TODD CORPORATION

19 March 2018

Submissions

Gas Industry Company Limited

By email: info@gasindustry.co.nz

Re: Preliminary Assessment of GTAC

Todd Corporation (**Todd**), through its subsidiaries Todd Energy and Nova Energy, appreciates the work the Gas Industry Company (**GIC**) has put into assessing whether the Gas Transmission Access Code (**GTAC**) is materially better than the existing Maui Pipeline Operating Code (**MPOC**) and Vector Transmission Code (**VTC**) (together, referred to in this letter as the **existing codes**).

Todd agrees with the GIC's conclusion that the GTAC in its current form does not constitute a code that is materially better than the existing codes.

That said, it is also of the view that the GTAC can, and will be a substantially better code once a number of specific issues remaining have been resolved. Todd does not share all of the reservations expressed by the GIC, and believes that some of GIC's concerns have been given too much emphasis. These issues have been identified in the attached detailed submission. In particular they include the:

a) nominations workload;

b) impact of rebates on consumers and competition;

c) negative impacts of priority rights; and

d) aggregate impact of the penalties.

The attached Appendix addresses the specific questions raised by the GIC in its preliminary assessment of the GTAC, as well as the additional questions asked by First Gas.

Yours sincerely

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Todd submission

Preliminary Assessment of Gas Transmission Access Code (GTAC)

QUESTION	COMMENT
Q1: Do you have any comment on our approach to the analysis?	The GIC's overall approach to the analysis is comprehensive and balanced. The points of concern raised with the GTAC are generally consistent with Todd's own submission, although there are some specific matters raised and conclusions drawn that Todd does not agree with.
Q2: Do you agree with our assessment of the GTAC gas transmission products?	Todd agrees with most of the assessment, including the points on the ICA negotiation and inadequate AHP arrangements. It does not agree however with the weighting given the additional workload required to be applied to DNC nominations, or the concern with the application of PR auctions to mass market customers. The impact on the nominations workload is overstated: The aggregate quantities of gas to be shipped have to be managed on an intra-day basis under any regime where aggregate line-pack needs to be managed. This requires Shippers to forecast expected gas demand at an aggregated level under current arrangements. Expressing nominations by Zone daily under the GTAC adds some work over the existing codes, but not excessively as current nominations are built up from a gas gate level in any case. The analysis also overlooks: a) the workload under VTC in relation to capacity bookings and transfer activity required to manage transmission costs, including overruns, and b) the potential benefits of improved control of the Taranaki Target Pressure (Discussed further under Q.19). Where the additional costs can impact, is if the penalties on inaccurate forecasts are such that Shippers are forced to over-invest in data and forecasting efforts, although Todd believes this is largely mitigated by the penalties rebate process.

QUESTION	COMMENT
	Todd has previously noted that the 'F-1' in the underruns formula should be 'F-2' rather than '1'[1]. When that correction is made, the underrun charges effectively disappear; the underrun and overrun incentives become symmetrical; and the overall level of penalties from inaccurate nominations is much reduced. Todd also notes that the proposed GTAC arrangement can be modified by altering the value of the F parameter to reduce or increase the overrun/underrun values. This provides for the GTAC to be adjusted through time depending on the effectiveness of the incentives and the desired need for accuracy of nominations. Priority Rights should not be an issue for mass market retailers. While gas demand by mass market consumers cannot be dictated by Shippers, mass market consumption also behaves in reasonably predictable ways over time and in response to weather conditions. Concerns that Shippers might not be able to secure PRs to cover mass market load have no real basis. It is Todd's view that Shipper's will be able to secure PRs by offering a sufficiently high price for those PRs; knowing that the PR auction price will settle at a lower price because the marginal value of gas to commercial or industrial gas customers is lower, and those parties do respond to price. As an alternative; under the auction rules, a block of PRs could be reserved for mass market retailers, and that block allocated to the relevant retailers on a pro-rata basis at the auction clearing price. The net result is much the same, except that under this alternative the mass market retailer does not have a choice in whether they participate or not. Todd does not favour this option as it believes it is unnecessary, but the point is that the process of PR auctions is more favourable than the capacity rights under the VTC. This approach does have the benefit, however, of removing the conflict between the Critical Contingency Regulations with respect to the treatment of residential consumers who receive priority. Todd did point out in its earlier submission that it is concerned the design of PRs is not yet adequately developed. Todd still holds that view, but does not agree that the concept of PRs is anti-competitive in any way.

