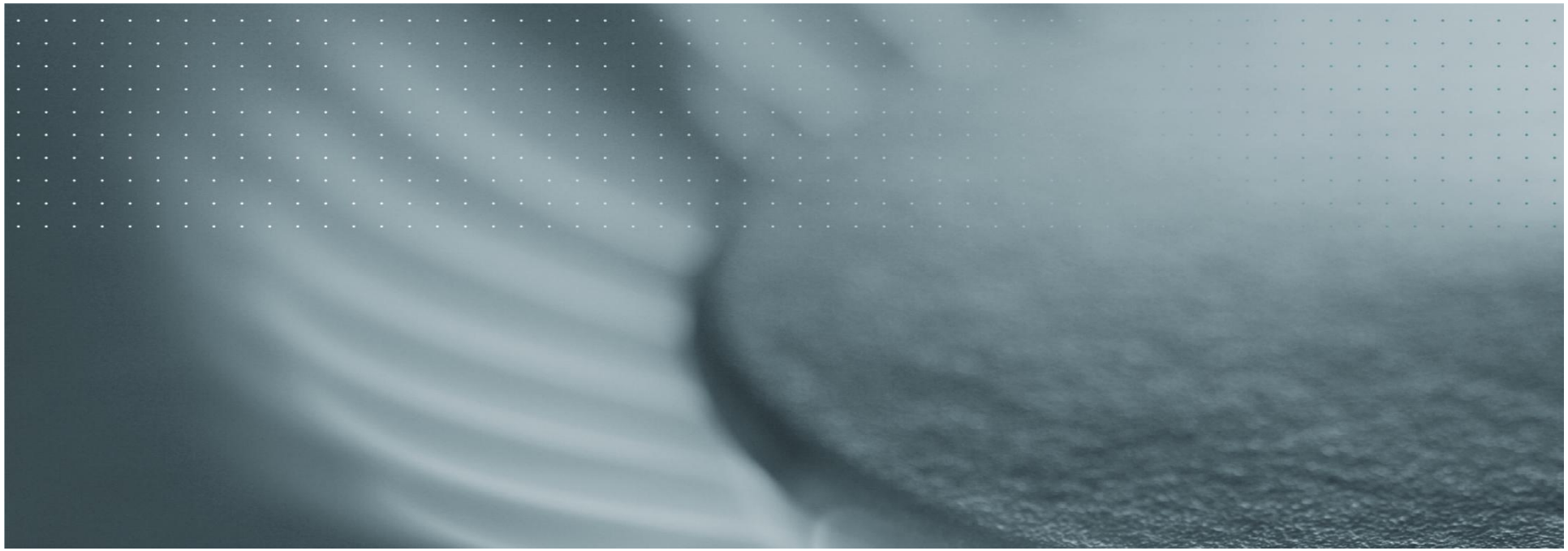


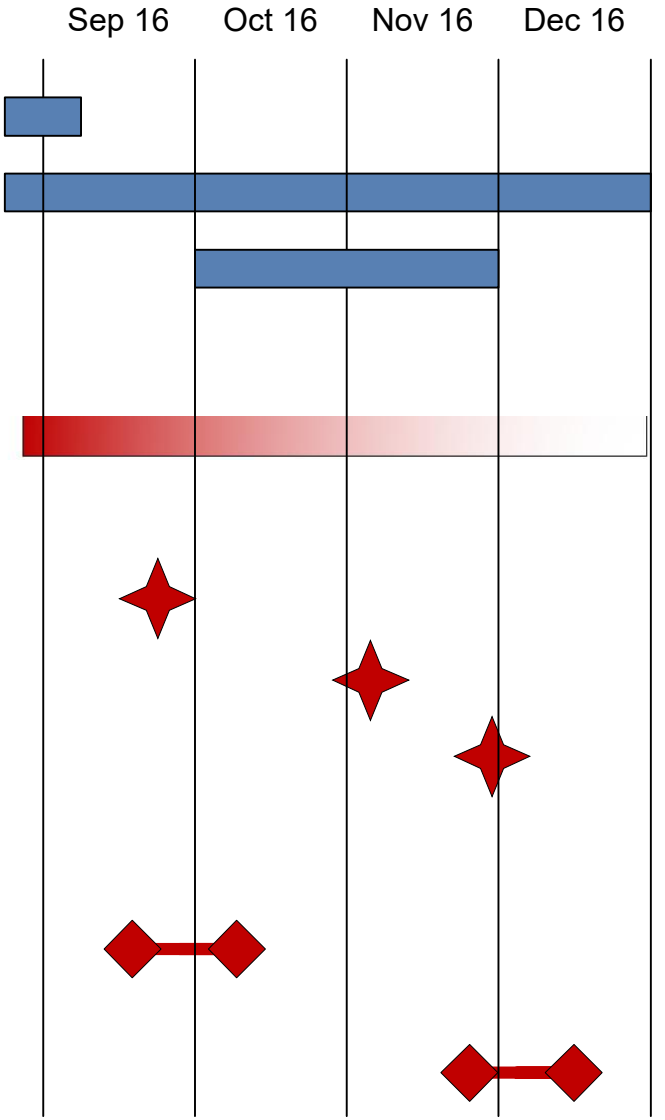
GAS TRANSMISSION ACCESS

SINGLE CODE OPTIONS PAPER – PART 1 (SCOP1)

DATE:	AUTHOR:
20 September 2016	Ian Wilson

GAS INDUSTRY COMPANY LIMITED

More 'granularity' on timeline



GIC/MBIE/FG set expectations

Options Analysis

Identification of IT options

FG bi-lateral discussion with stakeholders

Workshops:

Tuesday, 20 September

Wednesday, 9 November

Wednesday, 30 November

Consultation papers:

paper: Tuesday, 13 September
submissions: Friday, 7 October

paper: Monday, 28 November
submissions, Friday, 16 December

GIC role

- Access arrangements can have a major impact on competition in upstream (production) and downstream (retail) sectors
