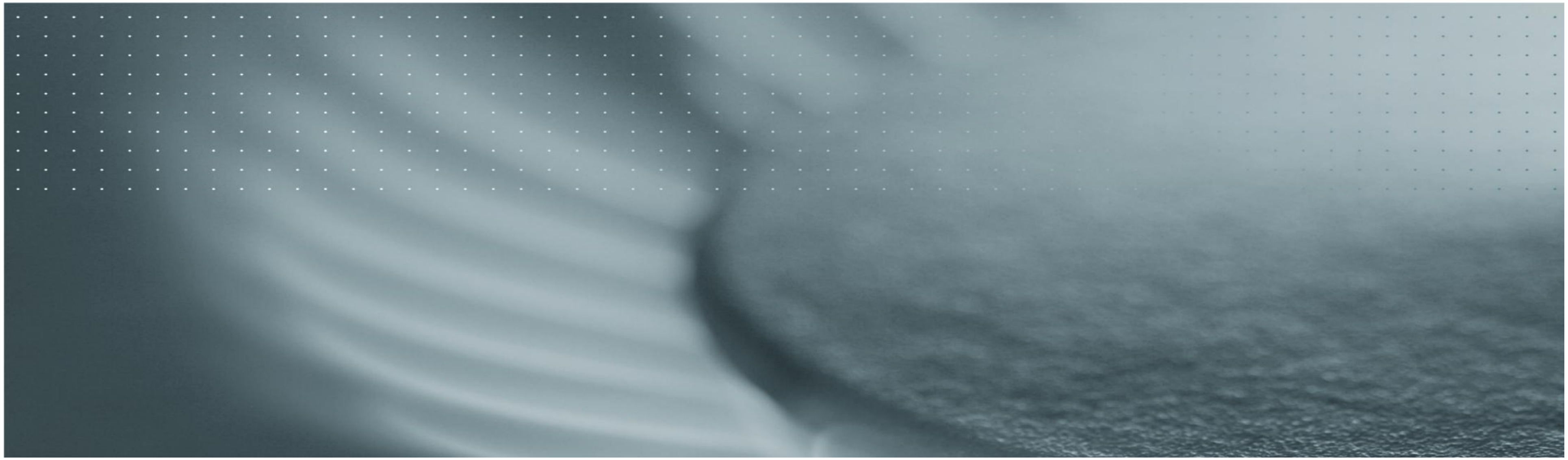

GAS TRANSMISSION ACCESS

SUBMISSIONS ON FIRST GAS EMERGING VIEWS PAPER (EV PAPER)

DATE:

19 July 2017

AUTHOR:

Ian Wilson

Continuing good progress (1)…

Key communication	**Author**	**date**
Memorandum on Single Code Development Process	FG	12 August 2016
Stakeholder workshop 1		24 August 2016
Single Code Options Paper (SCOP1)	GIC	13 September 2016
Stakeholder workshop 2		20 September 2016
Stakeholder workshop 3		9 November 2016
SCOP1 Analysis of Submissions	GIC	23 November 2016
Single Code Options Paper (SCOP2)	FG	28 November 2016
Stakeholder workshop 4		5 December 2016
SCOP2 Analysis of Submissions	GIC	27 January 2017
GTAC Development: Proposed Decisions and Next Steps	FG	17 February 2017
Stakeholder workshop 5		28 February 2017

Continuing good progress (2)…

Key communication	Author	date
GTAC Governance Options	Concept	20 April 2017
Emerging Views on Detailed Design (EV Paper)	FG	12 May 2017
Stakeholder workshop 6		17 May 2017
Initial Summary of GTAC IT Risks	FG	7 June 2017
Preliminary Draft Code Changes (Transition Paper)	FG	12 June 2017
GTAC Governance Options Final Advice to GIC	Concept	12 June 2017
Stakeholder workshop 7		22 June 2017
EV Paper Analysis of Submissions	GIC	13 July 2017
MPOC Transition Change Request (TCR)	FG	14 July 2017
Stakeholder workshop 8		19 July 2017

