

23 December 2016

Ben Gerritsen
General Manager Commercial and Regulation
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Dear Ben,

1. Methanex welcomes the opportunity to provide feedback to First Gas on its **Gas Transmission Access: Single Code Options Paper** (“Options Paper”). As Methanex predominantly only makes use of the Maui Pipeline we will restrict our comments to those aspects of the Options Paper which are pertinent to access to the Maui Pipeline. Given the role that the Gas Industry Company will play in assessing and approving the single gas transmission access code (“GTAC”), we have forwarded a copy of this letter to its Chief Executive.

We consider the Options Paper presents a preliminary and high-level overview which has insufficient detail for Methanex to express a preference. We encourage First Gas to provide more information on the operational and tariff implications of each option and how they will contrast with the status quo.

OBJECTIVES OF THE GAS TRANSMISSION ACCESS CODE

2. Methanex recognises that as a consequence of combining ownership of the Maui Pipeline and Vector transmission network, First Gas would seek to integrate the two separate operating codes into one. We support this in principle provided that the unique characteristics of each of the networks and their customers is not lost or undermined in the process. We are concerned that merging of the codes may result in unsatisfactory outcomes for some pipeline users and from our review of the Options Paper we consider there is some risk that the distinct characteristics of the Maui Pipeline and its customers will not be given sufficient consideration.
3. What is most important for Methanex in terms of its on-going access to and use of the Maui Pipeline is:
 - Efficient and accurate mechanisms for allocating and reconciliation of gas quantities. The existing MPOC allows gas suppliers to efficiently and accurately schedule gas

flows, track title, reconcile and balance gas quantities with their customers. We have concerns that alignment of commercial and operating aspects of the two current codes will result in an unsatisfactory result for Maui Pipeline users (both gas consumers and gas producers).

- Tariffs that are differentiated in a manner that ensures Methanex pays only for the services it requires and the specific parts of the First Gas network it uses. Methanex does not wish to be exposed to First Gas expenditures that it does not derive a benefit from. With the integration of the Maui Pipeline and Vector Pipeline into a single entity we consider it necessary to recognise the difference in the cost structures and customer characteristics between those two networks. We consider that adopting a zonal/segmented approach to network operation and pricing would be an effective way of achieving a tailored outcome within a single code.
4. In setting out its objectives First Gas has not fully addressed the requirements set out in the Government Policy Statement on Gas Governance. In particular, one of the key requirements set out in the GPS is the accurate, efficient and timely arrangements for the allocation and reconciliation of upstream and downstream gas quantities. We recommend First Gas provides more information on how it plans for capacity and overrun to interact with throughput and balancing in the Maui Pipeline. Our view is that unless First Gas is able to identify a more effective mechanism, the current arrangements of deemed flow on nomination and operational balancing should be carried over in to the GTAC. Operational balancing under the MPOC provides pipeline users with the ability to self-balance and avoid interventions by the pipeline operator. This provides the means to achieve efficient outcomes and avoid unnecessary costs/penalties.
 5. In contrasting the different aspects of the two existing codes First Gas has proposed that a single approach to both the Maui Pipeline and the non-Maui Pipeline will make for more simple arrangements. However, for Maui Pipeline users there is the prospect that the existing and effective mechanisms currently used on the Maui Pipeline will be discontinued or modified in favour of a single unified approach that may meet the needs of non-Maui Pipeline users but to the detriment of users who predominantly or exclusively make use the Maui Pipeline.

SCOPE OF THE GAS TRANSMISSION ACCESS CODE

6. We broadly support the approach of setting boundaries between the GTAC and aspects of related (but not integral) regulatory and contractual instruments. However, we consider that there are two areas where there needs to be greater coverage in the GTAC than has been described in the Options Paper.

Interconnection Agreements

7. The treatment of Welded Parties and interconnections within the MPOC has been successful and we recommend that First Gas retains the current arrangements as far as possible. Given First Gas has indicated it will establish a price and contract term for interconnections, we seek more information from First Gas on the commercial terms it will seek from interconnected parties and what services it will provide in return.

Operating polices and standards

8. In setting out those operational elements that should be left to First Gas discretion we wish to emphasise the importance of setting out the principles which First Gas will follow in making operational decisions in the GTAC. As an example, we believe that there needs to be a set of commitments in the GTAC setting out the commercial principles that First Gas will adopt in respect to linepack management, with the objective of seeking least cost gas, including fostering gas markets. The principles for addressing curtailments and contingency events should also be covered in the GTAC.

