

08 June 2015



DRAFT CHANGE REQUEST: CONGESTION MANAGEMENT ARRANGEMENTS

Draft Change Request

1. On 1 May 2015, Vector issued a Change Request Notification in respect of congestion management arrangements pursuant to section 25.4 of the Vector Transmission Code posted on OATIS and effective as at 1 April 2015 (*Code*).
2. Vector now issues this Draft Change Request in respect of those congestion management arrangements pursuant to section 25.7 of the Code.
3. The following documents are appended to this Draft Change Request:
 - (a) a restated version of the Code with the affected provisions marked up;
 - (b) a table of amendments with a description and explanation of each amendment to the Code;
 - (c) an updated version of the Load Curtailment Agreement issued on 1 May 2015 with provisions marked up; and
 - (d) a summary of responses received to the Change Request Notification and Vector's response to those (where necessary).

Reasons for the amendments

4. Vector, in conjunction with the Gas Industry Transmission Access Working Group (*GITAWG*), has developed proposed arrangements for congestion on Vector transmission system.
5. The *GITAWG* has previously consulted on the proposed arrangements. Copies of the consultation documents, which provide more detail about the proposed arrangements, can be found at <http://gasindustry.co.nz/work-programmes/gas-transmission-investment-programme/industry-led-process/#working-group>.

Nature, intended impact and effect of amendments

6. The proposed arrangements are intended to be used:
 - (a) in times of physical congestion on any part of the Vector system as a demand management tool; and

- (b) to alleviate contractual congestion, if it emerges on any part of the Vector system in the future.

7. The proposed amendments provide for:

- (a) a new type of supplementary agreement, to be known as a Load Curtailment Agreement (*LCA*), under which a particular end-user (or multiple end-users) of that Shipper may be curtailed on certain conditions;
- (b) a process under which Vector may require Shippers who have signed an LCA to require specified end users to curtail usage during times of congestion (a congestion event), including identifying how a congestion event is to be identified and notified; and
- (c) a congestion management payment pool into which amounts are to be paid by Shippers in respect of usage during a congestion event, and out of which payments are to be made to Shippers whose end-users were curtailed during an event, including formulae for calculating the amounts to be so paid.

Effective date of change request

8. The intended effective date of the proposed amendments is 1 August 2015.

Consultation

9. In accordance with section 25.8 of the Code, Vector invites Shippers to consult on this Draft Change Request, and acknowledges that any person may publish a response to this Draft Change Request by 5pm on 29 June 2015. Responses received after this date will not be considered, subject to the provision in section 25.15 for the parties to the Code to extend this deadline.

10. Please note that pursuant to section 25.10 of the Code, any Shipper who does not provide a response by 5pm on 29 June 2015 will be deemed to support the Draft Change Request and will not be entitled to vote against it under section 25.11.

11. Responses may be provided by emailing them to Anna.Casey@vector.co.nz.

General

12. Unless the context requires otherwise, all capitalised terms in this Draft Change Request shall have the same meaning given to them in the Code.

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Vector Gas Limited

Schedule 1: Summary of Proposed Congestion Management Amendments

Section	Matter	Proposed Amendment	Reason for proposed amendment
1.1	New and amended definitions	<p>The following new definitions are inserted:</p> <ul style="list-style-type: none"> - "Availability Fee" - "CMP or Congestion Management Pool" - "CMP Account" - "CMP Allocation Day" - "CMP Allocation Formula" inserted - "CMP Amounts" - "CMP Dispute" - "CMP Dispute Notice" - "CMP Schedule" - "CMP Trustee" - "Curtailement" - "Curtailement Fee" - "Curtailement Notice" - "LCA Capacity" - "Load Curtailement Agreement" <p>Definition of "Supplementary Agreement" is amended to include a "Load Curtailement Agreement".</p> <p>Definition of "Unauthorised Overrun Quantity" is amended to clarify that a Shipper's MDQ is reduced as necessary to reflect any Curtailement Notice.</p>	Consequential amendment to define new terms used in the new section 4A.