Submissions on EV Paper

EV Paper submissions received from…

- Contact
- Genesis
- Greymouth
- MGUG
- Methanex
- Nova
- Shell
- STOS
- Trellis
- Trustpower
- Vector

Access Products – what the *EV Paper* proposes

- Principal access product is Daily Nominated Capacity (DNC)
  - Shipper obtains DNC when its DP nomination is confirmed by First Gas
  - First Gas may approve all or some of requested nominations
  - DNC fees will be set by delivery zones to recover allowable revenue
  - Accurate DNC nominations incentivised by overrun fees
  - DNC is not fully firm - First Gas can curtail for emergency, FM, or congestion
- DNC can be made firm by a shipper obtaining Priority Rights (PRs) at auction
  - PRs available at every DP
  - Term of a PR is 6 months
  - Auctions will be held every 6 months

Access Products – what submitters say (1)

- DNC/PR concept
  - MGUG, Nova conditionally support
  - Contact, Methanex, Shell, STOS, Vector are non-committal
  - Genesis, Greymouth, Trellis, and Trustpower propose alternatives
  - Particular concerns about unnecessary administrative complexity:
    - Noms every day, at every DP, in a system that is largely unconstrained
    - Need to value PRs at every DP every six months
    - Alternatives propose primary product should be firm

Access Products – what submitters say (2)

- DNC - some submitter say:
  - Nominations for transport and gas supply will be different
  - Overrun fees and possibility of curtailment mean a shipper's DNC nomination may not be an accurate view of its anticipated demand
- PRs - some submitters say:
  - Unnecessarily administratively burdensome
  - Shippers/end-users need to anticipate congestion, but First Gas can do that best
  - Would be:
    - Difficult to value
    - Prone to 'gaming', particularly where private information is held by one party
    - Possibly unworkable at dedicated (ie single user) DPs
    - Not a good way to manage physical congestion

Access Products – what submitters say (3)

- Improvements suggested by submitters:
  - Only offer PRs at DPs or delivery zones where congestion is likely
  - Complement PRs with a 'demand management response scheme'
  - Only require nominations at DPs where PRs apply
  - Combine DNC and PRs into a single product
  - Make amount of PRs available at each DP transparent
  - Make historic congestion and the prospect of future congestion transparent
  - Make PRs available for one year or longer
  - Make PRs available to end-users
  - Clarify what PR protects against (congestion, pipeline FM? etc)

Access Products – what submitters say (4)

- Alternatives suggested by submitters:
  - Genesis: two alternative 'hybrid' models + congestion management
  - Greymouth: a 'flow on demand' model
  - Trellis: combine DNC and PRs to a long-term fixed price capacity product
  - Trustpower: an 'interruption call auction' model

Pricing – what the *EV Paper* proposes

- Same DNC fee to transport from a receipt zone to any DP in a delivery zone
- More distant delivery zones will have higher DNC fees
- A throughput fee will be allowed for in the *GTAC*, but initially set to zero
- A 3-step overrun fee: zero; 5 times DNC fee; 10 times the DNC fee
- PR prices to be established by auction on a 'pay as bid' basis
- Auction revenue recycled as DNC Charge reductions
- To encourage primary balancing, excess running mismatch will be:
    - A tiered balancing incentive charge; and
    - A cash-out, when First Gas takes a balancing action

Pricing – what submitters say (1)

- DNC overrun fees - some submitters say:
  - Fees will incline shippers to over-nominate DNC
  - Overrun charges will be disproportionate because DP demand is uncertain
  - Stepped overrun fee structure is too complex, and proposed fees are excessive
  - Overrun fees should be cost reflective and not punitive
  - High overrun fees increase costs because shippers will:
    - Have one (higher) set of numbers for DNC nominations and another for balancing
    - Push for more intraday nominations cycles
    - Reassess their nominations more frequently
    - Seek more flexibility in their supply contracts
  - A 3% buffer is meaningless given demand volatility
  - Recycling overrun revenue to reduce DNC fees may not be efficient
  - It is inconsistent to have zone based DNC charges and DP based overrun fees

