Gas Transmission Access Code: Emerging Views on Detailed Design

18 July 2017

Firstgas

Purpose of this presentation

Agenda

- How we intend to respond to submissions on GTAC Emerging Views paper
- Seek feedback from stakeholders on proposed direction of responses and remaining issues prior to the release of draft GTAC
- Explain proposed process for engagement on draft GTAC

Framework

- **Objectives**: what we were seeking to achieve in Emerging Views?
- **Concerns**: what issues were raised by stakeholders?
- **Proposed responses**: how do we propose to resolve concerns, while still achieving objectives?

Two main sets of concerns raised by submissions

Transmission access via delivery point nominations

Nominations to zones or points?

Is the overruns regime really needed?

Nominations linked or separate?

Priority Rights design

PRs all the time or only when congested?

PRs priced based on bids or clearing price?

PRs owned by shippers only or end-users as well?

Information sufficient to inform PR bids?

PRs or interruptible contracts?

Nominations to zones or points?

Objectives	Concerns
• Provide appropriate level of information on anticipated system use	• Nominating to all Delivery Points will involve unnecessary administrative cost
• Ensure First Gas can deliver on PRs that have been issued	• Too difficult to accurately assess loads at all DPs, creating heightened risk of overruns and liabilities

Is the overruns regime really needed?

Objectives	Concerns
• Incentivise accurate nominations for transmission capacity to maintain the integrity of transmission regime, incl. appropriate cost recovery and system operation	• Proposed tolerances are too tight given natural variation in demand • Having overruns apply to nominations for small quantities is not efficient • Need for MHQ overruns is not explained/justified

Proposed direction: explore use of overrun zones

Proposed criteria for establishing overrun zones (ORZs):

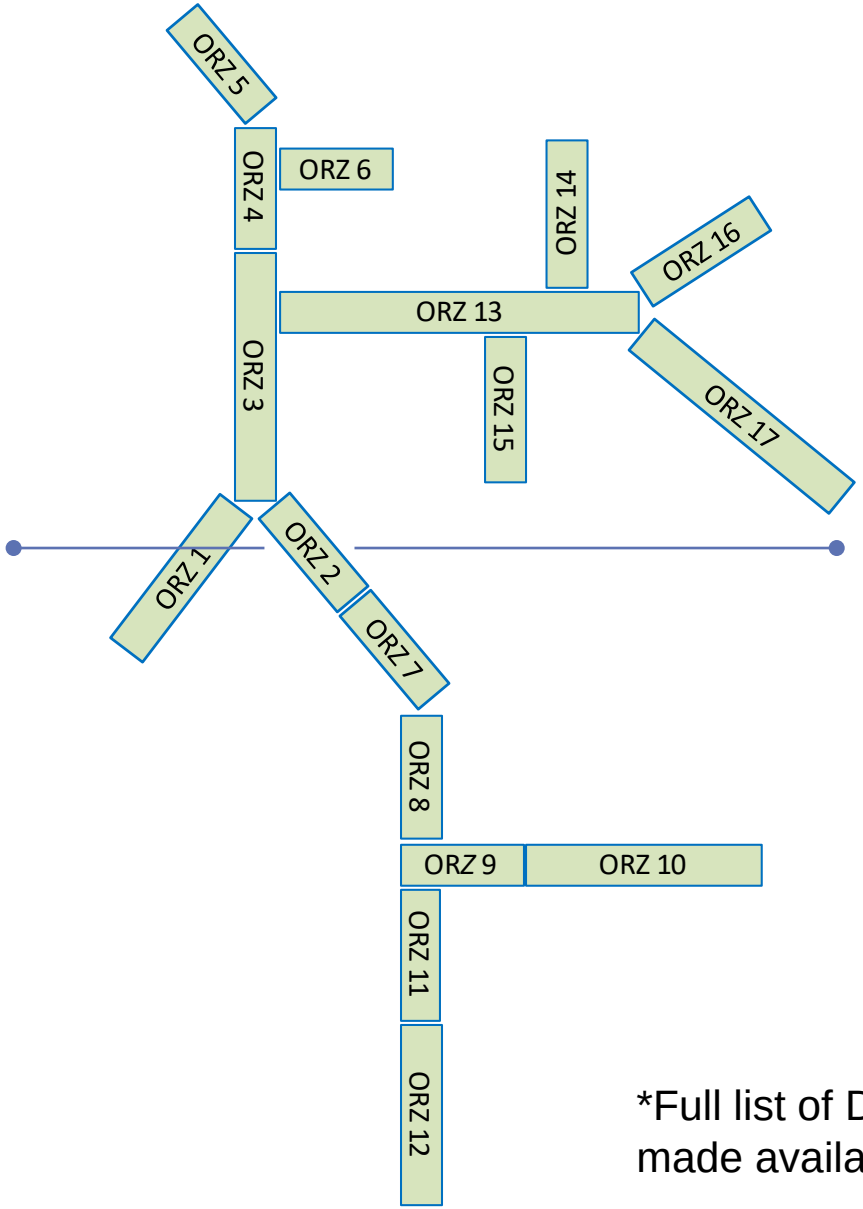
1. All network-supply DPs should be in zones
2. Exclude dedicated DPs:
    - End user has control and should take responsibility
    - Non-standard capacity at a number of such DPs
3. Zones should be primarily “geographic” (similar *pipeline* capacity)
4. Station capacity limits would apply (limit aggregate DNC per DP)
5. All DPs in a zone have the same DNC Fee