- As 'industry body' under the Gas Act, GIC will ultimately assess new access arrangements to determine if any regulations should be recommended to the Minister
- Accordingly, GIC has agreed to co-lead the new code development work with First Gas, each with its complementary role
- GIC will be careful at each stage not to compromise its independence

Proposed regulatory objective

To promptly establish a new non-discriminatory gas transmission open access regime to replace the MPOC and VTC that facilitates:

1. efficient operation of the transmission system and use of pipeline capacity;

2. competition in upstream and downstream markets; and

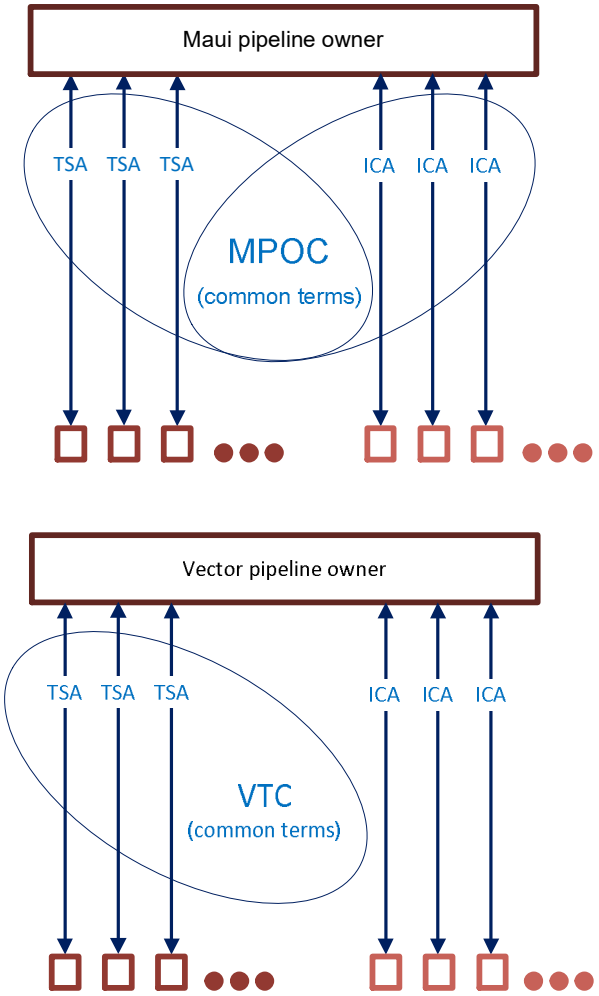
3. efficient investment in pipelines.