[1] This formula even applies if 'F' is reduced to less than 2 (but greater than 1), which case an underrun would receive a partial rebate of unused capacity, i.e. it would not be a negative penalty as such.

QUESTION	COMMENT
	On this basis, and subject to the PRs, ICA and AHP arrangements being resolved, Todd would give the GTAC gas transmission products a strong
Q3: Do you agree with our assessment of the GTAC pricing arrangements?	No. Todd disagrees with a number of the GIC's concerns in this section. Todd notes however that Todd's view on this pre-supposes that the overrun charges 'F-1' formula is corrected. Todd's overall assessment of the pricing arrangements is that the GTAC pricing arrangements are materially better. In terms of the GIC's concerns: Underrun / Overrun fees: As noted above, the formula currently given in the GTAC is asymmetrical. Once corrected, and the value of F is not given a value greater than 2, then these charges will be less than the levels of penalties projected by the GIC. Many of the concerns about GTAC pricing would therefore fall away once the formula is corrected. Further comment is provided under Q.16. Todd also believes that the rebate process will also assist in mitigating the impact of penalties if they prove to be excessive. While the GIC analysis raises concerns about the effects of the rebates, Todd does not share those concerns. Our reasons for that are dealt with under question 21. Hourly overrun charges: Todd agrees with the GIC's points on this. Furthermore, the penalties on any day should apply to the maximum of the sum of hourly overrun charges on the day, or the daily overrun charge, but not both additively. The HQ/DQ ratio is not workable as it would be reasonable for a consumer to use a modest amount of gas during one hour in a day, in which case the HQ/DQ ratio would be 100%, which is far above whatever ratio Todd anticipates that First Gas may set. Balancing Charges: As a provisional step, Todd has no concern over the asymmetry of the ERM Charges. Any potential issue can be rectified by a change in the settings for the balancing charges, and there is a clear benefit from having no charge applied to balances that help offset net line-pack imbalances when a line-pack notice is issued.

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	Net of the concerns expressed above, the GTAC should be substantially better than the status quo under Criteria 1, 2 & 14. In terms of Criterion 3 (reducing barriers to competition); Todd disagrees that the GTAC pricing arrangements are negative for competition. Once the issue of the underrun charges are addressed, the penalties on DNC errors are substantially reduced; and in any case the penalties are unlikely to have the suggested impacts. The GIC is 'tilting at windmills' in its concerns over this point. This is discussed below: a) Most of the 'Benefits of diversity' can be achieved with fewer than ten consumers of similar size[2]. That is hardly a number that should 'hinder competition'. Rather than being a disadvantage for mass market retailers, the more difficult group to forecast demand for are the smaller numbers of large commercial and industrial customers with high gas demand. Where there are only a small number of large scale consumers of within a zone, suppliers can make specific arrangements with those consumers in any case. b) The assessment on 'Rebates' covered on pages 33 & 34 is significantly more negative than the analysis in Appendix A supports. Todd also thinks there are some errors in the analysis that leads to that assessment. Todd believes the rebates proposal is a positive feature of the GTAC over the VTC, with an added benefit of mitigating the potential impact of excessive penalties. Further comment is provided in response to Q21. c) There is also a suggestion that 'less informed end-users may not get the full benefits of any rebates'. That pre-supposes that Shippers will pass the cost of penalties on to consumers, which is not a given. It is Todd's expectation that the forces of competition will be such that end-users will not be expected to pay penalties except for in exceptional circumstances, in which case the issue of returning rebates to consumers is null and void. d) In the alternative, with no rebates and the revenues being instead factored into future transmission prices, Retailers will be forced to estimate the costs associated with penalties

[2] This can be shown mathematically.

QUESTION	COMMENT
	and to build them into pricing. That would contribute to reducing transparency and potential competitive market distortions. Consumers have a reasonable expectation that the transmission costs components will be consistent with posted price schedules and overrun/underrun penalties. How those occur and their calculation will not be easily communicated. This extends also to future increases and decreases in transmission pricing, which makes competitive pricing even more opaque as the penalty component of transmission pricing becomes a hidden cost for consumers. e) Further, to the extent that any particular group of gas consumers do have a pattern of consumption that leaves the shipper incurring penalties higher than its expected level of rebates, cost effective pricing would see that group pay a slightly higher gas price or transportation charge. (Todd does not believe that residential consumers are such a group) f) Such a result is economically efficient as long as the level of overrun charges is sufficient to facilitate efficient operation of the pipeline and no more.
Q4: Do you agree with our assessment of the GTAC energy quantity determination?	Todd agrees with the assessment and notes that the negative elements can easily be rectified in an amended version of the GTAC.
Q5: Do you agree with our assessment of the GTAC energy allocation arrangements?	As above, Todd agrees with the assessment
Q6: Do you agree with our assessment of the GTAC balancing arrangements?	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.