Still thinking about:

- Whether unregulated (bypass) networks should form part of same zones
- How overruns should be applied if congestion occurs

Illustration of Possible Overrun Zones

Included Delivery Points
Kapuni (Lactose et al)
Eltham
Kaponga
Stratford
Inglewood
Waitara
New Plymouth



Excluded Delivery Points (All dedicated)
KGTP (Delivery)
Kupe (Delivery)
Ammonia-Urea 8201
Ammonia-Urea 9626
Stratford 2 Power Station
Stratford 3 (Storage, Delivery)
TCC Power Station
Kaimiro (Delivery)

*Full list of DPs in each ORZ will be made available on GIC website

Illustration of Possible Pricing / Overrun Zones

- Consider an Overrun Zone comprising 4 Delivery Points

DPs in Zone	DNC (GJ)	DQ (GJ)	DNC - DQ (GJ)
1	100	105	5
2	50	40	(10)
3	40	32	(8)
4	600	610	10
	790	787	(3)

- ∑DQ < ∑DNC, hence Overrun Charge for this zone is zero
- Overrun Zones would work similarly to current (non-Maui) Transmission Pricing Zones
- No need for tolerances once DPs are grouped in this manner

Nominations linked or separate?

Objectives	Concerns	Proposed direction
• Recognise the differences between gas injections and use of transmission capacity	• Creates administration cost to shippers in need to manage two sets of nominations	• Explore nomination linking function in IT system (outside GTAC)
• Provide greater operational flexibility in management of linepack, saving unnecessary curtailment	• Nominations will differ given if there is an incentive to avoid overruns (therefore over-nominate transmission capacity)	• Remove incentive to over-nominate transmission capacity
• More information to TSO in emergencies		

PRs all the time or only when congested?

Objectives	Concerns
• Allocate scarce transmission capacity to parties that value it the most	• Creates inefficiency in making parties consider need for PRs that have no value • Shifts risk from First Gas to shippers and end-users (who are not best placed to manage it)

We see two components to efficient management of congestion:

- Identifying the prospect of congestion in different parts of the system (FG)
- Valuing transmission capacity when the prospect of congestion exists (shippers/end users)

Proposed direction: only offer PRs if prospect of congestion exists

Set out clear, but conservative, criteria for where First Gas will offer PRs

1. Capacity “cover” (uncommitted capacity vs existing) :
   - Pipeline capacity most important
   - DP capacity also important, but is (usually) more easily fixable
   - Diversity
2. Account for effect of changes:
   - Annual AMP analysis
   - Planned capacity enhancements
   - New or potential load notified by shippers
3. Non-standard capacity commitments

Illustration of possible PR locations

- Possible DPs where PRs may be required include:

Delivery Point	Reason (1st Capacity Limitation)
Cambridge	407 lateral
Palmerston North	113 and (especially) 107 laterals
Tawa A and B	Operating pressure of Waitangirua – Tawa line
Greater Tauranga	803 lateral
Rotorua	503 lateral

Other DPs On Watch for Priority Rights

- Other DPs where PRs could be required include :

Delivery Point	Reason
Whakatane	507 lateral / load on upstream 502 lateral
Greater Mt Maunganui	804 lateral
Waitoki	Future growth / Auckland periphery
Warkworth	432 lateral

- Further analysis will be carried out – aim to ensure that PRs are available at locations where a realistic prospect of congestion exists

PRs based on bids or clearing price?

Objectives	Concerns	Response
• Allocate scarce transmission capacity to parties that value it the most • Simple auction rules	• Pay as bid approach may lead to shippers paying much higher prices for PRs than is justified by true value (particularly mass market retailers)	• Lowest cleared price sets value of PRs

PRs owned by shippers or ends users as well?

