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Gas Industry Company
By email: info@gasindustry.co.nz

Preliminary assessment of the GTAC

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide comments to the Gas Industry Company (**GIC**) regarding its preliminary assessment of the gas transmission access code (**GTAC**) proposed by First Gas.

We appreciate the well-considered and clearly articulated feedback the GIC has provided on the relative merits of the GTAC in its robust, three-step initial determination.

Genesis agrees with the GIC there is 'much to like' about the GTAC, and that it is materially better than the status quo in many respects. That said, we also agree that overall, the GTAC is not materially better just yet.

Like the GIC, our view is there are several outstanding concerns to be addressed, which at a high level relate to the punitive nature of incentive charges, and uncertainty surrounding elements of the GTAC that are still under development or yet to be developed.

We consider any outstanding concerns can be worked through constructively as an industry over the course of the coming months, and that together, we can get the GTAC to a point where it meets the materially better threshold. This is our preference over a regulated solution, or the industry taking the pen to start afresh.

Our recommendations on how best to move forward 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

Margie McCrone
Regulatory Advisor

Appendix A: Responses to Consultation Questions

<table>
<tr><th>QUESTION</th><th>COMMENT</th></tr>
<tr><td>Q1: Do you have any comment on our approach to the analysis?</td><td>We appreciate the GIC's well thought-out analysis. The three-step process and coloured arrows are useful for drawing conclusions on each section of the GTAC and the drafting overall.</td></tr>
<tr><td>Q2: Do you agree with our assessment of the GTAC gas transmission products?</td><td>On the whole yes. We agree that a daily capacity product is preferable to an annual product and appreciate there are more products to deal with demand-side management.

We also acknowledge there will be costs associated with moving to a new operating platform, but this is to be expected with any change of this nature.</td></tr>
<tr><td>Q3: Do you agree with our assessment of the GTAC pricing arrangements?</td><td>We note the GIC has had to make its preliminary assessment without firm pricing from First Gas. Genesis remains of the view firm pricing needs to be provided before stakeholders can assess the likely cost implications of the GTAC.

Generally, our assessment of the pricing arrangements is more negative in respect of the following:
Fairness of excess running mismatch (ERM) charges;
Proportionality of daily overrun and underrun charges; and
Justification for hourly overrun charges.
We agree ERM charges are necessary but consider it is unfair for shippers to incur these charges unless they are contributing to pipeline issues.

We also agree overrun and underrun charges can incentivise efficient shipper behaviour but are concerned the level they are set at in the GTAC is punitive and disproportionate to the true costs of service. See our response to Q16 below for more information.</td></tr>
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	In our view, no justification has been provided for charging shippers an hourly overrun fee under the GTAC. See our response to Q17 for more information.
Q4: Do you agree with our assessment of the GTAC energy quantity determination?	No comment.
Q5: Do you agree with our assessment of the GTAC energy allocation arrangements?	No comment.
Q6: Do you agree with our assessment of the GTAC balancing arrangements?	We agree a single pipeline balancing regime is a material improvement over the status quo. The absence of balancing tolerances is concerning to us, and this is an example of the uncertainty that needs to be resolved in the next stage of GTAC development.
Q7: Do you agree with our assessment of the GTAC curtailment arrangements?	On the whole yes, although we consider shippers' indemnification of First Gas for inability to comply with an operational flow order is more of a concern than the GIC assessment suggests. We believe a lesser ERM charge, coupled with the addition of a tolerance, would enhance the curtailment arrangements without detracting from the pricing signal.
Q8: Do you agree with our assessment of the GTAC congestion management arrangements?	Yes. We are uncertain whether priority rights (**PR**) will be suitable for managing retail mass market load, and consider the PR auction terms need to be developed so shippers can understand how PR might work in practise.
Q9: Do you agree with our assessment of the GTAC gas quality and odorisation arrangements?	No comment.
Q10: Do you agree with our assessment of the GTAC governance arrangements?	No comment.
Q11: Do you agree with our top-down analysis?	On the whole yes.
Q12: Do you agree with our overall assessment?	On the whole yes.