QUESTION	COMMENT
Q7: Do you agree with our assessment of the GTAC curtailment arrangements?	Todd agrees with the GIC's assessment and in particular the negative assessment of GTAC s9.12(b). There should be some protection for parties that receive an OFO but have no way of complying with it, either through FM or some other reason that First Gas should be aware of before even issuing the OFO. This is an example of 'Trust us we know what we are doing' but Shippers are not offered any other form of assurance that they will not receive instructions that they are unable to comply with for some reason. Nevertheless, Todd believes the curtailment arrangements are materially better than the existing Codes.
Q8: Do you agree with our assessment of the GTAC congestion management arrangements?	Todd is a strong supporter of the Priority Rights and as covered above, believes the objections around access to PRs for mass market retailers are overstated. The analysis does not appear to give sufficient weighting to the potential costs of congestion under the existing codes, which do not adequately provide for congestion management. When Vector gave notification regarding northern capacity constraints, the industry put in place several intermediate steps to assist with the affects until such measures, as recommended by a panel of advisors, could be implemented. Inclusion of Priority Rights in the GTAC is consistent with the recommendations arising from the work of that panel. Without appropriate congestion management, transmission constraints create a lower security of supply for consumers. The auction process for PR's also provides investment signals for both First Gas and consumers. The concerns over the Supplementary Agreements and Interruptible Agreements are fair.
Q9: Do you agree with our assessment of the GTAC gas quality and odorisation arrangements?	Agree

QUESTION	COMMENT
Q10: Do you agree with our assessment of the GTAC governance arrangements?	Todd agrees with all of the points raised by the GIC.
Q11: Do you agree with our top-down analysis?	Todd agrees the methodology applied helps identify the full scope of issues to be addressed.
Q12: Do you agree with our overall assessment?	The overall conclusion is fair, given the GTAC as it stands. The major areas of concern are consistent with Todd's own position. However there are aspects of the line by line assessment that Todd does not agree with. These are generally highlighted in this submission; in particular the concerns over the incentive fee rebate arrangements.
13: Do you agree that with our analysis of ICAs?	As stated in its own assessment of the GTAC, Todd is against adopting the GTAC in the absence of agreed ICA terms. While the GIC notes First Gas' incentives to encourage the use of gas, Producers with very large investments in gas fields do not have a realistic negotiating position over accepting First Gas' terms of connection. For this reason it is still important that Producers have the assurance to an automatic right to at least a minimum set of terms and conditions of access.
Q14: Do you agree with our analysis of SAs?	Todd agrees with the GIC's view on Supplementary Agreements. Todd notes that First Gas is required under the GTAC to act in accordance with the Gas Act and GPS; but it would be difficult for a third party to challenge any SA signed by First Gas on that basis. Third Party interests could be protected by a process in which Supplementary Agreements have to be ratified by an independent party such as the GIC.

QUESTION	COMMENT
Q15: Do you agree with our analysis of nominations?	Todd agrees that the work-load associated with nominations is not excessive. Trying to separate mass market demand from other demand as part of the nominations process is unlikely to provide make the process any simpler. Todd notes that while there may be more zonal nominations being made on a daily basis, there is a benefit of reducing the workload associated with the annual capacity bookings on the Vector system together with the process of determining intra-year transfers, etc.
Q16: Do you agree with our analysis of daily overrun and underrun charges?	<u>Underrun / Overrun fees</u>: As noted above, the formula applied in te 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. The GIC states 'the simple comparison suggests that incentive payments for mass-market shippers would increase by around 50%'. Todd notes a) that increase would likely disappear once underrun payments disappear; and b) shipping costs under GTAC for mass market customers will be lower due to not needing to book peak season load nine months ahead of demand. With respect to the analysis of modelled GTAC incentive charges using Day + 1 allocations as nominations, Todd highlights and agrees with the comment that Day + 1 quantities for larger shippers are still subject to error that give rise to imbalance and cash-outs currently. As such, Todd believes that the use of Day + 1 numbers in this analysis is likely misleading with respect to conclusions as to exposure to under and over-run charges. Todd believes that the assessment of the these costs should also take into account the rebate system which Todd believes will mitigate much of the negative impacts of the daily under/over runs on nominations whist retaining the incentives to nominate accurately. This process will also maintain transparency and promote confidence in the competitive market as it will avoid the need for retailers to account for transmission related penalties in wholesale gas pricing – something that will make the delineation between gas transmission and wholesale gas pricing more opaque.

