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Gas Industry Transmission Access Working Group

# Quarterly Report

To 31 December 2014

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# Contents

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- Executive Summary ..... 3
- Introduction ..... 4
- Progress Report..... 4
  - Change Request Process ..... 7
  - Transparency of Information..... 8
  - Dispute Resolution ..... 8
  - Allocation of Capacity: Congestion Management ..... 8
  - Allocation of capacity: Capacity Market Design..... 9
  - Gas Quality & Metering Standards ..... 9
  - OATIS Replacement ..... 9
- Next Steps..... 10

## Executive Summary

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The Gas Industry Transmission Access Working Group (the **Group**) is pleased to present its final quarterly report for 2014. We have made significant progress over the year and we look forward to seeing our efforts come to fruition in 2015.

At our penultimate meeting of 2014, the Group reflected on our first year of work. We observed that, over the year, we had made good progress tackling some difficult problems in creative ways, and built constructive relationships within and outside the Group. We are now focussed on translating that progress into the delivery of tangible results.

In particular, the Group is well placed to:

- Incorporate the proposed new change request process and improved transparency provisions into the VTC. We have delayed the implementation of both of these changes to give stakeholders a chance to review and comment on the proposed changes. These additional steps are in the spirit of the new change process we are seeking to introduce under the VTC, and have led to constructive changes to the Group's initial proposals.
- Engage with the GIC on other proposed changes to ensure changes align with the GIC's statutory objectives and vision for the industry.<sup>1</sup> This includes engaging with the GIC on its roadmap for the industry to ensure that the Working Group's process continues in co-ordination with wider industry changes.
- Finalise and implement congestion management arrangements in consultation with industry stakeholders.
- Present a proposed new capacity market design to gas industry stakeholders for consultation and feedback. Feedback will be facilitated through a submission process, and also through stakeholder workshops.

This report sets out the status of each of the items on the Group's work plan. Some items have not been progressed actively within the Group during the quarter, allowing the Group to focus its resources on two key change requests (transparency and the change request process) and finalising the proposed design of a congestion management regime.

This report is the Working Group's view, not the view of any of the companies represented in the Working Group.

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<sup>1</sup> At present, the GIC is prevented from engagement on VTC changes except on appeal. See further page 7.

## Introduction

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This report follows on from the GITAWG's Quarterly Report to 30 September 2014. Additional information about the GITAWG and its work so far can be found at <http://gasindustry.co.nz/work-programmes/gas-transmission-investment-programme/industry-led-process/#working-group>.

The Group continues to have regard to the Guiding Principles and Evaluation Criteria set out in its earlier reports.

In the quarter to 31 December 2014, the Working Group has continued progress in accordance with its work plan, as set out in this report. A large part of its work this quarter comprised advancing the change request and transparency change requests, and formulating a new capacity market design for the Vector transmission system.

The Working Group recognises the need to co-ordinate its work with other industry initiatives. To this end, The Group continues to engage with the GIC and other industry stakeholders.

## Progress Report

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The Working Group has met 4 times since its last Quarterly Report and is pleased to report progress on the work plan (with subsequent commentary on each item) to the end of December 2014.

The Group's work plan is set out below in Table 1. The grey sections represent the time dedicated to each work stream. Initially, the end of each work stream represented when the Working Group intended to have formulated a proposal on which to seek consultation. The Working Group has chosen to include the process from consultation through to change request within each work stream, reflecting the Working Group's ownership of this process. As discussed in previous quarterly reports, the plan is a 'living document', intended to be flexible to adapt as necessary to reflect any evolution in approach by the group as it works through the PEA's issues.

As work has progressed, the Group acknowledges that some time frames have slipped, and other work streams, such as transparency, have continued within the Group during the development of a formal change request. The Working Group has decided to reflect this in the work plan by showing a shaded grey addition to the original line where time has needed to be extended or where work beyond the original work plan has continued within the Group.

The most significant change in the work plan presented in this report is that Group has decided to prioritise the development of a congestion management regime ahead of reviewing the process to allocate transmission capacity on the Vector system (referred to in the Group's work plan as "initial capacity allocation"). The Group has sent a separate letter to the GIC explaining the reasons for this decision, but in summary:

- The Group is committing to implement the congestion management regime before the next Vector gas transmission capacity allocation round (starting in

August 2015). Achieving this milestone will require significant resource commitment and focus over the coming months.

- The Group's discussions to date on initial capacity allocation have led to a desire to consider a complete redesign of the way that transmission capacity is accessed and traded on the Vector system. The changes being discussed by the Group would fundamentally redesign the current regime, requiring more resource and focus than first envisaged.

Table 1: Work Plan

Issue	Quarter	Q4 2013			Q1 2014			Q2 2014			Q3 2014			Q4 2014			Q1 2015			Q2 2015			Q3 2015			Q4 2015			Q1 2016		
		Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar		
Determination of Physical Capacity (complete)																															
Develop Communications Plan (complete)		■	■	■																											
Transparency of Information (complete)																															
Change Request Process (VTC)		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Gas Quality																															
Metering Standards																															
Dispute Resolution																															
Allocation of Capacity: Congestion Management			■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		
Allocation of Capacity: Initial Capacity Allocation																															
Design / Development of IT Information Hub (OATIS replacement)																															
External Communications / Events																															

Key

- Planned and Completed Work
- ▨ Extensions
- | Quarterly Report

First Stakeholder Workshop (mid-April 2014)

Second Stakeholder Workshops (mid-August 2014)

Third Stakeholder Workshops (March 2015)

## Change Request Process

The Working Group made significant progress on a new change request process in the last quarter. A draft change request was provided to the GIC for feedback, and has received support, subject to some comments that will be addressed in the final change request. After consultation with the MGUG, the Group has also agreed to provide the draft change request to the MGUG for comment before it is adopted. This approach is consistent with the principles of early engagement and openness reflected in the new change request process.

