Ref: ENNZ-C/AM/002905

10 October 2018

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By Email

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OMV Upstream

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Dear Angela,

Re: September 11 GTAC - Stakeholder Consultation

After evaluating the revised Gas Transmission Access Code (GTAC) draft released on 11 September, OMV considers progress has been made on the GTAC draft but that further work is required before the draft code can be submitted to GIC.

The main positive features identified in the GIC's FAP have been retained. These include; the unified set of arrangements which will apply across the entire transmission system, the system wide approach to balancing, and trading of gas in a single receipt zone

The common and essential terms for Interconnection Agreements (ICAs) included in Schedules 5 and 6 of the GTAC and the separate full versions of the Interconnection Agreements offer a clearer picture of how these arrangements will be structured under the GTAC. Our comments provided in the table attached are limited to the GTAC and associated schedules only.

Overall OMV believes there are significant structural shortcomings with the proposed GTAC framework providing a system which will be more difficult for First Gas to manage and therefore less stable for system users. As these issues have been canvassed to a greater or lesser extent by others yet remain part of the GTAC we have also provided a separate set of more detailed observations against the draft GTAC as submitted by First Gas.

Ultimately OMV remains unconvinced that the GTAC provides a materially better outcome for the industry and remains committed to working constructively with First Gas to achieve a workable outcome.

Yours sincerely,

Patrick Teagle
Head of Commercial and Legal

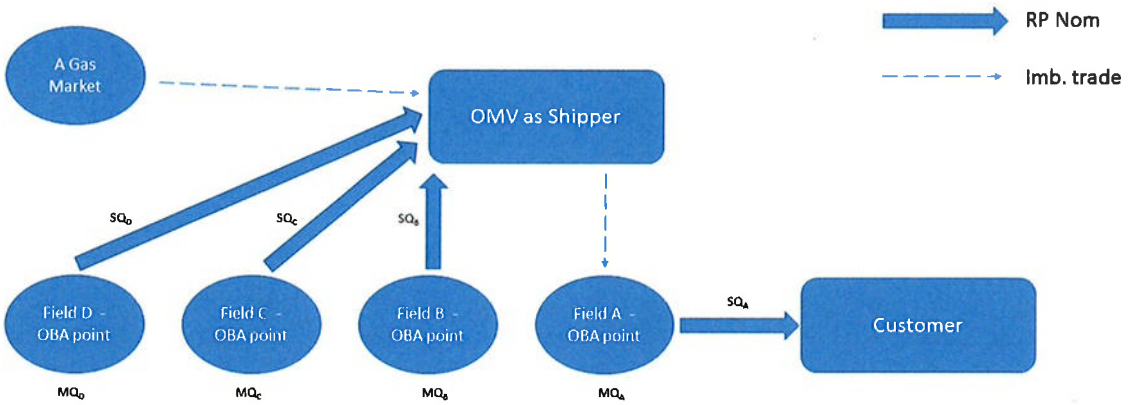
OMV Structural Concerns:

1) Intra-day Pipeline Management

OMV is a significant gas producer and sells gas to large industrial users, electricity generators and wholesalers. To meet our contracted demand we produce gas from two fields and procure gas from other sources to optimize our supply position and provide increased security of supply for our customers.

The GTAC as drafted looks to support this ongoing business model providing amongst other things reduced costs of trading and increased flexibility as to how suppliers and customers can interact with the network leading to increased choice and competitiveness.

OMV's concern is that this increased flexibility comes at an unacceptable cost to pipeline management and stability increasing risk to OMV's daily business activities. To illustrate this, consider the following diagram.



OMV makes gas available at a certain point for customer nomination, however aggregates gas from a number of sources to meet this demand. In this example OMV as a shipper nominates from Fields B, C & D and in each of these cases, the actual flow (MQ) is able to be judged against the intention (SQ). Our customers will nominate from this single receipt point, where only some of the gas is being produced and injected by OMV as an OBA party. In consequence the actual flow (MQ) will be significantly lower than the intention (SQ) at this location giving Field A the appearance of significantly underflowing, until such time as the imbalance trade occurs between this point and OMV as a shipper.

Conversely OMV as a shipper will appear throughout the day to be building a significantly positive position, until such time as this imbalance is traded to the OMV OBA point at Field A.

Equally if the imbalance trade were to occur early on or ahead of the day, the MQ/SQ positions of OMV as a shipper and Field A will be significantly disjointed in the opposite direction.

Either scenario creates uncertainty and places an obligation on the system operator to talk to system users prior to taking a balancing action. Alternatively, if no obligation to consult exists, then systems users will need the ability to ignore system operator instructions without sanction. Neither of these scenarios would appear to be acceptable.