QUESTION	COMMENT
	Furthermore, the GIC states 'We assume such benefits would need to be in the millions of dollars per annum, if they were to reflect the estimated level of incentive payments.' However, given the incentive payments are rebated back to shippers, and by implication consumers, the only real economic cost created by incentive payments is the cost of the behaviours they promote. This has not been quantified, but the cost is most unlikely to be in 'the millions of dollars'. Todd's assessment is that: a) Shippers costs are likely to be in the order of the increased costs imposed by the implementation of MBB, noting that MBB will be disappearing; b) the net costs to Shippers will be readily apparent through the rebate process; and c) the structure of the GTAC lends itself to being able to reduce (or increase) the level of penalties simply by changing the value of F and as such provides for flexibility through time.
Q17: Do you agree with our analysis of hourly quantities?	The assessment of Agreed Hourly Profiles is fair. Todd's primary concern is that large scale gas consumers will be faced with significant penalties when changing their gas demand through a day. If AHPs are important for managing line-pack through a day, then the more reasonable solution is to increase the number of intra-day nominations cycles available. Large gas consumers and their suppliers are then better placed to keep First Gas apprised of their transmission requirements. Further, there are limited means for large user to mitigate penalties given the lack of a mechanism as provided under S15.1 and 15.2 of the MPOC. The AHP process assumes that large end users and producers have full control over their profile at all times, when frequently that is not the case. In principle, pipeline users should be provided with the tools to enable them to legitimately avoid or mitigate financial penalties through physical response. Todd is also concerned that there is an arbitrary threshold where the AHP profile is applied to some users but not all, and as such creates an uneven 'playing field' from a fairness

QUESTION	COMMENT
	perspective.
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?	Todd agrees with the analysis on liabilities. In particular that 'that exclusions from the need to establish a breach of the RPO standard should be reconsidered.' In principle Nova objects to the inclusion of drafting within the Code that deems parties to be a non-RPO when in fact there are valid reasons why a party, despite acting as a RPO cannot meet a particular obligation under the code. Currently there are two cases where a breach of the Code leads to a party being deemed to have breached the RPO requirement: a) Injection of non-specification gas. The fact is that parties that use internationally accepted practices can still inadvertently inject non-specification gas; b) Compliance with an OFO. Similarly a party may receive an OFO but cannot act to comply as it is not within their ability to perform; such as in the case of: • a retailer receiving a notice to reduce its gas offtake at a particular DP and it is not reasonable or practicable for them to give physical effect to that notice; or • a producer from injecting gas into the system when to cease injecting within a certain timeframe could create a health and safety risk, or breach a resource consent. Todd believes that the specific facts and circumstances of an event should inform as to a parties compliance with the RPO obligation and not the result of legal drafting. The inclusion of such drafting has been resisted previously and if it were not for the monopoly nature of transmission services agreements would never have been agreed to under the existing codes. To the extent that the legal drafting attempts to resolve a particular issue, then Todd believes that an alternative solution should be found. Todd believes 'the proposed liability arrangements in relation to the injection of Non-