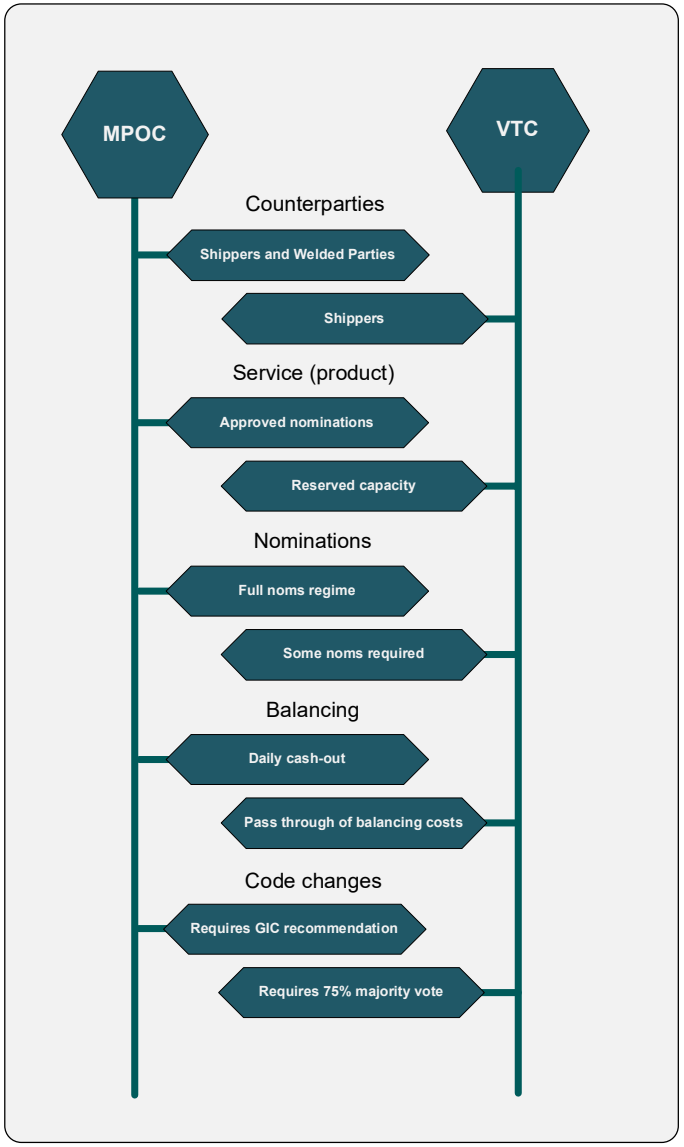
- Ultimately new access arrangements will be assessed against the Gas Act and GPS objectives, but the regulatory objective summarises what GIC is looking for

Components of new access arrangements

- A new access regime will need to address substantially the same matters dealt with by the current regime
- GIC is open-minded on which matters will be covered in:
  - A single new code
  - Other contracts
  - Regulations
  - Operating procedures
- But helpful to look at scope of existing codes

The existing codes





Comparison of MPOC and VTC (1)