These issues could be resolved with the inclusion of displaced gas nominations, which provides a mechanism by which intention can be signaled and executed over a period of time giving the system operator the missing information to assist with efficient pipeline management, which a one off all or nothing imbalance trade will not.

2) Inter-day Pipeline Management (balancing)

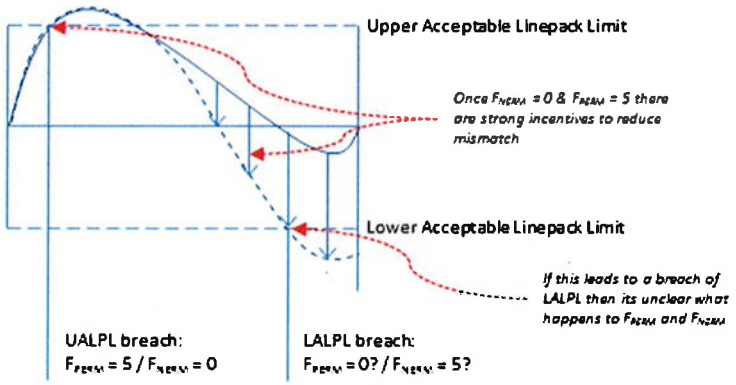
The other main structural concern OMV has is with balancing and ERM.

Balancing has been a topic of discussion between industry participants for as long as open access has existed on the network, and no doubt will continue to be an ongoing topic of discussion. OMV is also open to continuing evolution in this area, but is concerned that the direction proposed under the GTAC is an untested departure from the status quo.

Under MBB there is a clear distinction between when the primary balancing obligation ends and the residual or secondary obligation begins. Put another way, under the status quo the system operator has confidence that they are starting with a known position each new gas day. Under the GTAC the system operator will have to estimate how much primary balancing correction will take place either in addition to, or contrary to, actions the system users are attempting to undertake.

It is clear the incentives to balance are considerably strengthened compared with the status quo, which may lead to inefficient behaviour from system users to avoid undue incentives charges or cash outs. Taking these in reverse order, cash outs for Day (n-1) are allocated based on balancing actions on Day (n). This means that users imbalance positions are at risk based on what happens on the pipeline the following day, which may or may not bear any relation to the position of the system users at midnight of the previous day. While MBB cashed everyone out at a relatively predictable market related price, this new regime will generate uncorrelated cash outs and unintended consequences.

In addition there are strong incentives on a day to respond to linepack changes. Once a high or low linepack notice has been issued the ERM charges can be as much as $5 per GJ (as little as five days' notice and no change request required). This should be expected to have strong intraday incentives as shown below.



If this situation occurs it is unclear what will happen to ERM incentives on this day. Will they "cancel out" to zero, revert to 1, will the first notice prevail or will the last notice prevail?

OMV therefore believes the balancing system as proposed under the GTAC will lead to more difficulty for the system operator in managing the pipeline, lead to inefficient usage of user resources seeking to avoid punitive incentives and will create a more unstable system.

In regard the current drafting to the GTAC we offer the following further specific comments:

Clause/Section	Specific Concern	Suggested Change
clause 1.1 – Running Mismatch Tolerance (2)	On these words "each Shipper" receives a minimum tolerance level of 400 GJs even if it solely purchases from and sells gas to OBA Parties. In this scenario, the Shipper would not have a Running Mismatch position/risk, but would have the advantage of being able to trade free on a tolerance position it doesn't actually need.	Add the words "provided that it is either purchasing gas from or selling gas to an Interconnection Point which is not an OBA Party", before *and:* at the end of (a).
clause. 8.12 & 8.13 – Excess Running Mismatch Charges	An ERM fee of $2.50 - $5.00/GJ, as elaborated on previously is quite high. Wording indicates if both limits are breached on a Day that that would cancel each other out and the ERM fees would be zero - is this intended?	Reducing the F_{NERM}/F_{PERM} fee from $0.50 back to $0.20 would limit the dramatic Line Pack swing.
clause 19.2 – Term of Code	Relative to the life of most assets, a 10 year term introduces uncertainty. Changes to the GTAC can be made via the change request process.	Remove the stipulated time frames from clauses 19.2 (a) and (b).
Schedule 2 – Publication of Linepack tolerance to provide Running Mismatch	Currently this information is listed as being published "periodically" which is out of sync with how this figure will be used to calculate ERM fees. It's not clear that Parties will have sufficient information to calculate their specific tolerance range each day. As fees are linked to this calculation Parties need to have access to the estimates to manage their positions.	Change the frequency of this publication from "periodically" to "daily". Add daily estimates of the following to the Schedule 2 table: $RQ_{TOTALRECIEPTS}$, $MQ_{OBAPRECEIPTS}$, $DQ_{TOTALDELIVERIES}$, $MQ_{OBAPDELEVERIES}$.
Schedule 5 Defined term – "Hazardous"	Concern that the referenced standard is out of date.	After AS 2430, add "or whichever equivalent standard has been applied by the Interconnected Party to assess the hazardous areas."
Schedule 5 Defined term – "Interconnected Party"	The present wording doesn't seem to allow for the current set up at Ngatimaru Road receipt/delivery.	Add "noting that in some circumstances there may be more than one Interconnected Party at an Interconnection Point." To the end of this definition.