Section	Matter	Proposed Amendment	Reason for proposed amendment
2.2	Insertion of cross reference	Inclusion of cross reference to section 4A.3.	Consequential amendment to provide that the quantity of Gas made available for a Shipper to take or transfer at a Delivery Point will be subject to the new section 4A.
New sub-section 2.7(e)(i)(ix)	New sub-section	Insertion of the following words: “..in relation to a Load Curtailment Agreement only, providing for the temporary reduction, curtailment or shutdown of an end-user’s (or multiple end-users’) offtake of Gas when required by Vector...”	To provide that a Load Curtailment Agreement is considered a Supplementary Agreement for the purposes of the Code.
2.20(b)	Cross reference update	The reference to 10.1(i) is updated to 10.1(j)	Consequential amendment required due to the insertion of new sub-section 10.1(g).
4A.1 – 4A.2	New sub-sections	New sub-sections are inserted which entitle Vector to enter into Load Curtailment Agreements in respect of Pipelines from time to time and to (at its discretion) increase the uncommitted capacity in a Pipeline to take in account the LCA Capacity.	To enable Vector to enter into LCAs with Shippers from time to time and to increase uncommitted capacity in the relevant Pipeline to take in account the total capacity which may be subject to Curtailment under those LCAs.
4A.3	New sub-section	New sub-section is inserted which entitles Vector to require the relevant end-user to temporarily reduce, curtail or shutdown its offtake of Gas to the extent and for the duration that Vector, acting as a Reasonable and Prudent Operator, determines is necessary to: - avoid or reduce the likelihood of a Critical Contingency being determined by the Critical	To provide for, and describe the circumstances in which, where a Shipper has entered into an LCA with respect to an end-user, Vector may require the relevant end-user to temporarily reduce, curtail or shutdown its offtake of Gas.

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		<p>Contingency Operator;</p> <ul style="list-style-type: none"> - to avoid or reduce the likelihood of an event where the pressure at the inlet to a Delivery Point is equal to or less than a certain amount; - where Vector’s ability to make Gas available for delivery to any Shipper is impaired, or the safe and reliable operation of a Pipeline, another pipeline or Distribution System, is at risk; or - where Vector is performing maintenance on a Pipeline or associated equipment. 	
4A.4	New sub-section	New sub-section is inserted which entitles Vector to require an end-user to execute a Curtailment in accordance with clause 4A.3 by issuing a Curtailment Notice and publishing a critical notice on OATIS notifying all Shippers of the required Curtailment.	To describe the process Vector must follow if Vector requires a Curtailment in order to notify the relevant end-user(s) and all Shippers of the required Curtailment.
4A.5	New sub-section	New sub-section is inserted which requires Vector to endeavour to require a Curtailment in accordance with Vector’s standard operating procedures for congestion management published on OATIS from time to time.	To ensure that where Vector requires a Curtailment it will do so in accordance with its standard operating procedures for congestion management.
4A.6 – 4A.9	New sub-sections	<p>New sub-sections are inserted requiring:</p> <ul style="list-style-type: none"> • Vector to open a CMP Account. All money held in the CMP Account is required to be held by the CMP Trustee for payment for the benefit of 	To establish a congestion management payment pool into which amounts are to be paid by Shippers in respect of usage during a congestion event, and out of which payments are to be made to Shippers whose end-users were

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		<p>Shippers who have entered into a Load Curtailment Agreement. Vector is also required to offer warranties in respect of the CMP Account;</p> <ul style="list-style-type: none"> • the CMP Trustee to allocate any Availability Fee or Curtailment Fee in relation to a Pipeline to each Shipper on the relevant Pipeline on the CMP Allocation Day and in accordance with the CMP Allocation Formula; • the CMP Trustee to make payment from the CMP Account to each Shipper that is party to a valid Load Curtailment Agreement in respect of each end-user under that Load Curtailment Agreement: <ul style="list-style-type: none"> ○ the Availability Fee; and ○ the Curtailment Fee in respect of each Curtailment, ○ provided the end-user has complied with the relevant Curtailment Notice, ○ provided that the CMP Trustee has first received payment from Shippers in respect of the Curtailment; and • Vector to debit or credit (as applicable) each relevant Shipper for any difference in any CMP Amounts invoiced following review of the final 	<p>curtailed during an event, including formulae for calculating the amounts to be so paid.</p>

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		Allocation Result.	
4A.10	New sub-section	New sub-section is inserted which requires the CMP Trustee to keep full, complete and current records of all money paid into and out of the CMP Account.	To require the CMP Trustee to keep complete records of all money paid into and out of the CMP Account.
4A.11	New sub-section	New sub-section is inserted which limits the CMP Trustee's liability to the Funds unless the CMP Trustee has been negligent or is in wilful default of its obligations under the relevant TSA. If the CMP Trustee has been negligent or is in wilful default, the CMP Trustee's liability will not be limited to the Funds but the limitations and exclusions set out in section 23 will apply.	To limit the CMP Trustee's liability to the funds in, or payable to, the CMP Account (unless negligence on the part of the CMP Trustee can be shown).
4A.12 – 4A.13	New sub-section	New sub-sections are inserted which: <ul style="list-style-type: none"> • require the CMP Trustee to ensure that the CMP is audited within three Months following the end of each Year in respect of that Year by a duly qualified, independent auditor against the CMP Trustee's obligations under section 4A. The CMP Trustee is also required to post the independent auditor's report on OATIS; and • entitles a Shipper to request the CMP Trustee to have the CMP audited by a duly qualified, 	To require the CMP Trustee to ensure that the CMP is regularly audited and to provide direction around the scope / timetabling of that audit.

