



Genesis Energy Limited
The Genesis Energy Building
660 Great South Road
PO Box 17-188
Greenlane
Auckland 1051
New Zealand

T. 09 580 2094

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Gas Industry Company

By email: info@gasindustry.co.nz

Cross-submissions: GIC preliminary GTAC assessment

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide cross-submissions to the Gas Industry Company (**GIC**) regarding other stakeholders' views on its preliminary assessment of the gas transmission access code (**GTAC**) proposed by First Gas.

Our own views are included below as Appendix A. If you would like to discuss any of these matters further, please contact me by email: margie.mccrone@genesisenergy.co.nz or by phone: 09 951 9272.

Yours sincerely

A handwritten signature in black ink, appearing to read "M. McCrone".

Margie McCrone
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: If there are matters raised in submissions you would like to comment on, that are not addressed in the questions below, please provide your views here.</p>	<p>Genesis would like to make the following comments relating to the 27 March workshop:</p> <ul style="list-style-type: none"> • We support further consideration of Todd's recommendation to have six nominations cycles; • We are interested in understanding the no notice option for mass market customers that was raised by Trustpower; • We note Vector's presentation on perceived unfairness of hourly overrun (OR) fees and agree this is an issue. We make further comments on hourly OR fees, particularly in respect of peaky users, below.
<p>Q2: Methanex Q3, p6: "We disagree that peaky usage should be discouraged only in connection with congestion... the unpredictability of gas throughput and limited line pack capacity... [are why] peaking limits (which apply universally) are imposed to govern behaviour on the Maui Pipeline under MPOC, even though congestion is not a factor. It is also the reason why Methanex is particularly concerned regarding the approach taken in the GTAC of making line pack freely available to users which is also applied in an inconsistent and discriminatory manner."</p> <p><i>Do you think peaky usage should be discouraged, even when capacity is not scarce, and why?</i></p>	<p>Genesis entirely disagrees with Methanex on this point.</p> <p>First Gas conducted a study to determine an appropriate Hourly Quantity/Daily Quantity (HQ/DQ) ratio for the Huntly Power Station to determine the allowable peaking limit under the GTAC. First Gas assumed a system peak week (the highest demand week in a year) and assumed a low gas pressure point during that week as a starting point for the analysis.</p> <p>The analysis then tested various quantities of gas use (e.g. 30 scm/s to 80 scm/s) across various timeframes (1 hour to 7 days). The analysis concluded that Huntly could run at more than the entire plant maximum capacity (including coal capable Rankine units running on full gas) for any period up to 12 hours without any detrimental impact on pipeline performance whatsoever.</p> <p>This means that the HQ/DQ could be any number and it makes no difference to pipeline performance i.e. peaking charges for Huntly have no physical rationale.</p>

	<p>The analysis did show however, that high continual rates of gas use (e.g. over 5 to 7 days) did lead to potential pipeline issues. This means, contrary to all beliefs to-date, that a low HQ/DQ could have a greater detrimental impact on the pipeline than a high HQ/DQ.</p> <p>Genesis submits that in this light the GIC should view the hourly OR proposals as more negative than it has in its preliminary assessment. We also consider First Gas needs to provide quantitative rationale for its pricing particularly regarding peaking, underrun (UR) and OR fees and price multipliers.</p>
<p>Q3: Vector Q3: "The determination of whether a Delivery Point will be congested is normally made by First Gas by 30 June each year. We would be surprised if a Delivery Point will potentially or actually be congested every day of the year. We therefore question whether applying a 10 times incentive fee on days when there is a very low likelihood of congestion is efficient."</p> <p><i>For what reason(s) would an F factor of 10 (GTAC s11.4) be appropriate at times when a Congested DP is not congested?</i></p>	<p>Genesis agrees with Vector on this point: there is no rationale provided for charging an F factor of 10 times when a pipeline is not congested.</p>
<p>Q4: Todd Q3: "Most of the 'Benefits of diversity' can be achieved with fewer than ten consumers of similar size. That is hardly a number that should 'hinder competition'."</p> <p><i>Regarding the proposed product or pricing design, do you consider that the benefits of diversity would mostly be achieved by shippers who have 10 or more customers? If not, what level of customers would be sufficient to yield the benefits of diversity?</i></p>	<p>Genesis disagrees with Todd from a statistical perspective: while we have hundreds of thousands of electricity customers, our overall load shape is different from other retailers of similar size.</p>
<p>Q5: Shell Q5: "We consider that the removal of the ability to operate Displaced Gas Nominations (as defined in MPOC) has negative implications for gas trading, and this should be factored into the GIC's assessment."</p> <p><i>Given the GTAC does not have point-to-point nominations, do you consider that the absence of displaced gas nominations would bring any disadvantages such as adverse effects on gas trading, and why?</i></p>	<p>No comment.</p>