QUESTION	COMMENT
	Specification Gas' would benefit from further expert legal review. Given the MPOC terms have not been tested, it is difficult to determine if the GTAC is better or worse than the existing codes.
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?	Figure 9, Appendix A.7 of the GIC assessment illustrates a highly variable gas pressure with frequent excursions outside the control limits. There is little evidence that First Gas can in fact maintain pressures within the boundaries under the current codes. Presumably the 6.5% of observations above the target pressure range for Target Taranaki Pressure (TTP) over two years has caused significant economic cost. While tightening the drafting of the GTAC around First Gas' requirements to maintain pipeline pressures within the TTP would signal a greater priority, it is unlikely to directly result in an improvement in TTP tracking unless supported by sanctions or penalties of some sort. Assigning direct liability for over-pressure situations will always be a difficult process with the number of parties and events involved. The appropriate form of performance management on First Gas in respect of staying within the TTP would best come from the Commerce Commission in the form of First Gas' revenue allowance and performance measures rather than through penalties in the GTAC. Aside from the way in which First Gas operates the pipelines, the next best method for First Gas to manage TTP is through the nominations process and incentives on Shippers to balance their positions on a daily basis. While the GIC has been critical of the additional costs to Shippers of complying with the DNC nominations under the GTAC, it does not appear to have considered the potential cost savings the GTAC nominations will create through better control over the TTP.
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?	The approach seems reasonable in a general sense. The interpretation of the results needs to be treated with caution given the actual charges for positive and negative mismatches can be changed and optimised over time. While there are no specific preconditions or objectives defined that First Gas must consider when changing the ERM charges, Clause 1.2(cc) applies wherever First Gas applies its

QUESTION	COMMENT
	discretion.
Q21: Do you agree with our analysis of the incentive charge rebates?	The analysis of the rebate mechanism is mathematically correct, albeit the numbers used to illustrate the point create a somewhat misleading impression of the marginal cost signal. In actual fact, no Shipper pays more than 30% of total transmission charges (and probably substantially less. DNC rates are higher for distant locations, and therefore rebates are not all absorbed by large volume customers close to the Receipt Zone.); and the marginal costs signal is not significantly different between Shippers given the general uncertainties in the data in any case. The changing mix of Shipper volumes and market shares over time is also ignored in the discussion. Under the current arrangements, some gas consumers will pay higher rates and penalty payments than average this year, but may not benefit due to reduced gas demand in two years' time. Another outcome of the current system is that Shippers, in order to cover their costs, need to pass through penalty costs to all consumers in the current period. They may do this through a margin in the gas price, or specifically itemised charges to larger customers. This is because they cannot rely on getting an offsetting reduction in transmission costs in future years. This requirement tends to obscure the underlying energy prices and costs involved in delivering gas to consumers. It can also be difficult for large consumers to compare prices if some prices are exclusive of penalties while others are inclusive. By rebating fees within the month, penalties impacting shipping to seasonal customers such as mass market consumers will be rebated in those same higher demand months rather than being spread across a full calendar year. This means that the pricing signal for mass market consumers with peak winter demand will receive a more cost reflective price and greater economic efficiency ensues. Todd notes that the Analysis within Appendix A9 is based on some data provided by First Gas in December 2017. Todd believes that this information is hypothetical and illustrative only and

QUESTION	COMMENT
	is used to demonstrate certain mathematical outcomes rather than simulate or forecast the level of incentive fees in the context of parties actively managing their forecast quantities. As such, any conclusions as to scale for incentives charges relative to transmission revenues are potentially misleading and should be treated with caution. The net result, with or without rebates, is the same in the long run except that with the rebate process, transparency of transmission related costs will be improved. Retailers will not be forced to incorporate a margin for uncertain transmission costs into their gas prices as currently happens. Todd believes that this will be pro-competitive in the long run and will benefit consumers.
Q22: Do you agree with our analysis of First Gas' discretion?	Todd is comfortable with the GIC's assessment.
Q23: Do you agree with our analysis of public information disclosure?	Yes, Todd generally agrees with the analysis. Todd also notes that while not specified in the GTAC as such, the new system to replace OATIS will provide better real-time information of the pipeline conditions and make it more accessible than is possible under OATIS.

Additional questions posed by First Gas

QUESTION	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?	Todd believes that the GTAC represents as good a structure as any other in terms of a single transmission code. To the extent that it fails the "materially better" test then that is an issue confined to a relatively short list of specific issues as identified by GIC. Todd would strongly resist any process that involves "starting from a blank piece of paper" and favours a process where the major outstanding issues as identified by the GIC are resolved. If Todd was to add any other issues to that list it would be with respect to refining those areas where First Gas retains considerable discretion, to those it absolutely needs in order to adequately manage gas transmission in the pipeline in a safe and efficient manner. In essence: 'adjust a range of items'.
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)?	The issues with the GTAC identified by the GIC could be addressed relatively quickly: a) Liabilities – is largely a legal drafting issue b) Punitive nature of penalties – can be reduced by correcting the overrun / underrun equation. If the initial level of the F turns out to be ineffective then that can be adjusted. This should be able to be supported by some appropriate data analysis. c) Park and Loan service. This can be addressed by restructuring P&L as an authorised mismatch service (as already provided for in the existing codes) and/or stating definitely that any revenue earned from that service will be treated as regulated revenue. d) Receipt Point and Delivery Point ICA's. A standard default agreement should be included as a schedule that any party can sign up to subject only to: • Meeting credit support requirements • Completing technical details sections reflecting the physical capabilities of the connection point. Further if there was to a dispute over this then provide for resolution through an independent expert determination process. An independent expert process is sufficient in this instance as it is the matter requiring determination is of a technical

