

9 July 2017

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Dear Ian

## **Submission on the MPOC Change Request of 14 July 2017**

### **Introduction**

1. This is Vector Limited's (Vector) submission on the Maui Pipeline Operating Code Change Request made by First Gas Limited (First Gas), dated 14 July 2017 (MPOC Change Request). The MPOC Change Request seeks the termination of the MPOC when certain substantive and procedural conditions are met to enable the implementation of a single gas transmission access code (GTAC).
2. In principle, we support the move to a single GTAC and share the desire of many stakeholders to see a smooth transition to a new code that would further "enable the use of gas". However, we continue to have serious concerns around the access products and IT timeframes proposed for the GTAC, which we raised in previous submissions and workshops, and reiterate below.
3. In addition, we believe there are factors the GIC should consider other than those captured under the "materially better" assessment prescribed in this MPOC Change Request. We discuss those factors below.
4. We therefore do not support this MPOC Change Request.
5. No part of this submission is confidential. Vector's contact person for this submission is:

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### **Proposed access products**

6. In our submission (dated 23 June 2017) on the GTAC Emerging Views Paper, we expressed concerns about the access products being proposed by First Gas for the GTAC. We expressed the same concerns, together with other stakeholders, at the GTAC workshop on 19 July 2017.

7. The proposed daily nominated capacity (DNC) access product will create greater complexity at a transmission delivery point level, and to a lesser extent, at a zonal level as shippers will now be required to forecast two nominations (instead of one) for each customer. This fails to meet the GTAC objective of minimising complexity and transaction costs.
8. In addition, DNCs will not promote greater accuracy regardless of whether nominations are required at a delivery point or, to a lesser extent, at a zonal level. That is because shippers will now be incentivised to avoid the overrun costs rather than providing First Gas with robust information on the demand (i.e. capacity requirements) they anticipate from their customers.
9. The proposed priority rights (PRs), in their current form, will transfer risks from First Gas to parties who are unable to manage those risks. Shippers and customers do not have the tools and sufficient information to assess current and emerging risks associated with congestion, and therefore the ability to assign values (or relative values) to PRs. First Gas, which has visibility and access to system-wide information about the gas transmission system, is best placed to manage those risks.
10. At the GTAC workshop on 19 July 2017, First Gas managers indicated that they view PRs as a contingency management tool. However, they were unable to explain from an operational perspective how PRs would be used to manage a physical constraint on a pipeline to avoid a critical contingency. We struggle to see how the imposition of financial penalties on those shippers who have no PRs on the affected delivery points and no direct control over customers' gas consumption would help First Gas manage such a constraint.
11. We have proposed solutions to the above concerns in our submission on the Emerging Views Paper, available at <http://gasindustry.co.nz/assets/Consultations/Uploads/Vector-Submission-GTAC-Emerging-Views-Paper.pdf>.
12. We note that First Gas, in response to submissions on the Emerging Views Paper, recognised at the 19 July workshop that arrangements for its proposed access products can be improved by:
  - exploring the use of “overrun zones” where all delivery points in a zone have the same DNC fee; and
  - only offering PRs at delivery points where the prospect of congestion exists.
13. We do not have the benefit of being able to examine a full Draft GTAC with the above changes. We therefore reserve comments on these proposed changes until we have seen the full Draft GTAC that First Gas intends to issue in August 2017.

## IT timeframes

14. We reiterate the concern we raised in our submission on the GTAC transition process, dated 30 June 2017, about the very tight timeframes for First Gas customers and end consumers of gas to make changes to their IT systems. Changes to IT systems usually require a longer timeframe and are associated with higher risks than the implementation of new IT systems.

15. We understand that concerns around IT timeframes are also expressed by other stakeholders in submissions and at workshops on the GTAC.
16. Our submission on the GTAC transition process is available at <http://gasindustry.co.nz/assets/Consultations/Uploads/Vector-Submission-GTAC-Transition-Process.pdf>.

### Other factors

17. The MPOC Change Request prescribes one of the termination conditions, as follows:

... following an appropriate consultation process which includes GIC publishing a draft determination and asking each Shipper and Welded Party whether it supports the New Code, GIC has published a final determination that the New Code is **materially better** than the current terms and conditions for access to and use of gas transmission pipelines having regard to the objectives in section 43ZN of the Gas Act 1992 and any objectives and outcomes the Minister has set in accordance with section 43ZO of the Gas Act 1992 ...

[emphasis added]
18. The move to a new code comes with the proposed replacement of OATIS. We recall that prior to the purchase by First Gas of the Maui and Vector transmission pipelines, MDL and Vector were already considering replacing OATIS. We therefore do not consider that a new IT system should influence the GIC's determination on whether the Draft GTAC is materially better; it would have happened with or without a new code.
19. Further, the above condition does not indicate what will happen if the GIC's consultation process results in stakeholders expressing the view that one or more material concerns have not been addressed in the Draft GTAC, or that the Draft GTAC will result in a material, undesired outcome. Greater clarity is required on the next steps in such scenarios. In our view, the GIC should not be able to undertake its "materially better" assessment while such stakeholder concerns remain outstanding.

### Non-support for this MPOC Change Request

20. We consider the concerns we are raising in this submission to be substantive and would have material impact not only on our gas trading business but also on multiple stakeholders.
21. We therefore do not support the MPOC Change Request in its current form.

### GIC's proposed approach to GTAC assessment

22. On 2 August 2017, the GIC released a paper setting out its proposed approach to GTAC assessment. We generally agree with the GIC's proposals in that paper.

**Future engagements**

23. We are happy to continue to engage with the GIC, First Gas, and other stakeholders to ensure the development of a GTAC that reflects the interests of the gas industry and consumers.

Yours sincerely



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