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		<p>independent auditor against the CMP Trustee's obligations under section 4A. The CMP Trustee is required to comply with such request unless an audit of the CMP has been initiated within six months prior to the then current request. The CMP Trustee is also required to post any such auditor's report on OATIS. The cost of any such audit will be at the Shipper's cost, unless the auditor finds an error with a value which is greater than \$10,000.</p>	
4A.14	New sub-section	<p>New sub-section is inserted which provides that the limitations arising under section 23 will not apply to any liability to make a payment into or out of the CMP.</p>	<p>To carve out payments from the CMP Account from the scope of the liability provisions within the Code.</p>
4A.15	New sub-section	<p>New sub-section is inserted which requires each Shipper to acknowledge that that any amount payable under section 4A does not constitute a penalty and is a reasonable and genuine pre-estimate of Loss that may be suffered in the circumstances.</p>	<p>To acknowledge that all amounts which made be payable under new section 4A are not intended as penalties but represent a genuine estimate of the loss which would be suffered in the relevant circumstances.</p>
4A.16	New sub-section	<p>New sub-section is inserted which provides that nothing in section 4A will limit the rights and remedies of a Shipper against Vector to the extent that Vector fails to act as a Reasonable and Prudent Operator and a Shipper (or its end-user) is not able to take all of the</p>	<p>To emphasise that Vector is required to act as a Reasonable and Prudent Operator when carrying out any of the congestion management processes set out in the new section 4A.</p>

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		Gas to which the Shipper was entitled under its TSA.	
4A.17	New sub-section	New sub-section is inserted which entitles Vector to recover costs paid to a third party for the administration of Vector's operation of the CMP Account. Vector is entitled to recover any such costs from each Shipper, and each Shipper will be required to pay such costs in the proportion that the quantity of each Shipper's aggregate deliveries of Gas bears to the quantity of all Shippers' aggregate deliveries of Gas over the relevant period.	To allow Vector to recover from Shipper the costs associated with administration of the CMP Account.
8.14	Amendment of sub-section	This sub-section relating to claims for non-delivery has been amended so that the sub-section relates to a curtailment of shutdown effected by Vector pursuant to section 10.3, or "effected by an end-user following a Curtailment Notice under section 4A".	Consequential amendment resulting from the addition of new clause 4A.
10.1(g)	New sub-section	<p>New sub-section is inserted which, in addition to current requirements, also requires Vector to use reasonable endeavours to require an end-user (in relation to which a Load Curtailment Agreement has been entered into) to reduce, curtail or shutdown its offtake of Gas, prior to any other such curtailment or shutdown under a TSA.</p> <p>This sub-section also provides that where sections 10.1(a)(i) and/or (iii) apply, Vector will only be required</p>	Consequential amendment resulting from the addition of new clause 4A.

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		to do so to the extent reasonably practicable.	
10.1(i)	Cross reference update	The reference to 10.1(i) should be updated to 10.1(j).	Consequential amendment required due to the insertion of new sub-section 10.1(g).
10.1(j)	Cross reference update	The reference to 10.1(i) should be updated to 10.1(j).	Consequential amendment required due to the insertion of new sub-section 10.1(g).
10.5	New sub-section	New sub-section inserted which clarifies that section 10 does not apply to Curtailment under any TSA in respect of which a valid Load Curtailment Agreement exists.	To clarify that the congestion management arrangements set out in new section 4A are separate to the operational flow orders process set out in section 10 of the Code.
15.3 – 15.4	Heading updated and new cross reference inserted.	Heading updated to reflect the Congestion Management Pool Charges. New cross reference inserted so that Shipper is required to pay amounts payable in accordance with sections 4A (as well as section 8).	Consequential amendment resulting from the addition of new clause 4A.
16.2A	New sub-section	New sub-section inserted which requires Vector to invoice each Shipper for CMP Amounts payable by that Shipper to Vector with respect to any previous Month and any costs payable but not paid. This sub-section also entitles Vector to apply any credit balance of a Shipper in an invoice (under this sub-section) in or towards satisfaction of any indebtedness then due to it (under an invoice under this sub-section), except where any such credit balance is the subject of a dispute under	To describe the invoicing processes associated with payments of the CMP Amounts.

