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A RESPONSIBLE CARE® COMPANY

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Dear Ian

Pleased find attached Methanex' response to the Minutes provided in respect to the GTAC Workshop held on 10-12 July 2018.

Interconnection – Common and Essential Terms

1. We have no particular comments to add in regard to the minutes related to the discussion on what were the common and essential terms that need to be addressed. We considered the initial list provided by FGL to be incomplete but that incorporation of the additional terms covers the bulk of the other terms that need to be addressed.

Interconnection – Integration Aspects

2. Methanex took away a different view of the consensus from the workshop than has been expressed in the minutes. We believed that Option 3 was preferred by the majority of stakeholders and it was only FGL that favoured Option 2.

3. However, in considering Options 2-4 we were left with the impression that the essential differences between the three options is style rather than substance. We made this comment at the workshop and noted that the Independent Facilitator also expressed some confusion about the functional difference between those options.

4. Our main concern rests not on the style in which interconnection terms and conditions are presented, or the drafting mechanisms used to achieve integration, but the degree to which FGL intends to prescribe the common and essential terms of interconnection.

5. The minutes note that "Some stakeholders considered that the terms that apply to shippers and interconnected parties should be contained in a single code so that there is an awareness and understanding of the obligations that apply to all users of the transmission system." This is a true but incomplete assessment of the issue, the main issue is to ensure the rights and obligations are clear between and among all parties.

Allocation Methods

6. We are encouraged by FGLs recognition that Interconnected Parties (not Shippers) are best placed to choose allocation methods. However, it is clear that the Code will need to set out clear terms in respect to allocation methods and principles to ensure that Shippers and Interconnected Parties have confidence and certainty regarding allocation principles.

7. We were also encouraged by the indication that FGL would more clearly prescribe allocation methods. We believe it would be in all stakeholders interests (including FGL) for there to be a small number of well specified allocation options rather than having the ambiguity that currently applies in the GTAC.

8. We continue to hold the view that OBAs remain the best and most rational allocation methodology for interconnection points on the Maui Pipeline in the interest of all stakeholders. We also believe that all Receipt Points should be governed by OBAs as a rule, the prospect of injecting parties not being directly involved in confirming Receipt Point nominations in the Code remains a significant concern.

Target Taranaki Pressure

9. The minutes set out the main points raised in the discussion but has no particular comments on what were agreed (or not agreed) outcomes.

10. Methanex is concerned that the minutes have misinterpreted the FAP findings regarding TTP.

    (i) There is no FAP finding that recommends that FGL should maintain a "*reasonable endeavours obligation to keep between 42-48 [bar]"* as has been suggested in the minutes.

    (a) The actual FAP finding [p.187] states *"We have seen no evidence supporting a change to the TTP or justifying a relaxation of the management standards. Accordingly, it would appear efficient and prudent to maintain at least the level of scrutiny and control that is currently required by the MPOC."*

    (b) FGLs presentation at the workshop made particular reference to Section 2.5(c) of MPOC in comparison to Section 7.13(e) of GTAC, but the relevant obligation is actually set out in Section 2.19. The further obligations in Section 2.5(c), that are in relation to maintaining a low pressure and sufficient Line Pack, are subject to complying with those in 2.19.

    (c) Section 2.19 states: *"The Target Taranaki Pressure <u>shall be</u> between 42 and 48 bar gauge, except as may be required as a result of a Contingency Event, Force Majeure Event or Maintenance."*

(d) For the avoidance of doubt, this is an absolute obligation except to the extent required to address Contingency Events, Force Majeure Events or Maintenance (as those terms are defined in MPOC).

(ii) We agree with FGL that Section 2.19 has an obligation that it can't assure perfect compliance with, but that was never the expectation or intention of the provision. It is also misplaced for FGL to claim exceedances as justification for it to reduce its overall obligation.

The core implication of the operation of Section 2.19 is to place a requirement on FGL to take positive action to restore pressure to within the prescribed limits. The evidence presented by GIC in the FAP (see page 186) shows that this is effectively achieved with exceedances, where they have occurred, being minor[1] and quickly corrected, with pressure clearly trending along the mid-point of 45 bar.

(iii) When discussion turned to inclusion of aggregate ERM as a carve out of its obligation to maintain TTP, FGL made comparison to the application of the Daily Operational Imbalance Limit ("DOIL") in MPOC. We disagree that there is any equivalency:

(a) Application of aggregate ERM is used as a means of relaxing FGLs obligation to maintain TTP in GTAC.

(b) In MPOC, FGL is required to take into account providing a reasonable quantity of gas to meet DOILs as a part of its obligation to maintain TTP between 42-48 bar.

