

18 January 2019

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Ian Dempster
General Manager Operations
Gas Industry Company
Wellington

Dear Ian

**Submission on the GIC's Preliminary Assessment
of the October 2018 GTAC**

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (GIC) *Preliminary Assessment of October 2018 Gas Transmission Access Code (GTAC)*, released for consultation on 5 December 2018.
2. Vector agrees with the GIC's preliminary assessment that the October 2018 GTAC is "materially better" than the existing code and related transmission access arrangements.
3. We set out below our responses to the consultation questions using the submission template provided by the GIC for this consultation.
4. No part of this submission is confidential. Vector's contact person for this submission is:

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Manager Natural Gas Trading
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5. We look forward to working with the GIC, First Gas, Shippers, customers, and other gas industry participants in ensuring a smooth transition to the new arrangements under the GTAC.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read "Richard Sharp".

Richard Sharp
Head of Regulatory and Pricing

Questions

Preliminary Assessment of Gas Transmission Access Code (GTAC)

Submission prepared by: **Vector**

QUESTION	VECTOR'S COMMENT
Q1: Do you agree with our assessment of the GTAC gas transmission products?	Yes, Vector agrees with the GIC's assessment of the GTAC gas transmission products.
Q2: Do you agree with our assessment of the GTAC pricing arrangements?	<p>Yes, we generally agree with the GIC's assessment of the GTAC pricing arrangements. However, we are concerned with the impact of the change from Annual Capacity Reservations to Daily Nominated Capacity (DNC) on some end users. As with many pricing methodology changes, this proposed move to DNC will create 'winners and losers'. This is particularly the case when the transmission pricing arrangements are combined with an annual revenue cap.</p> <p>Our concern is that if the move to DNC produces winners that significantly outnumber the losers, then the losers may face a disproportionate increase in their transmission costs. This could, in turn, have an impact on some end users' use of gas in the future.</p>
Q3: Do you agree with our assessment of the GTAC energy quantity determination?	Yes, we agree with the GIC's assessment of the GTAC energy quantity determination. However, we are disappointed that First Gas has decided to keep the current publication time for Gas Composition Data at 12.00. This has a knock-on effect on Retailers producing Daily Delivery Report (DDR) information for the downstream allocation processes.

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	Retailers cannot commit to providing final DDRs for the daily allocation process until after the contracted time for the publication of the Gas Composition Values.
Q4: Do you agree with our assessment of the GTAC energy allocation?	<p>Yes, we agree with the GIC's assessment of the GTAC energy allocation.</p> <p>Please see our comments above regarding the timing of the publication of the Gas Composition Values. This may negatively impact the development of improvements to the timing of the D+1 Allocation process.</p>
Q5: Do you agree with our assessment of the GTAC balancing?	Yes, we agree with the GIC's assessment of the GTAC balancing, particularly the benefits of system-wide balancing.
Q6: Do you agree with our assessment of the GTAC curtailment?	Yes, we agree with the GIC's assessment of the GTAC curtailment.
Q7: Do you agree with our assessment of the GTAC congestion management?	<p>Yes, we generally agree with the GIC's assessment of the GTAC congestion management.</p> <p>We reserve judgement on the effectiveness of Priority Rights due to this concept being untested.</p>
Q8: Do you agree with our assessment of the GTAC gas quality and odourisation?	<p>Yes, we generally agree with the GIC's assessment of the GTAC gas quality and odourisation.</p> <p>We agree with the GIC that providing Shippers the ability to request odourisation spot checks is a moderate improvement (GTAC section 13.4).</p> <p>New section 13.5 of the GTAC commits First Gas to publish the results of the previous month's odorant test result. We consider this to be the more important new commitment by First Gas rather than section 13.4 from Retailers' perspective.</p>