Objectives	Concerns	Response
• Allocate scarce transmission capacity to parties that value it the most	• Could create downstream competition problems if shippers are not willing to trade PRs when they lose a customer • May lock in end users to existing shipper or reduce flexibility in changing supplier	• Continue to see shippers as holders of PR • Efficient way to administer contracts • No visibility of end users on networks • Allow PRs to be “tagged” in the system as relating to a particular load

Information sufficient to inform PR bids?

Objectives	Concerns	Response
• Allocate scarce transmission capacity to parties that value it the most	• Shippers and end-users will not be able to identify where congestion is likely • Especially when new loads are likely (but not yet publicly notified)	• Better information availability (including information on system use and pressures) • Better information on DP capacities • Incorporate process to disclose new loads above a certain size before they are connected

PRs or interruptible contracts or calls?

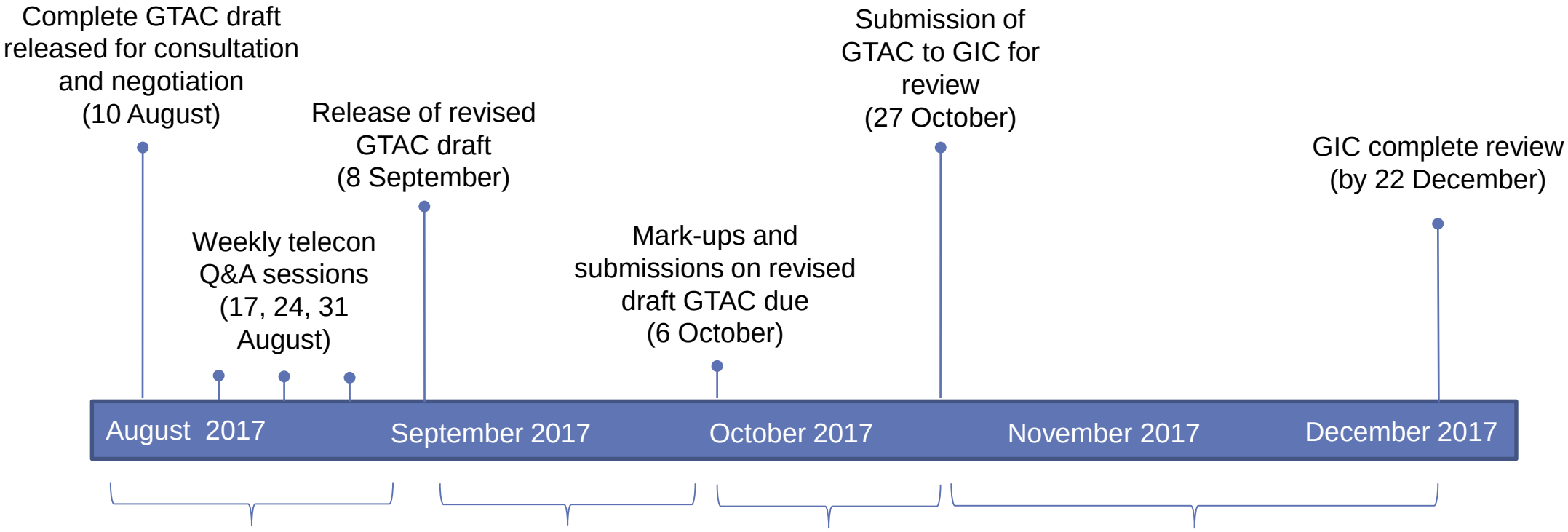
Objectives	Concerns	Response
• Allocate scarce transmission capacity to parties that value it the most	• Objective could be achieved in a more targeted way by focusing on handful of parties that can respond • No clear link between financial product and physical solution	• Agree that interruptible contracts are an important part of efficient capacity management • Especially important in a system with reserved capacity (VTC, not GTAC) • Raise different design challenges than PRs

Comparison of Priority Rights with Interruptible Call

Interruptible Call	Priority Rights (revised)
Used when congestion occurs	Available where congestion is a prospect
Bids made on day or defined in contract	Shippers bid for PRs in advance
Any load may bid to reduce demand, but performance must be verifiable	PRs provide information to TSO if congestion occurs
Cost spread over industry (potential to target cost recovery at congested DPs)	Cost of PRs borne by their users
Bids may not be available in congested sector or only available at very high price	PRs can always be issued – up to shippers and end users to ascribe value

- Our preference remains a menu to firm and non-firm rights, with firm rights based on willingness to pay

Proposed engagement approach for draft GTAC



- Ensure provisions of GTAC are well-understood before inviting mark-ups
- Enable further revisions to be made to better achieve intent and eliminate ambiguities

- Allow stakeholders to propose improvements and highlight any remaining concerns on design

- Time for First Gas to review proposed changes and submissions

- Allow stakeholders further opportunity to address any unresolved issues (including issues raised by other parties prior to submission of final GTAC)