



Shell New Zealand 2011 Ltd
Level 10, ASB Tower
Wellington
New Zealand
Email andrew.p.inwood@shell.com
Internet <http://www.stos.co.nz>

First Gas Ltd

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Your ref: GTAC Mark-ups

Dear Ben

We comment here on the Action Points ahead of the Final Draft of the Gas Transmission Access Code (GTAC). Given the limited time available, we provide only comments to the changes. Given the depth of our reservations on these drafts and GTAC, it is not practicable in the time available to provide mark-ups to the drafts.

We request consideration of this letter though we acknowledge it will be received subsequent to the deadline posted by First Gas.

Issue A: Relationship between Interconnection Agreements and the GTAC

The covering note for these changes notes that this part of the review was focused on “providing fair and reasonable terms of interconnection, evolving ICAs in line with the GTAC” and it further notes that “Only those parts of the code that give effect to these changes have been included in this document.”

In reading the mark-ups, the scope appears wider than this. Two additional clauses have been added that are outside this scope: Section 7.13(h) is an addition relating to hourly profile requirements in ICAs, and 7.13(o)(ii) notes that OBA parties are eligible for rebates. The clause on publishing of outages (7.13(g)) is retained, yet it was our understanding from the Workshop Action points that there was an agreement that this is better managed by the Gas Industry Company. As such, it is not clear to us as to the exact scope of the mark-ups for this Issue Note.

For the purposes of this submission, we will comment on changes as marked-up by FirstGas, and we refer FirstGas to our previous submissions on other points in Draft 2 of the GTAC where they relate to the other issues, particularly in section 7. For the avoidance of doubt, lack of any further submission on these points here does not indicate that we agree or accept section 7 of the GTAC as it stands, and we refer you to our previous submission and covering letter: both submissions should be considered in parallel.

With respect to the two new clauses noted above, we need more details in respect of 7.13(h) to make objective comments. It is pleasing to see the rebates section (7.13(o)(ii)), but again more detail is required. For example, are there separate pools for Receipt and Delivery OBA parties? What is the relative size of the pools for these incentive charges vs the Transmission Capacity charges overall, and have FirstGas got this balance “right”?

For the other mark-ups, we appreciate the changes are helpful to increase confidence that First Gas will provide a non-discriminatory approach to Interconnected Parties. However, we note that:

- the covering note confirms that Interconnected Parties will have the right to raise Change Requests (and presumably to make submissions and have them considered equally along with code signatories), but this does not appear in the mark-ups.
- Current interconnected parties under MPOC have no assurance within GTAC itself that they will be able to secure interconnection, nor do they have assurance as regards to whether additional investment may be necessary or not;

A mark-up to Section 7.13(q) was an omission in our previous submission. We propose the following change to provide assurance that Interconnected Parties will have the ability to require the right to approve Shipper nominations irrespective of whether an OBA applies or not:

7.13(q) whether nominations *and/or interconnected party approvals* (to be notified in accordance with section 4) are required for any Receipt Point, Delivery Point and Bi-directional Point (including where an OBA does not apply); and

The intent is that the interconnection agreement should be the place where it is specified whether Shippers must provide nominations, and whether or not Interconnected Parties must approve Shipper nominations for them to be effective.

Section 7.14 falls short of providing assurance that the Interconnection Agreements will be changed as the GTAC changes.

Issue B: Agreed Hourly Profiles

The details provided for Agreed Hourly Profiles are specific to Shippers at Dedicated Delivery Points, however with the addition of clause 7.13(h), we are concerned that they may be applied on a similar basis for Interconnection Agreements at Receipt Points.

We consider the mechanism is unworkable except for dedicated interconnected points served by a single shipper. As we have said in submission previously, having Shippers as intermediaries between the pipeline and interconnected parties who control the flow is a highly inefficient mechanism relative to the direct relationship that has been applied in the MPOC.

We also consider it is discriminatory that overrun charges are only applied at dedicated interconnection points.

Regardless of these design flaws, we propose that the Fees section (11.5) be modified so that the mechanism is practicable to effect as follows:

HOQ is the Shipper's Hourly overrun quantity and is equal to the greater of:

- (i) $HDQ_{DNC} - (DDQ_{DNC} \times \text{Specific HDQ/DDQ})$; or
- (ii) where an Agreed Hourly Profile applies, $HDQ_{DNC} - HTC_{AHP} * T_{AHP} - T_{min}$; and
- (iii) zero,

Where T_{AHP} is the Tolerance limit for hourly flow under an hourly flow profile, and is initially set at 1.25, and T_{min} is the minimum flow below which there are no charges and is set to 500 GJ.

Under the current proposal, a Shipper that requests an agreed hourly profile and manages to forecast it perfectly and then tries to flow to it, will receive hourly overrun charges, simply from the fact that it is practically impossible to flow to the exact number every hour. If they can forecast it exactly and then flow each hour within $\pm 3\%$ (which would be an impressive effort), then for probably half the hours, they would incur overrun charges. If their flow is normally distributed about the mean, then they can expect to have hourly overruns of around $\pm 1\% - 1.5\%$ of their hourly flow, for around half of the hours, equating to cumulative hourly overrun of $0.5 - 0.75\%$ of their nominations. At even an uncongested welded point ($M=2$), the charge ($DNC_{FEE} * HOQ * M$) will increase their overall charges by $0.5 - 0.75\%$ of their base charges.

It is entirely possible the pipeline events outside the shippers control such as pressure swings or offtakes by other shippers at nearby points can adversely impact the Shippers ability to flow to the agreed profile. They should not be penalised for this, and as such there should be a tolerance for each and every hour against the profile. A proposed T_{AHP} of 1.25 is half of the default tolerance of 1.5 (MHQ Definition).

Further to this point, it is not clear what the rationale is for no tolerance on flows against Agreed Hourly Profiles. We are concerned that having zero tolerance can cause some disincentives that can adversely affect the industry. For example, having an agreed hourly profile that has zero flow between 00:00 and 06:00 means that **any** gas taken during this period is assumed to be "overrun" and therefore attracts charges. In the case of a producer (should a similar charging mechanism apply), restarting earlier than the agreed profile after planned maintenance would incur overrun charges, even though it is likely in the best interests of all parties.

ERM and Overrun – Underrun Charges

Our response to this issue is contingent on other changes in the code, and we do not view that it can be considered in isolation. The obligations on FirstGas to manage Taranaki Target Pressure, whether Low or High linepack notices can / will be issued and whether they will affect the ERM charge multipliers are important considerations on our assessment of the overall effectiveness of balancing.

One key difference between the MPOC and the GTAC is that under the MPOC in a cash-out situation, parties lose (or gain) title to gas. While the logic underpinning setting the maximum level of F_{NERM} and F_{PERM} can be followed, it is uncertain as to how the impact of not changing title will influence behaviours under the GTAC.

Primary balancing incentives are a significant issue for us, and with the GTAC code making some significant structural changes to these incentives, we are concerned that the new measures will prove to be ineffective, and a new round of industry effort will be required to fix the regime. Accordingly, we propose that if the GTAC is approved and takes effect, that FirstGas commits to a formal review of the effectiveness of linepack and pressure management not more than six months after the 'go live' of the code.

Liabilities

We have had insufficient time for us to develop a view on the acceptability of these arrangements.

Incorporation of D+1 allocations under the GTAC

Shell has no comment on this section.

Regards,

Andrew Inwood