QUESTION	COMMENT
	nature only. The Default Agreement available should not be mandatory and a negotiated agreement can be used instead subject to the provisions of the code. e) Todd also recommends a review of the GTAC, and where practical reducing the number of instances where First Gas can unilaterally use its discretion, particularly in areas that are more of a commercial nature as proposed to a technical and operational nature. This increases the level of certainly for users and improves the GTAC. This does not mean that First Gas cannot effect change where necessary, just that they must consult first with users. In terms of a Go Live date, Todd believes the issues above can be resolved relatively quickly (2-3 months). Todd understands that First Gas has had to defer the IT system implementation process such that 1 October 2018 is unlikely to be feasible given the delay in GTAC finalisation. The go-live date is likely to be further complicated by the Regulatory requirements under Part 4 of the Commerce Act for First Gas; making any other date than 1 October 2019 potentially impracticable. However Todd believes that a 1 April 2019 implementation date should at least be explored. Even if the decision is made to delay implementation to 1 Oct 2019, Todd supports maintaining the momentum to finalise the Code as a matter of efficiency. Todd supports the GTAC code structure and that to the extent that Todd has issues with some of the detail, no irreversible damage is being done by implementing the GTAC and that, to the extent that issues arise, they can be dealt with through the code change process without having to alter the fundamental structure of the GTAC. The main benefits of the GTAC that Todd sees are: a) A single code without the interface issues experienced under the existing codes or the legal costs associated with maintaining two codes; b) Replacement of two legacy IT systems with a single modernised system and the operational

QUESTION	COMMENT
	benefits and cost savings that arise from that; c) A largely variable price structure which is generally favoured by customers; d) A workable incentives arrangement around nominations and imbalance that is within the control of shippers and that does not materially impact retail pricing in the competitive market; e) Removal of ever green capacity rights under the Vector Transmission Code and replacement with a structure where users can obtain firm rights for a defined period of time (Priority Rights). Firm priority rights are important to users that require higher levels of certainty for example when making long term contractual commitments or making investment decisions. Equally, reflecting the value of Priority Rights in circumstances of capacity scarcity through a price discovery process will also assist pipeline owners and users in making investment decisions. f) A likely improvement in control of the Taranaki Target Pressures. This has not been discussed previously but it would seem that the levers being introduced through the GTAC will give First Gas greater control over intra-day gas pressures.
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 like we have previously; focused work group sessions; one-on-one discussions; or a mix of the above?	There are number of approaches that could be taken to resolve the outstanding issues. Multilateral discussions such as this are always difficult, given the number of parties involved, particularly as the number of participants in the industry has increased over time. Todd is open to any process that is intended to bring about code finalisation as efficiently as possible. The outstanding issues are few, but different in nature, which lends to a process where each issue may be dealt with separately. Todd suggests that for the legal drafting type issues (Liabilities, default ICA, and Park and Loan service) an appropriate independent legal expert could be engaged with a specific to propose drafting that represents a balanced solution for First Gas and for pipeline users. For the issues which are a largely a matter of data analysis and quantification of penalties and incentives arising under the nominations regime, that an independent expert provide a proposal around parameters within the code (such as the F factor) that are: a) cost reflective, and

QUESTION	COMMENT
	b) provide appropriate (and not distortionary or perverse) incentives for pipeline users. By employing independent experts to resolve a relatively short list of well-defined issues, costs are minimised and the solutions developed are not being perceived as favouring any particular party. Todd suspects that unless there is support for parties being delegated the responsibility of forming smaller working groups; a series of workshops or work-streams confined to the specific issues identified by the GIC and open to all interested parties is the most pragmatic. Todd also suggests that one workshop/ work-stream of a general nature is included so that parties that feel very strongly about a particular issue have a forum for that issue to be addressed.