OPTIONS ANALYSIS

9. In the context of the New Zealand gas industry, we are not convinced that the two contrasting dimensions of choice and simplicity are the most important distinguishing characteristics of a successful pipeline access code, or that contrasting the proposed options on that basis is useful.
10. From the perspective of a Maui Pipeline user, the key criteria for Methanex are:
 - Customer characteristics are important. As a significant proportion of gas flowed through the Maui Pipeline is between gas producers and direct connected consumers we urge First Gas to engage with Maui Pipeline users to retain those aspects of the existing MPOC that have proven successful and should be retained.
 - Geographic aspects are important. As First Gas proceeds with option selection and code development we believe that, notwithstanding integration into a single code, use of the Maui Pipeline and non-Maui Pipeline needs to be differentiated, and within the Maui Pipeline, a segmented/zonal approach is needed in terms of operational aspects and transmission pricing to reflect the varied nature of customers and costs across the network.
11. Option 1 and 2 differ only in respect of how capacity rights are allocated, with Option 1 establishing priority rights well in advance while Option 2 addresses them dynamically as they arise. We see Option 1 as essentially an extension of Option 2. Our chief concerns with either option is that:
 - further work is needed to define the capacity products under each option and pricing implications; and
 - the interaction between pricing outcomes from capacity/overrun and throughput/balancing has not been contrasted or explained.
12. We are unable to assess Option 3 given that a number of issues presented by this option have not been addressed:
 - How will supplier forecasts be formulated, and what timeframe will they cover?
 - How will conformance/non-conformance with forecasts be assessed and priced, and how will this differ from capacity/overrun payments under Options 1 and 2?

- How will operating the Maui Pipeline to forecasts differ from current daily nominations and throughput?
 - How will operational variances from forecast be treated, both unders and overs?
 - How will gas scheduling, nominations title-tracking and balancing operate?
13. In summary, for whichever option First Gas ultimately selects we consider the following should apply:
- Operational aspects of the Maui Pipeline should be retained, particularly the current roles of Welded Party and Shipper, deemed flow to nomination and daily operational balancing.
 - The pipeline network should be segmented to recognise the different pipeline and customer characteristics between the Maui Pipeline and non-Maui Pipeline and regionally within each of the respective pipelines. Pipeline services and cost allocations should be determined as far as possible on a zonal basis with the objective of allocation being determined by the specific parts of the network and each customer or customer group uses.

SUPPORTING ARRANGEMENTS

Legal Form of Code

14. Methanex recommends the following:
- A Code which encapsulates the fundamental principles, rules, rights and obligations for all pipeline users.
 - Common access agreements/TSAs, but with the provision for non-standard amendments where allowed for in the Code.
 - Common interconnection agreements, at least for Maui Pipeline interconnections, where welded parties are signatories to the Code and with the core principles for interconnection (e.g open access, non-discrimination) set out in the Code. Non-standard amendments can still be incorporated.

Code Change Process

15. Methanex accepts the current mechanism for MPOC change requests is unsatisfactory. We support a differentiated approach with some aspects of the GTAC that can be changed in a fast-tracked manner. However, the aspects or provisions of the GTAC that can be fast-tracked need to be agreed in advance between First Gas, pipeline users and the GIC.
16. For those remaining provisions that require comprehensive consultation, we are not convinced that making decisions by independent assessment is appropriate. Our preference is that the GICs role is expanded and it takes a more active role in guiding code changes than previously the case. To avoid any actual or perceived conflict of

interest, it should be for GIC to determine if and when independent or expert assessment is appropriate and if so the selection of assessor and the process/scope of assessment should be determined by GIC and not First Gas.

Balancing and Allocation

17. From Methanex' perspective we consider balancing and allocation to be critical aspects of our use of the Maui Pipeline. They should be dealt with comprehensively in the GTAC. Our preference is to have the existing roles and responsibilities of Welded Parties and Shippers retained on the Maui Pipeline. An important aspect of the Maui Pipeline that we do not wish to see undermined is the ability for pipeline users to nominate to self-balance or trade imbalances in order to avoid/reduce the need for First Gas to trade gas or charge unnecessary Overrun fees.

Non-standard arrangements

18. Methanex is supportive of First Gas having the ability under the GTAC to negotiate non-standard agreements. However, this should not extend to arrangements that materially increases expenditure that is then socialised to other customers.

19. Gas Quality

Methanex supports improvements in gas quality assurance and monitoring. In particular we encourage First Gas to provide a formalised process within GTAC requiring injecting parties to demonstrate transparently to gas consumers that they are continuously complying with their obligations in respect to compliance with gas specification, and there is adequate notification of excursions.

20. Liabilities and indemnities

Gas consumers need to be able to ensure that if they incur damage as a consequence of the supply of non-specification gas that there is an adequate means of identifying and pursuing the causer. Because gas is co-mingled, we believe it is incumbent on First Gas to have a mechanism within the GTAC to identify the causer and hold them liable for the damage they cause, particularly in circumstances where due to co-mingling there is no contractual relationship between the injecting party and the affected gas consumer. Back-to-back indemnification and a duty on First Gas to actively pursue damages on behalf of its customers should be included in the GTAC. We also believe further consultation with pipeline users is needed to determine if the current limitations and liability caps are still appropriate.

NEXT STEPS

21. In setting out its schedule for developing the GTAC we consider that insufficient time has been allowed for consultation on the options and incorporating feedback from stakeholders. With no set date given for option selection we have inferred that First Gas plans to make its selection in the February/March 2017 timeframe, which we

consider to be rushed. We encourage First Gas to allow more time in order to provide more detail, and allow for feedback, on how each option will work in practice and how First Gas will address the differentiated nature of the Maui and Non-Maui Pipelines. This will tighten the time allowed for design and finalisation of the new code but we think time would be best spent addressing the fundamentals of a new code before embarking on detailed design. We also urge First Gas to consider extending the overall timeline to complete finalisation of the code in order to allow more time to properly address the design issues.

Yours sincerely



Phil Watson
Director Asia Pacific Gas
Methanex New Zealand Ltd