Yes.
Q31: Are there any particular arrangements for non-standard agreements that are not discussed in this paper that you consider critical to include in the new code?	Potentially, but let's explore these during detailed design.
Gas quality	
Q32: Do you agree with the comments on gas quality above? If not, why not?	Yes and no, but in particular no for 5.51 as this should be FGL's cost to meet and such should be a prerequisite for 5.55 through 5.59.
Q33: Are there any particular arrangements for gas quality that are not discussed in this paper that you consider critical to include in the new code?	It would be good to see some properly designed options on gas quality so we can work out whether the requirements have been met or not.
Next steps	
Q34: Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?	Please refer to the body of our letter submission.
Q35: Are there particular issues or aspects of the new code that you would particularly like to be more closely involved in, including by participating in workstreams to prepare code exposure drafts and working papers?	Please refer to the body of our letter submission.