The new change request process is very different from the existing process. Currently, there is no requirement for a party submitting a change request to consult on that change with anyone, including other parties to the VTC. A change is incorporated into the VTC if it receives the support of Vector and 75% of Shippers. A party unhappy with the outcome can appeal to the GIC, which (because of its role as adjudicator in the appeals process) is restricted from participating in the VTC change request process at any stage other than appeals, and cannot suggest any alternatives to the change request being appealed.

The Group believes that industry changes, including changes to the VTC, are better made through consultation, collaboration and consensus. In particular, we think that the lack of formal consultation between parties to the VTC, and the inability of the GIC to provide input at an early stage of developing a change request, tends to lead to disagreement and dysfunction around VTC changes. We believe that GIC involvement during the substantive stage of developing and drafting a change request will promote changes that are more co-ordinated with its vision for the Gas industry, and fulfil the objectives of the Gas Act.

The proposed new process includes:

- A formal consultation, with early notification of proposed changes and the ability for all parties to the VTC, as well as any other interested party including the GIC, to comment on both the substance and drafting of the change.
- Proposed changes, and all submissions on them, will be publicly available on either OATIS or the GIC's website.
- Largely unchanged voting requirements for the adoption of a change request—75% of Shippers' consent is required. Only parties to the VTC may vote.
- A requirement to participate in the process in good faith – and a failure to participate resulting in loss of voting rights
- No appeals process. Disputes can be dealt with through the standard dispute resolution procedures.
- Prescribed timeframes designed to promote swift resolution of change requests. Where additional time is needed, there are allowances to extend the timeframes. Equally, where a change is seen as straight-forward and uncontentious, the parties to the VTC can agree to abbreviate the timeframes.

The Group is in the process of incorporating the GIC's feedback and finalising the drafting of this change request. Once that is done, it will provide the change request to the MGUG, and to any other interested stakeholders who request it, for comment. The Group believes that a process that introduces collaboration and consultation to the

change request process should itself be made in the spirit of collaboration and consultation, and looks forward to receiving feedback from the industry.

## Transparency of Information

At the request of the MGUG and the GIC, the Working Group has delayed implementing its transparency change request to allow the MGUG and the GIC to review and comment on the proposed changes. Feedback so far has been positive, and the Group expects the amendment will be adopted by Vector and Shippers within the first quarter of 2015.

Areas of confidentiality that have been “parked” for review at later stages of the Group's work stream include gas quality, gas transfer agreements, and Shipper mismatch information. The Group decided these subjects were better dealt with in separate work streams because they concern wider implications than simply transparency.

Further detail on the proposed change is set out in the Group's quarterly report to 30 September 2014.

## Dispute Resolution

To allow the Group to focus on capacity market design, congestion management, and the change request and transparency change requests, Vector and MDL are progressing discussions on dispute resolution outside the main Working Group discussions.

Some small changes to the VTC's dispute resolution process will be needed to accommodate the proposed new change request process, which replaces the appeals procedure with the standard disputes procedure.

## Allocation of Capacity: Congestion Management

The Working Group has made substantial progress in preparing a second consultation paper that presents the Working Group's detailed proposal for congestion management, including:

- Technical arrangements—The TSO will use its expert judgment to call on congestion management incrementally as needed, with the potential option of developing a pipeline simulator to help inform the TSO's decisions. The Working Group is currently investigating the feasibility and cost of developing this pipeline simulator.
- Commercial arrangements—Congestion management contracts will be negotiated for pipeline demands that can be managed at an efficient cost. Payments will include an availability fee and a delivery fee, although the availability fee may initially be set at zero if there is little immediate value from having congestion management contracts in place (i.e. no contractual congestion and no pending pipeline investments to defer). Costs will then be



recovered from all end-users who use gas on a congested pipeline during a congestion event.

- Administrative arrangements— Payments will be administered via a pool similar to the balancing and peaking pool.

The Working Group aims to release the second consultation paper in mid-February and hold workshops on the consultation paper in March.

## Allocation of capacity: Capacity Market Design

The Working Group has started to develop an initial consultation paper on a new capacity market design for the Vector Transmission system. This paper reflects the Group's discussions to date on a desire to consider a complete redesign of the way that transmission capacity is accessed and traded on the Vector system. Given the resources needed to properly consider any redesign of capacity market arrangements, the Group has decided to postpone further work in this area until after the detailed design of congestion management arrangements has been resolved (expected 1 May 2015).

## Gas Quality & Metering Standards

The Working Group hopes to be able to circulate a gas quality strawman in Quarter 2 of 2015, and at the same time expects a metering standards strawman to be ready for circulation, prepared by MDL's metering engineers.

## OATIS Replacement

Vector is continuing the preparation of its needs analysis for the OATIS Replacement and expects to provide this to the Working Group for review shortly.

## Next Steps

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The Working Group will submit its next quarterly report to the GIC in April 2015. Before then, the Group expects to:

- Issue an update paper on **congestion management arrangements**;
- Hold two stakeholder workshops to discuss congestion management on 10 March (Wellington) and 11 March (Auckland)
- Adopt its **transparency** change request into the VTC; and
- Consult with industry on its proposed new **change request process** for the VTC, and adopt the change into the VTC.
- Attend MGUG meeting to discuss workstreams/progress

To progress these matters the Working Group will hold at least four meetings during the quarter.