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	<p>Equally important is the requirement under section 13.5 for First Gas to provide Shippers/Retailers, on an annual basis, with detailed information that will allow them to demonstrate compliance with the <i>Gas (Safety and Measurement) Regulations 2010</i>.</p> <p>With regards to gas quality, it is unfortunate that First Gas has not required Receipt Point Interconnected Parties to annually publish similar information on gas quality controls and measurement that First Gas will apply to itself with regards to odourisation.</p>
<p>Q9: Do you agree with our assessment of the GTAC governance?</p>	<p>Vector's preference is for GTAC changes to be voted on by the signatories to the GTAC, given its commercial nature. However, we agree with the GIC's assessment of the GTAC governance.</p>
<p>Q10: Do you agree with our top-down analysis?</p>	<p>Yes, we agree with the GIC's top-down analysis.</p> <p>Please see our response to Q2 regarding winners and losers.</p>
<p>Q11: Do you agree with our overall assessment?</p>	<p>Yes, we generally agree with the GIC's overall assessment.</p>
<p>Q12: Do you support the GTAC?</p>	<p>Yes, we support the GTAC.</p>
<p>Q13: Do you agree with our analysis of the code design?</p>	<p>Yes, we agree with the GIC's analysis of the code design.</p>
<p>Q14: Do you agree with our analysis of non-standard contracts?</p>	<p>Yes, we agree with the GIC's analysis of non-standard contracts.</p> <p>With regards to the existing Supplementary Agreements under the Vector Transmission Code (VTC), we believe that the terms and conditions of these agreements should be</p>

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	honoured under the GTAC, similar to the treatment of the Legacy Gas Agreements under the then newly implemented Maui Pipeline Operating Code.
Q15: Do you agree with our analysis of ICAs?	Yes, we agree with the GIC's analysis of Interconnection Agreements (ICAs).
Q16: Do you agree with our analysis of daily OR and UR charges?	<p>We neither agree nor disagree with the GIC's assessment of daily overrun (OR) and underrun (UR) charges as the GTAC charging regime is unknown and untested. We believe this assessment would be dependent on a combination of First Gas' price setting and what the OR and UR multiplication factor should be. As parties' ability to accurately nominate are unknown, the current settings remain aspirational. It is probable that the GTAC charging structure will need to be changed/re-designed in its first year of operation as the accuracy of nominations becomes known and/or improve.</p> <p>Comparing VTC capacity OR costs with GTAC OR and UR costs in isolation is not ideal as it is the overall cost per delivered GJ that is more relevant.</p> <p>In theory, minimal cost under the VTC is achieved where capacity booked perfectly matches demand. In practice, the method of booking capacity means that, for any day and in general, a Shipper will book and be charged for that excess capacity or book too little and incur overrun charges.</p> <p>In theory, minimal cost under the GTAC is achieved where capacity nominated for matches demand. In practice, it is incredibly difficult to perfectly forecast demand to help inform the setting of nominations. This means that, for any day and in general, a Shipper will nominate for too much capacity and be charged for that excess, or nominate for too little capacity and incur overrun charges.</p>
Q17: Do you agree with our description of the peaking arrangements?	Yes, we agree with the GIC's description of the peaking arrangements.

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<p>Q18: Do you agree with our analysis of balancing tolerances?</p>	<p>Yes, we agree with the GIC's analysis of balancing tolerances.</p>
<p>Q19: Do you agree with our analysis of liabilities? In particular, do you have any particular comments on our assessment of the removal of the Incentives Pool and Balancing and Peaking Pool?</p>	<p>Yes, we agree with the GIC's analysis of liabilities.</p> <p>We have previously submitted that, on balance, the removal of the pool mechanisms is not detrimental to the industry. We are comfortable that First Gas has sufficient tools to ensure that Shippers are incentivised to use the pipeline prudently and efficiently.</p>
<p>Q20: Do you agree with our analysis of the TTP arrangements?</p>	<p>We have no comment on the GIC's analysis of the Target Taranaki Pressure (TTP) arrangements.</p>
<p>Q21: Do you agree with our analysis of the curtailment arrangements?</p>	<p>Yes, we agree with the GIC's analysis of the curtailment arrangements.</p>
<p>Q22: Do you agree with our analysis of Ahuroa underground gas storage? In particular do you agree with our assessment of the scope for First Gas's ownership of Ahuroa UGS to influence its operation of the transmission system under the GTAC? If not, why not?</p>	<p>Yes, we agree with the GIC's analysis of the Ahuroa underground storage.</p> <p>We agree that First Gas is not a gas producer, wholesaler, or retailer, given that it will not own any of the gas in, and will not be selling gas out of, the Ahuroa storage facility.</p> <p>We also agree that First Gas' obligations as a Responsible and Prudent Operator (RPO) and under section 8.5 of the GTAC (regarding the availability of line pack) make it unlikely that it can generate additional income from this storage facility.</p>