<p>Q6: First Gas Q6: “We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially.”</p> <p><i>Do you think that the GTAC s2.6 obligation on First Gas to deal with Shippers impartially mitigates concerns around how tolerances would be set under s8.5(b)?</i></p>	<p>No. In our view, First Gas misses the point here:</p> <ul style="list-style-type: none"> • There will always be winners and losers from tolerance setting; • Shippers need to understand the financial implication of any level of tolerance provided; • Acting impartially fixes neither of these issues.
<p>Q7: Methanex Q6: “In general terms, we don’t believe that GIC has sufficiently assessed changes made in the GTAC regarding physical balancing arrangements, particularly in regard to the implications of FGL relaxing its obligations in regard to managing pipeline pressure and line pack (section 8.5/8.6 in particular), and its diminished responsibilities to pro-actively undertake balancing actions when the pipeline approaches the acceptable limits (including through operation of Section 8.6).”</p> <p><i>Do you consider that the GTAC would relax the obligations on First Gas to manage pipeline pressure and, if so, is that detrimental?</i></p>	<p>No comment.</p>
<p>Q8: Shell Q6: “The burden of proof should not be on submitters to prove that the ERM mechanism is worse, it should be on the GTAC proposer to demonstrate that it is better than the current system of daily balancing, and in accord with good gas practice that has been proven elsewhere.”</p> <p><i>Overall, do you consider that the ERM mechanism, coupled with back-to-back balancing, is likely to improve on, or be worse than, the current balancing arrangements (MBB, coupled with the Balancing and Peaking Pools)?</i></p>	<p>We consider this is another example [as with peaking charges] where First Gas has proposed pricing without substantive qualitative or quantitative analysis that demonstrates prices are reasonably determined at both at a nominal level and relative to other prices (e.g. relative to UR and OR fees).</p>
<p>Q9: Trustpower Q6, 8.11.3: “... the proposal will provide sustained upward pressure onto market prices by incentivising market offers to be \$0.60/GJ ABOVE the last trade, while bids will only be \$0.20/GJ BELOW the last trade.”</p> <p><i>Do you consider that the ERM fees will distort the market price of gas compared with the status quo?</i></p>	<p>Genesis is of the view for this to always be true the party making the bid or offer would have to know that the only reason a counterparty would be interested in buying or selling gas would be for the purposes of balancing. This could not always be known and is unlikely to be true the majority of time.</p>

<p>Q10: First Gas Q7: “We agree that the single balancing regime across the system will have significant benefits in terms of efficiency. We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially.”</p> <p><i>Do you consider that the requirements for First Gas to be impartial (eg GTAC s2.6 and 2.7) should dispel concerns about the uncertainties of how ERM tolerances will be allocated?</i></p>	<p>No. Please refer our response to Q6.</p>
<p>Q11: Greymouth Q14, item 2: “We consider that a change in transmission products and access terms should require a reassessment of the basis and terms on which non-standard pricing terms are offered to end-users – policies that may have been appropriate under current codes may no longer be fit for purpose under the new arrangements.”</p> <p><i>Do you agree with Greymouth, that the Supplementary Agreements should be reassessed in light of any change from the current access arrangements to new access arrangements?</i></p>	<p>We agree with the sentiment, if not the conclusion. This is because – as noted above - there has been a lack of qualitative or quantitative rationale provided for the relative pricing of products under the GTAC (regardless of whether the products have changed from the MPOC or VTC or not).</p>
<p>Q12: Methanex Q14, p3: “Lack of transparency due to the non-disclosure of those agreements [SAs] has made it impossible to determine the level of impact they have on the rights of MPOC users during the GTAC consultation process. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC. GIC comments that GTAC is an improvement over existing codes by reducing information asymmetries and in so doing reducing barriers to competition. We contend that in this respect there is a substantial reduction in the level of transparency that is currently enjoyed by MPOC users.”</p> <p><i>Do you consider that the confidential nature of non-standard pricing and other terms of existing SAs would raise more concerns under the GTAC regime than under the current access arrangements?</i></p>	<p>Genesis generally supports the disclosure of information but does not support overriding confidentiality provisions in existing contracts.</p>
<p>Q13: Shell Q18: “No party considering entering into gas transmission or interconnection arrangements should be expected sign an agreement which states there are circumstances where the party can be “deemed not to have acted as a</p>	<p>Genesis disagrees with Shell at a philosophical level: if a party wilfully defaults on a contract then this is often ‘deemed’ to impact on that party’s liability limit regardless of the defence of the defaulting party. Therefore, in our view, it is not a stretch to</p>