Clause/Section	Specific Concern	Suggested Change
Schedule 5 Defined term – "Interconnection Point"	There is a third party pipeline between First Gas' 400 line and the "respective assets" currently referred to in the definition. The current wording does not capture the circumstances above.	After demarcation point change the words to say "at which custody and control is transferred".
Schedule 5 – Clause 2.4	Current wording could be read as requiring the Interconnected Party (IP) to ensure every Receipt Point and Additional Receipt Point is compliant.	Add the words "included in this agreement" after Additional Receipt Points and before comply with.
Schedule 5 – Clause 3.5	A minor outage will not impact on the pipeline stability while too many notifications could lead to important ones being missed.	Add the word "materially" after any scheduled or unscheduled outages
Schedule 5 – Clause 6.2	It may be that during a period of start up/shut down a small amount of non-spec gas could knowingly be injected. The current wording of this clause would never permit the start up of such a facility which could exacerbate an Emergency, Force Majeure or Critical Contingency event.	Add the words "unless otherwise agreed with First Gas" after inject Non-Specification Gas.
Schedule 5 – Clause 6.4	This clause places a disproportionate burden on RP IPs relative to the risk that a small excursion of non-specification gas creates. It is also uncertain how First Gas would be able to satisfy itself that the issue creating the non-specification gas flow was remedied or how long such assurance might take. First Gas is fully indemnified for losses resulting from the injection of non-spec gas, making the requirement to stop producing until First Gas is satisfied an additional penalty.	Remove the words "and shown to First Gas' reasonable satisfaction" from the clause.
Schedule 5 – Clause 6.15	How well current wording aligns with NZS5442.	After *unsaturated hydrocarbons,* add "to an extent which" *might* "cause" *damage* "to".....or *First Gas' Pipeline* "through which it flows".

Clause/Section	Specific Concern	Suggested Change
Schedule 5 – Clause 6.16	This clause allows First Gas to request data relating to a period of time before the new GTAC would be in effect.	After *5 years prior to the date of the request,* add "but not earlier than the commencement of this agreement."
Schedule 5 - Section 7: Odorisation	Specifies that First Gas will stipulate whether or not the Pipeline that an IP connects with is odorised. It also imposes a number of impracticable requirements each IP must comply with if the pipeline it connects with is stipulated as odorised, each of which would require additional investment and new engineering to existing facilities.	Remove this clause entirely from the schedule 5 as it is not relevant for every RP. Add "and Interconnected Parties connected to that pipeline" before *agree in writing* at the end of cl 13.1 of the GTAC.
Schedule 5 – Clause 9.2	When maintenance directly affecting an IP is delayed that Party should receive a direct notification in addition to the general notice posted on Oatis. The concern is that the general Oatis notice may be missed.	After *notify the Interconnect Party of that delay* add "directly and post a notice" *on Oatis.*
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Schedule 5 – Clause 9.4	Facilitating First Gas' maintenance that will require an IP to flow gas at a reduced rate restricts that IP's ability to inject gas into the transmission system at a specific point and exposes the IP to either reduced sales or additional charges. These arrangements were formerly covered by a ROIL multiplier under the MPOC which kept the IP "whole" on such arrangements.	Add the following to the end of the clause: "First Gas will indemnify the affected Interconnected Party for any balancing costs, incentive fees or charges the Interconnected Party incurs while complying with First Gas' maintenance request. Such indemnity shall be in place for a reasonable period of time while the Interconnected Party restores normal flow and clears any Excess Running Mismatch accumulated as a result of supporting such maintenance."

Clause/Section	Specific Concern	Suggested Change
Receipt Point ICA - Schedule 2: Technical Requirements	Compliance with these Technical Requirements for interconnection points already operating safely on the First Gas system would not improve the overall safety of the transmission system. Additionally compliance with the new standard would make significant investment and increased operating costs necessary. It is unlikely Existing Interconnection Agreements contain such requirements nor will they be imposed on them which creates an asymmetric standard, imposed unfairly on any party without such an arrangement.	Make this section applicable to any new Interconnection Point being designed for interconnection with First Gas' transmission system post GTAC implementation. This could be achieved through an addition to Clause 7.13 of the GTAC which would include wording similar to that in Clause 5.1 and 5.2 of the MPOC.