Firstgas

FIRST GAS INFORMATION PAPER

TO: Transmission Pipeline Stakeholders

FROM: Ben Gerritsen

DATE: 3 November 2017

RE: **Summary of mark-ups and submissions on September draft GTAC and responses**

First Gas received a total of 7 sets of mark-ups on the revised draft GTAC released on 11 September 2017, and 8 submissions. We thank stakeholders for their time and effort commenting on the GTAC and for the constructive engagement that we continue to receive on this initiative. While some parties continue to have concerns about the form and drafting of the GTAC, we believe that good progress is being made and that stakeholder input is driving that progress.

We have carefully considered the mark-ups and submissions received in preparing the latest draft GTAC released on 3 November 2017. The table below summarises what we see as the key points made in mark-ups and submissions, and provides a response from First Gas. The purpose of this summary is to allow parties to quickly evaluate our approach to the various issues raised, so that they can then reflect any remaining issues or concerns in the final round of mark-ups and submissions due on 24 November 2017.

This table does not respond to every point made, but instead seeks to summarise what we see as the more material or common issues raised. A complete mark-up of the GTAC has also been released, which allows parties to evaluate our response on every provision. We will also release a presentation before the workshop on Thursday, 9 November that summarises the main themes emerging from this stage in the negotiation process.

Party	Statement	First Gas response
Contact	FGL should not approve an Agreed Hourly profile where that would (adversely) “affect any other users of the pipeline”.	Agree. We have included a proviso that First Gas may decline any request for an Agreed Hourly Profile which it believes would adversely affect the transmission capacity available to other Shippers (section 3.18)
Contact	Requested clarification of the relationship between DNC and Supplementary Capacity	DNC will apply (except where there is Congestion) to a Delivery Zone (i.e. it may not even be linked to a specific Delivery Point), whereas Supplementary Capacity will continue to be linked to a specific end-user (and therefore location and Delivery Point). If nominations are required under a Supplementary Agreement, they must therefore be separate from nominations for DNC. We believe the new IT system will handle this without difficulty. A Shipper will make a single nomination for DNC in a Delivery Zone, and separate nominations under each specific contract for Supplementary Capacity

Party	Statement	First Gas response
Contact	Suggest that the term of PRs should be notified as part of scheduling an auction (rather than hard coded as a 6-month term)	Agree. Feedback from several parties (including Nova and Trustpower) indicated that PRs with longer terms may be valuable and that a rolling release of PRs might also be useful. The new drafting preserves these possibilities for developing PR auction rules (section 3.10)
Contact	Suggests there is no need for multipliers when there is low or high Line Pack (section 8.12 and 8.13).	Disagree. Multipliers are designed to increase the incentive for parties who are adding to the stress on the Transmission System and the reverse for parties who are easing the stress on the Transmission System. Without such multiples, it cannot be expected that parties will reduce positions that are causing stress to the Transmission System (given those have arisen at the standard ERM charges, i.e. without multiples). Actual experience bears this out (most recently with the critical contingency declared on 23 May 2017). Standard fees for running an imbalanced position are not always sufficient in light of market conditions for Gas over a particular time period
Contact	Considers that balancing incentive fees should be much lower and the notice period for changing balancing incentive fees should be 3 times longer (15 Business Days rather than 5)	Disagree that incentive fees should be lower. The incentive fees specified in the GTAC are based on what parties currently pay as incentive fees on cash outs under the MPOC, and have been set to financially encourage parties to fulfil their primary balancing obligations. Agree that the timeframes for changing incentive fees could be extended. We have extended the notice period to 10 Business Days
Contact	First Gas should be obliged to offer an “emergency” park and loan service as an alternative to the ROIL available under the MPOC	Disagree. We believe we need flexibility on whether to offer P&L based on pipeline conditions and available linepack. The ROIL concept is unnecessary given the nature of the GTAC and the options available to Shippers under the GTAC to manage changes in their gas supply or demand
Genesis Energy	Progress has been made, and continues to be made, towards a single GTAC… Genesis has appreciated the continued efforts of First Gas and the GIC to understand industry concerns and respond accordingly	That is great feedback, thanks
Genesis Energy	Final pricing and fees need to be provided as soon as possible so that we can come to a view on the likely cost implications for our business	We appreciate the value of this information to Shippers and end-users. First Gas has released an illustration of how the intended GTAC pricing will work, which we believe provides parties with sufficient information to understand likely cost implications (including pass-through to end-users).