<p>Reasonable and Prudent Operator”. Such a determination should be determined by the facts. Any necessity for such a “deeming” is indicative of a flawed design in the liability provisions.”</p> <p><i>Do you consider that the proposed provisions deeming a party not to be an RPO are significantly worse than provided for in the current codes?</i></p>	<p>assume that a party has not acted as an RPO under certain circumstances where the defence is irrelevant to the matter.</p>
<p>Q14: There are some strongly contrasting views on whether the nominations workload would significantly increase the administrative burden for stakeholders. For example, Greymouth Q2: “We consider the potential impact on end-users of punitive fees for incorrect nominations has been underestimated. The workload on those end-users whose shipper agreements delegate nomination obligations to them will increase significantly.” And, in contrast, Genesis Q15: “We agree that once the upfront capital cost of the systems upgrade is paid for, the ongoing staffing costs associated with nominations should not be material.”</p> <p><i>Do you consider that the proposed nomination arrangements would significantly increase or decrease the administrative burden for stakeholders?</i></p>	<p>Notwithstanding our previous comments, we do agree with Greymouth that for sites where shippers’ contracts require that the customer nominates its own gas requirements, the workload will increase. We also note that in absence of any tolerance provided for OR or UR of nominations, the number of customers required to provide their own nominations is likely to increase.</p> <p>There will also be some additional work for shippers to manage rebates and wash-ups.</p>
<p>Q15: There are some strongly contrasting views on whether the proposed balancing arrangements would increase or decrease spot market activity. For example, Shell Q6: “There is no basis for the GIC’s assertion that the GTAC proposal for balancing has the “potential for increased activity in the spot market”. With the reduced incentive for shippers to balance, the GTAC proposal will likely reduce the activity on the spot market.” And, in contrast, Todd Q6: “Todd agrees with the discussion of the various aspects of the GTAC balancing arrangements. In terms of the assessment, it agrees that the tolerance terms could be improved, but believes the overall efficiency gain is in fact a very material improvement on current arrangements. The likely incentive for greater trading on the emsTradepoint gas market is one aspect of that improvement.”</p> <p><i>Do you consider that the proposed balancing arrangements would likely increase or decrease the spot market trading your business might engage in?</i></p>	<p>Our view is the emsTradepoint market will continue to grow regardless of the changes proposed to balancing arrangements under the GTAC.</p>