11. For equivalency, FGL would need to provide a further condition to the definition of TTP in GTAC that requires it to provide for a reasonable quantity of Gas to meet peaking allowances and Running Mismatch tolerances as part of its obligation to maintain TTP.

Balancing

12. Methanex is generally supportive of the proposal on the level of Running Mismatch tolerances put forward by FGL.

13. We believe a balance needs to be struck between having no RM tolerances (which impose a penalty on marginal variations between nominations and load which are impossible to avoid and are generally at level which imposes no particular costs on other users) and providing excessive free allocation that would encourage misuse and a transfer of value/risk between recipients and non-recipients.

14. We reiterate our view that RM tolerances need to be set aside in higher priority to other discretionary allocations of line pack. It would be impossible to provide a fixed and known quantity of RM tolerance if it is allocated from the residual available line pack after other allocations have been made.

In addition, RM tolerances should not be affected by whether Mokau is on or off as to do so would introduce uncertainty. Any additional line pack that is made available should be priced

[1] The graph of Maui pipeline pressures provided in the FAP shows there were only two instances during the last two years where pressures exceeded the upper 48 bar limit by more than 5% (50.4 bar) and no instances where pressure breached the lower threshold by more than 5% (39.9 bar).

in order to compensate other users for the increased risk that arises from reducing the spare line pack available for system-wide flexibility.

15. As far as application of other discretionary line pack allocations, such as Park and Loan, we believe there is an issue that needs to be resolved in respect to the status of the Mokau compressor and available Line Pack. If additional Line Pack is allocated while Mokau is running, it would be need to be interruptible when Mokau is no longer needed. Otherwise a situation would arise where Mokau would need to continue running as long as those additional allocations remain in effect. This would be acceptable only if it was clear that the parties utilising the additional Line Pack were paying for use of the compressor required to maintain the higher level of Line Pack.

16. Given that FGL has indicated it will replace AHPs in their currently proposed form we agree that there is merit in providing a facility similar to the Operational Profile Notice in MPOC to address the impact of major plant shut-down/restart profiles.

Peaking

17. Methanex was encouraged by the proposal made by FGL in respect to Peaking which appears to be a fairer and more consistent approach than the current mechanisms proposed in GTAC.

18. It was clear from the workshop that Option 1 was preferred but some work was needed on clarifying the criteria, particularly around defining ramp-up/ramp-down rates and load variability as qualifying criteria. We are also concerned that FGL had indicated that the detail on the criteria would be left to Balancing SOPs[2]. While some operational detail and settings may be best left to SOPs it is important that the principles and fundamental methodologies are specified in the Code to provide users with certainty around the rules.

19. We do have concerns regarding the detail of the proposal and agree that additional workshop time is required to consider the complexities and implications of the proposal.

20. One concern is that the introduction of hourly delivery profiles that can be changed at each ID cycle raises the prospect that line pack will be placed under considerable pressure as a consequence of the disconnect between delivery point and receipt point nominations that is a feature of GTAC, including the abandonment of daisy chain nominations. We see a prospect where significant intra-day changes to hourly profiles will not be matched with changes in injection profiles to keep the system in balance and will consequently increase stress on the available line pack, increasing the prospect of FGL balancing actions or curtailments being required. In general terms it is important that the peaking regime does not have the effect of imposing an increased risk of curtailment on users outside the regime.

ID Cycles

21. Methanex considers the optimal gap between ID cycles to be no more than 3-4 hours. To put matters into perspective, a complex outage at Methanex' Motunui plant would cause a gap between nominations and gas flows in excess of 6 TJ per hour until Methanex has an opportunity to renominate. This presents considerable risk to the system and users as a

[2] See Slide #23, FGL presentation for GTAC Workshop Block 1 – 11 July 2018

whole if Methanex is unable to signal the need for reduced gas injections by having to wait for a protracted period before it can renominate, bearing in mind that Section 15.2 of MPOC enables it to immediately curtail nominations. A three-hour lag would still see an 18 TJ imbalance emerge, but represents a reasonable trade-off given the inevitable time required to re-forecast/request/approve nominations.

22. We also recognise that there may be particular points in the day that gas-fired generators would like to set an ID cycle time in order to match certain electricity market requirements so we are not opposed to some degree of asymmetry in timing between each cycle deadline.

Our baseline proposal (based on nomination deadlines) is for eight ID cycles each day in the following form:

- Maintain current ID 1 at 22:00 day prior
- Set ID 2 at 02:00
- Set subsequent ID cycles deadlines at 3-hour intervals thereafter with last cycle (ID8) at 20:00

This structure would alleviate the main concern Methanex has with the loss of the curtailment rights set out in Section 15.2 of MPOC. At the same it would eliminate the need for ad hoc emergency ID cycles which Methanex considers to be fundamentally flawed in any case.