Q13: Do you agree that with our analysis of ICAs?	We are currently reviewing how interconnection agreements will interact with the GTAC. We have no further comment to provide at this stage.
Q14: Do you agree with our analysis of SAs?	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.
Q15: Do you agree with our analysis of nominations?	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. We also agree the strength of the economic incentive to make nominations accurate raises serious concerns. As we have noted in previous submissions, we consider all incentive charges in the GTAC should be 'right-sized' to address the problem they are aiming to solve. Please refer our response to Q16 and 17 for more information.
Q16: Do you agree with our analysis of daily overrun and underrun charges?	In our view, First Gas has offered no physical pipeline rationale for the granular information it is targeting via daily overrun and underrun charges. We agree with the GIC that these charges are unlikely to yield commensurate efficiency gains, and the burden should be on First Gas to prove otherwise. 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.
Q17: Do you agree with our analysis of hourly quantities?	On the whole yes. Genesis has particular concerns about the fairness of hourly overrun charges, because we do not consider First Gas has provided evidence they are necessary for its operation of the transmission system. For example, First Gas analysis provided to Genesis shows that Huntly power station can run

	at more than maximum plant design capacity (including all coal/gas units running on full gas) for at least 12 hours in a 'system peak week' (i.e. the maximum annual gas demand week) without causing any pipeline issues; and further, the constraining factor for the 12-hour period is the Huntly lateral off the Maui pipeline rather than the Maui pipeline itself or the Mokau compressor. That same analysis shows a Maui pipeline issue could be caused when Huntly runs at high load continuously for 5-7 days, but this is not 'peaking' – i.e. what hourly overrun charges penalise. Given that Huntly has the greatest peaking capability in the gas system, the conclusion is that there is no physical rationale for hourly overrun charges on the Maui pipeline. Given this analysis, First Gas should justify its rationale for charging hourly overrun charges.
Q18: Do you agree with our analysis of liabilities? In particular, do you have any particular comments on whether the proposed liability arrangements in relation to the injection of Non-Specification Gas better meet the efficiency, reliability and fairness objectives when compared to the MPOC and the VTC?	Genesis provided legal mark-ups in respect of section 16.4 (capped liability) of the GTAC that have not been adopted in the current draft. These highlighted the GIC's point that under existing arrangements, the liability caps have been adjusted for inflation, which is not accounted for under the GTAC.
Q19: Given that the current, tighter, drafting in the MPOC still results in excursions outside of the 42-48 bar gauge range, what is your view of the revised drafting under the GTAC?	No comment.
Q20: Do you agree that comparing the ERM charges with bid/ask spreads is a sound method for testing the appropriateness of the quantum of those ERM charges? If not, what would be a more appropriate comparator?	Yes.
Q21: Do you agree with our analysis of the incentive charge rebates?	We agree the key consideration should be whether the incentive charge rebates reflect real economic costs. In our view, they do not. As noted in previous submissions, Genesis is concerned that the rebate proposal has

	materially changed the allocation of costs, potentially redistributing costs to favour larger, more predictable loads. We also noted the possibility that as these costs are no longer part of First Gas' revenue streams, there may be less incentive to set charges at an appropriate level. We are unclear whether supplementary agreement holders would share in the rebate pool, and believe this needs to be clarified.
Q22: Do you agree with our analysis of First Gas' discretion?	No comment.
Q23: Do you agree with our analysis of public information disclosure?	No comment.
Q24: **How far away from the materially better standard do you think we are?** For example, do you think we need to fundamentally re-work the access products and concepts; significantly re-work a few items and adjust a range of other items; adjust a range of items; or adjust a few key items?	While Genesis does not believe we are too far off the GTAC meeting the materially better standard, it would be most useful to hear from the GIC its view of the extent of work required to get there.
Q25: **How long do you think it will take to re-engage and achieve materially better?** For example, a similar amount of time as spent so far (August 2016 to November 2017); about half as much time as spent to date; six months; or three months? Do you have any views on an appropriate go-live date for the new code, given the other steps involved (GIC assessment and IT implementation)?	If all stakeholders committed to focus constructively on the task at hand, we consider the go-live date could be delayed by six months. Realistically, a 1 October 2019 date may be more achievable.
Q26: **Do you have any preferences on how the process should be run from here on in?** For example, in terms of the pathways shown in the decision tree above, should we revise and consult on the GTAC to address the reasons the GIC concluded it is not materially better, should be discontinue the process, or should we start from a blank sheet of paper? Should we use workshops	Our preference is to revise and consult on the current GTAC. We consider a series of productive workshops is needed that focus on one, pre-determined topic at a time. An independent facilitator should manage each workshop session, the pre-agreed agenda for which should be strictly followed. All

like we have previously; focused work group sessions; one-on-one discussions; or a mix of the above?	stakeholders should be given equal opportunity to share their views. Each workshop should have the objective of reaching a majority agreed position by completion of the session. If that is not possible, a pathway forward on the issue should be provided.