<p>Q16: There are some strongly contrasting views on whether the proposed requirements for parties to demonstrate the need for a Supplementary Agreement (SA) would likely result in more or less SAs. For example, First Gas Q14: “The assessment seems to miss the importance of requiring parties to demonstrate the need for an SA.” And, in contrast, Genesis Q14: “We note that supplementary agreements may be more necessary than the GIC realises in its assessment. For example, Genesis may need to ‘contract out’ of the GTAC’s hourly overrun charge regime to maximise gas throughput at Huntly.”</p> <p><i>Do you think SAs are likely to become more prevalent under the proposed GTAC arrangements? For what reason(s)?</i></p>	<p>We hope our comments to the left become moot following consideration of our response to Q2 above.</p>
<p>Q17: There are some strongly contrasting views on whether the proposal would bring more excursions from the Target Taranaki Pressure (TTP). For example, First Gas Q19: “The GTAC drafting better reflects reality. As system operator, we endeavour to keep TTP within the range, but there are factors outside of our control that cause divergence. This therefore appears to be more an issue of contractual wording, rather than requiring any change in behaviour from First Gas as system operator.” And, in contrast, Methanex Q19, p20: “In regard to there being frequent (but brief) excursions, we consider that the obligation to maintain pressure between 42-48 bar in MPOC does not infer strict observance but it does place an obligation on FGL to act in order to return pipeline pressure to the mandated range. This contrasts with the much weaker reasonable endeavours obligation in GTAC, which is further weakened by the TTP also being subject to the level of “aggregate ERM”, which is at best an ambiguous modifier.”</p> <p><i>Do you think the proposed arrangements put weaker incentives on First Gas to maintain the TTP, that could lead to more relaxed management and increased costs to interconnected parties?</i></p>	<p>Genesis considers the contractual obligation is weaker under the GTAC, and while this may not change how First Gas operates the pipeline initially, there is the potential that over time First Gas might change its operational approach to the benefit or detriment of pipeline users.</p>
<p>Q18: There are some strongly contrasting views in relation to gas quality. For example, Methanex Q9, p11: “We believe GIC is misrepresenting “passive” wording in GTAC for what is, a substantive reduction in FGL’s obligations to protect its customers from the prospect of receiving non-specification gas. In</p>	<p>No comment.</p>

<p>particular, we dispute that the provisions of [GTAC] Sections 12.8 and 12.11 are passive in absolving FGL of responsibilities and liabilities.” In item 40, p11, of its submission Methanex lists a number of instances where it considers the GTAC gas quality assurances are significantly less than those of the MPOC. This contrasts with the views of other submitters – eg Contact, Greymouth, MGUG and Todd – who agreed with the Preliminary Assessment that there would be “no noticeable change” in relation to gas quality.</p> <p><i>Do you consider that the Methanex is correct to say that the proposed arrangements would bring a substantive reduction in First Gas’ obligations to protect its customers for non-specification gas?</i></p>	
<p>Q19: There are some strongly contrasting views on whether, if the Overrun (OR) and Underrun (UR) fees are balanced, the proposed level of OR/UR fees would still be a concern. For example, Todd Q16, p8: “As noted above, the formula applied in the GTAC is incorrect. Once corrected, and the value of F is no greater than 2, then these charges are much less (and probably one third less) than the levels projected by GIC because there would be no underrun fees applying. Many of the concerns about GTAC pricing would therefore fall away under this correction.” And, in contrast, Genesis Q16: “We are concerned the daily over and underrun charges will increase costs to serve the mass market, which will be exasperated by lower incentive pool rebates. This does not reflect the flexibility the transmission system has been designed to afford.”</p> <p><i>Do you consider that, if the OR and UR fees are balanced, the proposed level of OR/UR fees would still be a concern and, if so, why?</i></p>	<p>We agree the proposed balancing of OR and UR fees is an improvement on the current GTAC drafting.</p> <p>We do however submit that these fees are not at the right level when compared with excess running mismatch (ERM) fees, and are set too disproportionately high.</p> <p>Genesis sees two main purposes for OR and UR fees. The first is to stop the hoarding of transmission capacity. This incentive is reduced under the GTAC because the transmission product is daily rather than annual as per the VTC (we note the MPOC is a daily product and there are no UR or OR fees and no evidence of capacity hoarding). The incentive to hoard is also reduced due to the absence of grandfathering rights under the GTAC.</p> <p>The second purpose of OR and UR fees is to incentivise accurate nominations for the purpose of forecasting load. For retail gates, First Gas should get far richer information from weather forecasts and usage patterns than from nominations. Accurate nominations may be valuable for First Gas for the purpose of understanding the intentions of large users where use may not be correlated to weather e.g. methanol or electricity production.</p> <p>In our view, the overall the justification for high OR and UR fees is low because there is very</p>