- Both codes cover:
  - 'boilerplate' (prudentials, FM, assignment etc)
  - Services
  - Information availability
  - Gas specification
  - Dispute resolution
  - Code amendments
  - Pro-forma contracts (TSAs and, for MPOC also ICAs)

Comparison of MPOC and VTC (2)

- Each code somewhat differently covers:
  - Technical standards
  - Notification of quantities (AQs and reservations)
  - Nominations
  - Balancing
  - Determination of receipts and deliveries
  - Fees
  - Confidentiality

Comparison of MPOC and VTC (3)

- Only MPOC covers:
  - Scheduled quantities
  - Incentives pool
  - Pipeline maintenance
  - Interconnection contracts
  - Details of welded points
  - Operating pressures
  - Peaking and tolerances on nominations
  - Shipper and Welded Party principles
  - Tariff principles
- Only VTC covers:
  - Odorisation

Starting point – service definitions

- At the highest level, is the core service:
  - point to point
  - zonal
  - entry–exit
  - common carriage
  - other
- How is each service:
  - defined (eg a preferential right to capacity, or interruptible capacity)
  - priced (eg by cost allocation or at a market price)
  - allocated if scarce (eg on a first-come-first-served basis, in proportion to historic use, or by auction)

PEA work may help

- For example, the July 2012 advice paper considered:
  - International comparison (Appendix A) looking at:
    - capacity products
    - capacity allocation among pipeline users
    - contractual congestion management
    - physical congestion management
    - encouraging efficient pipeline investment
    - vertical separation
    - market transparency
  - Lessons from other jurisdictions (Chapter 3)
  - A strawman proposal (Chapter 5)
- And, the July 2013 advice paper set out guiding principles

PEA suggested lessons from overseas

- Capacity product definitions
  - Approaches reflect characteristics of each system and policy objectives of regulators: point to point for US, entry/exit for EU
- Capacity allocation among pipeline users
  - Increasing use of auctions to allocate capacity when demand > supply
- Transparency
  - Tendency for improved transparency over time. In US, there is now effectively no confidential information relating to pipeline access
- Contractual congestion management
  - Significant concerns about un-used capacity but no 'silver bullet' to settle the issue. EU promotes a combination of transparency, 'use it or lose it' access rights, and secondary markets

PEA suggested lessons from overseas

- Physical congestion management
  - Maximum utilisation of the pipeline usually achieved by use of interruptible contracts, accounting for 10 to 15% of deliveries in US
- Vertical separation
  - Generally mandated overseas

Summary of proposed synthesis of the PEA's guiding principles (1)

A new transmission access regime should ideally:

- Provide firm and non-firm rights. Firm rights to be:
  - tradeable
  - allocated on a willingness to pay basis when scarce

Summary of proposed synthesis of the PEA's guiding principles (2)

A new transmission access regime should ideally:

- Provide full disclosure of:
  - terms and conditions of services
  - the amount of firm and non-firm service offered
  - the physical capacity of the system
  - the proportion of available capacity offered as firm service
  - any programme for the progressive release of capacity
  - the basis on which non-standard arrangements may be negotiated
  - non-standard agreements
  - all information relevant to the formation of prices

Summary of proposed synthesis of the PEA's guiding principles (3)

A new transmission access regime should ideally:

- Include a nominations regime with incentives for parties to give accurate nominations
- Move away from grandfathering arrangements
- Provide price signals to indicate scarcity where possible
- Allocate any congestion rents in a way that minimises distortions to long-term bidding for firm capacity and short-term incentives.
- Recover the costs of making information transparent, and establishing a single access regime, from a broad base.
- Be supported by efficient governance arrangements.

Submissions

- We welcome any feedback, but have specifically asked if you:
  - agree with the proposed regulatory objective?
  - agree that it is not necessary to specify what elements of the access regime will be addressed in a new code at this stage of the process?
  - agree with the suggested synthesis of the PEA's guiding principles?
  - agree with the suggested initial scope of the options?
  - consider that the process outlined above is appropriate?