Pricing – what submitters say (2)

- MHQ overrun fees - some submitters say:
  - Fees are not justified because peaking is generally not a problem
  - The case for only having MHQ fees at dedicated DPs has not been made
  - Fees may cause DNC to be higher than otherwise
  - Fees will drive shippers to seek more flexibility in gas supply contracts, increasing the cost to producers and (ultimately) consumers
- Balancing incentive fees – some submitters say:
  - Producers with OBAs pay balancing incentives like shippers, so the recycled revenue should be returned to producers as well as shippers
- PR prices – some submitters say:
  - Price all PRs at the marginal auction price (rather than pay-as-bid)

Balancing – what the *EV Paper* proposes

- At each RP or DP where an OBA applies, the interconnected party is responsible for balancing measured flows to scheduled quantities
- Each shipper is required to balance its aggregate receipts with aggregate deliveries across the whole transmission system
- An incentive charge will apply to all running mismatches over a tolerance
- Where First Gas buys or sells balancing gas, it will make back-to-back cash-outs of opposing running imbalance positions
- First Gas will also have discretion to cash out running imbalances in other circumstances
- A park and loan service may be offered to interconnected parties and shippers

Balancing – what submitters say (1)

- There is strong support for proposals, particularly for balancing the pipeline as a whole, and for moving away from automatic daily cash-out of excess running mismatch
- A few aspects some submitters are critical of are:
  - Balancing incentive charge - Greymouth thinks this charge is unnecessary because the risk of cash-out is sufficient incentive
  - Low tolerances - Greymouth suggests current (cumulative) tolerances should be retained
  - Lack of principles - Methanex suggests that principles similar to s3 of the MPOC – transparency, lowest cost, and using the market – should be in the *GTAC*
  - Making shipper running mismatch positions public

Balancing – what submitters say (2)

- Interconnected parties (Methanex, Shell and STOS) seem unclear about the extent to which the MPOC OBA arrangements would be preserved
- Shell and STOS stress the importance of maintaining the Taranaki Target Pressure concept, particularly the 48 barg maximum pressure
- There were mixed views about park and loan, eg:
  - Genesis and Vector support the proposal
  - Greymouth thinks it is unclear and unnecessary, given the emsTradepoint market
  - MGUG does not support it, believing it would:
    - Negatively affect the capacity of the pipeline
    - Reduce PR availability, and overrun and running mismatch tolerances
    - Undermine the emsTradepoint market
  - STOS thinks it could help manage planned outages, but has a strong preference for retaining something similar to ROIL multiplier arrangement

Allocation – what the *EV Paper* proposes

- The current method of calculating initial allocations (using the D+1 Pilot Agreement results) will be replaced by pro-rating the metered quantities by nominations.
- As at present, the interim and final allocations under the Downstream Reconciliation Rules (DRR) will be used for wash-ups

Allocation – what submitters say

- Submitters generally support:
  - retaining OBA arrangements
  - a pro-rata on DNC approach to initial allocation if it is shown to be more accurate, timelier and cheaper than D+1
- Most submitters think pro-rata on DNC will be less accurate than D+1
- One or more submitters suggest:
  - Pro-rata on scheduled quantity is the most common and fair way to allocate
  - Giving further consideration to whether there should be wash-ups of running mismatch and overruns, with particular view to minimising gaming opportunities
  - Having a default rule if parties cannot agree on an allocation method

Other matters raised in submissions (1)

- Commerce Act – authorisation required?
- Transparency – of all information relevant to congestion and pricing
- IT and timeframe – timetable too tight?
- Cost benefit analysis – should First Gas do one?
- Process – simulation of new arrangements – phasing-in of non critical elements
- Evaluation of the proposed arrangements
- Gas Quality – how is it provided for?
- First Gas discretion – too much provided for?
- Onerous provisions – too little opportunity to dispute invoices?