	<p>little incentive for parties to provide inaccurate nominations and the information provides very little benefit.</p> <p>We note the standard price for OR fees is two times the daily nominated capacity which is \$4/GJ plus. In comparison, the standard negative ERM fee - which is designed to ensure that flow into the pipeline matches flow leaving the pipeline and protects all parties against loss of gas, critical contingency events and the industry from potentially millions of dollars of losses caused by businesses not operating and ultimately the manual re-lighting of hundreds of thousands of pilot lights – is just \$0.60/GJ.</p> <p>We see that in contrast to OR and UR fees, there is an incentive for parties to use more gas than they are entitled to use because gas is used to make money and often a lack of gas can be detrimental to the financial performance of an entity.</p> <p>So why are ERM fees \$0.60/GJ and OR fees \$4/GJ plus? We are not necessarily saying that ERM fees are too low, rather that there seems to be very little thought as to the relative price of OR, UR and ERM fees and they seem to be well out of proportion to the incentives and benefits that underpin them.</p> <p>On another note, Genesis remains of the opinion a level of tolerance should be provided before parties are liable to OR or UR fees.</p> <p>We also require more detail on who is eligible to receive the benefits of recycling each fee under the proposed rebate regime.</p>
<p>Q20: There are some strongly contrasting views in relation to Priority Rights. For example, Trustpower 7.1.14, p7: “We are pleased GIC and other submitters recognise our concerns that: a) the PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs in either the primary or secondary markets they have no effective means of reducing their demand. b) it is also not fair that retailers may not be able to buy affordable</p>	<p>We consider Trustpower’s concerns are valid: what is the benefit in having PR rights on a pipeline that is congested and 100 per cent mass-market? (very little).</p> <p>Genesis’ view is that PR rights are only valuable in the case where scarce pipeline capacity can be valued and parties on that pipeline can make a rational decision as to</p>

<p>PRs and so could become caught in a squeeze between their customers and the competing priorities of the network owner and/or other access seekers.” And, in contrast, First Gas s4.2, p29: “While we acknowledge that mass market shippers cannot control their customers’ demand, we do not believe that PRs are any more onerous than the existing codes. If a mass market shipper does not hold sufficient reserved capacity under the VTC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. If a mass market shipper does not hold PRs under the GTAC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. The key difference under the GTAC is in how the price of scarce capacity is set –with the PR price being set via an auction.”</p> <p><i>Do you consider that the Preliminary Assessment gives undue weight to concerns that, if mass-market shippers may be unable to secure PRs, they have no effective means of reducing their demand?</i></p>	<p>whether they reduce their load or not based on that value.</p>
<p>Q21: There are some strongly contrasting views on whether the level of First Gas discretion is always appropriate. For example, Methanex Q22, p21: “We strongly disagree that FGL discretion is appropriate or fair in regard to providing tailored Specific HDQ/DDQ allowances and we are generally concerned that GIC has not considered this as an area which, on efficiency and fairness grounds, is materially worse than the status quo. Further, we consider the rationale set out in GTAC of ‘striking a balance’, at FGL’s discretion, between the proper operation of the pipeline system against the commercial requirements of particular end users to be entirely inappropriate.” And, in contrast, First Gas Q22, p45: “We agree with the analysis of First Gas discretion. We believe that the areas of discretion identified strike the right balance for a transmission system operator.”</p> <p><i>How have submitter views on First Gas discretion altered your opinion?</i></p>	<p>Please refer our response to Q2.</p>
<p>Q22: There are some strongly contrasting views on whether the proposed arrangements will provide more transparency. For example, Shell Q23, p11: “In terms of the commitment to publish information, we agree that the</p>	<p>Genesis would value the publishing of the information that Shell alludes to over the publishing of interconnection agreements, so we agree with Shell on the whole.</p>

GTAC is not as open as MPOC, to the extent that we consider that the GTAC is materially worse than MPOC. In contrast to MPOC, GTAC does not commit to publish in real time:

- The then-prevailing hourly Scheduled Quantity (SQ) established for each receipt or delivery point (or delivery zone in GTAC);
- The metering quantity for each hour at each receipt point or delivery point (or the aggregate delivery quantity in each delivery zone in GTAC);
- The imbalance between scheduled and actual flow at each major receipt or delivery point.

And, in contrast, First Gas Q23, p45: “We believe that the publication of interconnection agreements is significantly more transparent than the current VTC. Publication of running mismatch positions is more transparent than either current Code. Moreover, changes suggested to publish reasons for SAs will further increase transparency.”

In light of the submissions, how do you consider the proposed arrangements compare in relation to transparency to the current arrangements?