Section	Matter	Proposed Amendment	Reason for proposed amendment
		section 16.17.	
16.3A	New sub-section	<p>New sub-section inserted which requires Vector to render to each Shipper a schedule summarising the amount of the payment (if any) to which that Shipper is entitled under a Load Curtailment Agreement pursuant to section 4A in respect of the previous Month.</p> <p>This sub-section also requires each Shipper to provide an invoice to Vector for the aggregate amount stated in the CMP Schedule within 3 Business Days of the CMP Schedule being rendered except to the extent any amount is the subject of a dispute under section 16.17.</p>	
16.6A	New sub-section	New sub-section inserted which requires invoices rendered for CMP Amounts to include any CMP Amount payable by the relevant Shipper and the GST Amount.	
16.17A	New sub-section	New sub-section inserted which provides that if a Shipper wishes to dispute any amount invoiced, it must notify Vector of the amount in dispute, and its reasons for the dispute within 10 days of receiving the invoice.	To describe the process for disputing invoices issued under new section 16.2A.
16.17B	New sub-section	New sub-section inserted which provides that a Shipper will only be able to dispute an invoice on the grounds that Vector has not acted as a Reasonable and Prudent	

Section	Matter	Proposed Amendment	Reason for proposed amendment
		Operator in its decision to require a Curtailment;	
Schedule 5	Cross reference update	The references to 10.1(i) should be updated to 10.1(j).	Consequential amendment required due to the insertion of new sub-section 10.1(g).
Schedule 5	New information type inserted	Independent Auditors' Report of CMP Account inserted. Such report will be required annually, as soon as reasonably practicable following receipt by Vector.	Consequential amendment required a result of the insertion of new sections 4A.14 and 4A.15.
Schedule 5	New information type inserted	Curtailment Notices inserted. Such notices to be posted as soon as reasonable practicable following issue by Vector to the relevant end-user.	Consequential amendment required a result of the insertion of new section 4A.5.
Schedule 8	New Schedule inserted	A new Schedule required by section 4A, setting out the requirements for Vector to be satisfied of before deciding to issue any additional capacity	

Schedule 2: Responses to Change Request Notification

Responses to the Change Request Notification were received from:

- Contact Energy
- Greymouth Gas
- The Gas Industry Company
- Maui Development Limited
- The Major Gas Users' Group
- Mighty River Power
- On Gas
- Trustpower

Issues raised in the responses included:

Concerns around pricing and investment signals

There were some concerns that the proposed design provided little or no price signalling, and that the investment counterfactual (i.e. the cost of building a new pipeline) was not quantified.

As to price signals, we agree that the product in its current design is unlikely to give strong price signals but hope that its future development may allow stronger price signalling.

The investment cost is one factor that Vector would weigh in determining the reasonableness of the availability fees.

Setting of availability and delivery fees

Some concern was expressed about how these are to be set, and how their reasonableness can be monitored. At present the availability fee is set at zero, reflecting the low risk of congestion on the pipeline. Vector will reassess this annually, or if there is a significant change to pipeline conditions during a year.

Delivery fees are negotiated with the end-users who sign up to the LCAs. In the case of both delivery fees and availability fees Vector will weigh the potential cost to the industry against the cost of alternative capital investment.

Who bears the cost

Some submitters were concerned about the impact of congestion management arrangements on the cost of gas to end-users. The principle underlying the proposed arrangements is that capacity should be directed to those who value it most during times of congestion. There will necessarily be a slight increase in cost to those who remain on the system during a congestion event – but that is outweighed by the avoidance of capital investment cost which might otherwise be incurred by the industry without the arrangements in place.

As to how the costs will be passed on to end-users, Vector is unsure how Shippers will choose to treat the costs as they arise.

One suggestion was for more of the costs to be directed at users who were in unauthorised overruns during an event. The GITAWG devoted much discussion to the fairness of cost allocation and the difficulties associated with identifying causers given congestion may build over a number of days leading up to an event. The GITAWG decided the fairest approach was to allocate costs equally to all users on the system during an event. Any user in unauthorised overrun during an event will still receive unauthorised overrun charges.

Release of additional capacity

There was some question as to the likelihood of Vector releasing additional capacity on the back of LCAs. Vector acknowledges that to an extent the onus is on industry participants to provide the necessary confidence for Vector to release additional capacity – i.e. by entering into LCAs on terms that will give that confidence. However, the arrangements in their current form are only intended to be an interim measure pending more permanent long term change.

Transparency of LCAs

We received comment that the arrangements and all agreements under it should be fully disclosed. The LCAs contain a clause permitting full disclosure and it is Vector's intention to publish all LCAs on OATIS, once agreed.