Other matters raised in submissions (2)

- Start-up and shut-down profiles – continue current arrangements?
- Target Taranaki pressure – continue current pressure targets?
- Pipeline maintenance – continue current arrangements?
- Definition of Gas Day – 9am start?

Back-up slides

Questions raised in submissions (1)

- DNC/PRs
  - Trustpower asks whether, in the event of a critical contingency:
    - The order of curtailment will reflect PRs?
    - Holders of PRs who are curtailed would be compensated?
  - Greymouth asks how:
    - DNC/PR arrangements might prevent events like the May 2017 critical contingency?
    - Why end users cannot hold PRs?
- Tolerances
  - Greymouth asks whether the cumulative tolerances it has at Turangi and Kowhai will be retained?

Questions raised in submissions (2)

- Balancing
  - Greymouth asks:
    - what the economic rationale for park and loan is, given that there is already the emsTradepoint market?
    - Given there will be B2B style cash-outs, why is another balancing incentive needed?
- PR auctions and market power
  - Trustpower asks whether, to mitigate market power in a thin market:
    - What tools should be used: independent review of bids? a price cap?
    - Which independent party should be tasked with monitoring behaviour?
    - Should ex-ante or ex-post arrangements be adopted?
  - Contact asks why shippers can only bid for 5 tranches of PRs at a DP

Questions raised in submissions (3)

- Pricing
  - Nova and Shell ask how First Gas will set the balancing incentive price
  - Greymouth asks for worked examples

Genesis alternative models

- Does not want to '…completely rewrite the proposal', so suggests:
  - Alternative 1:
    - DNC applies at the zone level unless there is congestion
    - PRs would only be offered on DPs where congestion is identified
    - Rules for adjusting zones to allow for this would be codified
  - Alternative 2:
    - Overrun limits apply at all DPs (say 10GJ/day)
    - No overruns charged unless DP in total is in overrun
    - Overruns are pro-rated among shippers at the DP or zone level
  - Suggested modification:
    - DPs should be available for 1 year or longer
    - DPs should clear at the marginal price, not pay as bid
    - Demand management arrangement should be offered at ToU DPs

Greymouth alternative model

- Advocates '… a partial or full shift towards Flow on Demand', because:
  - PRs:
    - Are an inefficient way of getting targeted demand reductions
    - Do not encourage the use of gas
    - Are not simple (end-users switching more difficult, shippers require more information)
  - Congestion management products, on the other hand:
    - Allow First Gas more direct control of the system
    - Are more likely to avoid critical contingencies
  - DNC and MHQ overrun charges would not be necessary
  - Nominations would only be required when needed (to manage congestion)

Trellis alternative model

- Advocates combining DNC and PRs to a single firm capacity right available:
    - At a DP, at a fixed price, for a fixed term
    - Shippers with excess capacity could auction it off (known as 'capacity release')
    - Benefits seen as:
        - Simpler processes for shippers and pipeline operator, long term
        - Simpler, more predictable cash flows for all parties
        - Less overhead (no revenues to recycle)

Trustpower Alternative Model: Interruption Call Auction

- Advocates 3 monthly auctions for congestion management services (CMS):
  - On DPs where First Gas anticipates congestion, it will:
    - Issue a notice of which DPs are affected, and how much congestion is anticipated
    - Invite offers of CMS
    - Parties can offer up to 5 tranches of CMS at each congested DP on a bulletin board, and can lower the offer price at any time. Non-shippers can make offers, but must notify First Gas who their shipper is
    - Bulletin board would anonymously rank offers from lowest to highest
    - At close, First Gas can accept as many offers as it needs (up to its price cap)
    - Other parties may now enter the market and make bi-lateral contracts with providers of CMS (possibly at prices higher than the First Gas price cap)
    - Full details of all trades are then published
    - An ex-post review of auction will assess whether any competition issues need to be reported to the Commerce Commission
    - If an interruption call is made, the shipper who sold CMS must curtail that much or be charged at the price cap level