Party	Statement	First Gas response
		We consider that the level of remaining uncertainty is not unreasonable relative to current arrangements, where Shippers are advised of transmission fees that will apply for the coming year. Under existing processes, there can be substantial changes in those transmission fees (as occurred under the VTC following the closure of Otahuhu B and Southdown power stations)
Genesis Energy	We are concerned about how to manage balancing on a 'difficult day', and are uncertain how to account for the timing of linepack notices, information about outages, and the potential to use an emergency nomination cycle	The timing of extra/emergency nomination cycles has been dealt with in the updated drafting of the GTAC. Linepack notices will be issued by First Gas as soon as practicable, and parties will be able to view real time (or near real time) information on linepack status on OATIS (section 8.6)
Genesis Energy	Park and loan product has great potential, but there is currently little detail provided in the GTAC as to how this would be offered	We propose to provide further detail on P&L in 2018. We have not yet fleshed out this detail since we consider that it unambiguously improves on the status quo (where only unauthorised imbalances are possible). Our intent is for: • P&L timeframes to be short (i.e. we would not be pre-committing linepack months ahead) • Available linepack for P&L to be allocated on a first-come-first-served basis (reflecting the short term, discretionary nature of the product) • P&L fees to be set at posted prices reviewed periodically, with an upper limit set by ERM fees
Genesis Energy	We would like the ability to manage running mismatch towards zero by changing nominations and/or flow without getting charged	Shippers can manage running mismatch positions by changing receipt point nominations for gas. For example, if you have a positive running mismatch position because the customers you serve have taken less gas than you previously nominated at receipt points, this pipeline position can be corrected by reducing gas nominations in the next cycle to be the equivalent amount less than expected deliveries. Delivery Point OBA Parties can deal with Running Mismatch by: • Allocating any difference between the flow and nominations (Mismatch) to a 'swing' Shipper • Initiating a bilateral trade of gas to sell/buy the Running Mismatch away • Trading on the wholesale gas market
Genesis Energy	Genesis urges First Gas to provide more details about the specific MHQ it expects to impose at each DDP. We are, unsurprisingly, most	Specific MHQs will determined in 2018, since settings these limits will need to align with Balancing SOPs. We appreciate that this doesn't provide the certainty that Genesis is looking for in the transition to the GTAC, but we believe that this approach

Party	Statement	First Gas response
	concerned about how this affects our Huntly Power Station and the cost of running at the site… day to day approval of the Agreed Hourly Profile does not provide sufficient certainty	provides greater certainty in making plant operating decisions once the GTAC goes live. This is because Genesis will know in advance of operating the Huntly Power Station what transmission charges it will incur (whereas there can be some uncertainty on whether peaking charges will be imposed under the MPOC)
Genesis Energy	We require more information about how First Gas intends for supplementary agreements to transition to the GTAC and how it intends to resolve any pricing issues	As we have previously stated (in the SCOP2 paper), we intend to honour the terms of Supplementary Agreements entered into under the VTC. We will look to engage with counterparties to Supplementary Agreements in 2018 to negotiate on a case-by-case basis how those contracts can best be administered within the GTAC framework. Each agreement will need to be considered in terms of the extent to which it will need to be amended when the VTC is replaced with the GTAC. Some Supplementary Agreements will require very little (or no) change, while others will involve more change. We are not of the view that Existing Supplementary Agreements need to be terminated. We will resolve any pricing issues through good faith negotiation. We do not believe it is appropriate for either First Gas or counterparties to Supplementary Agreements to use adoption of the GTAC as an opportunity to reprice long-term pricing arrangements. We will therefore expect the overall economic balance of term contracts to remain unchanged
Genesis Energy	We need to have an indication of the parameters around running mismatch tolerance	We have re-drafted the definition of running mismatch tolerance in section 1. It now refers to 2 tranches of tolerance from linepack: one for Shippers and First Gas and one for OBA Parties. A party's share of the relevant tranche will be determined pro-rata in proportion to throughput. First Gas will complete the work required to set running mismatch tolerances as part of developing the GTAC Balancing SOP in 2018. This will involve determining the available 'free' space for Running Mismatch across the entire transmission system, and allocating an appropriate share of that to the 2 tranches referred to above. Our expectation is that tolerances would not be lower than currently exist under the MPOC, since First Gas has access to more linepack operating the transmission system as a whole
Genesis Energy	[The GTAC provides] for 10 days' notice prior to holding a PR auction… a minimum of 15-20 business days is more appropriate	Agree – this has been changed (section 3.10)

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Genesis Energy	Over and underrun incentive fees should be subject to code change	Disagree. The GTAC states the purpose that the incentive fees aim to achieve and only enables First Gas to alter the incentive fees to levels that better achieve the purpose. Given the uncertain nature of the incentives applying under the GTAC, we consider this is appropriate initially, but would consider supporting future code changes to provide counterparties with greater certainty once experience is gained under the new arrangements (section 11.4)
GGNZ	FGL needs to funnel the GTAC towards something that is workable, has proper drafting, and addresses everyone's issues before it puts the GTAC to the GIC for review	Agree that the GTAC should be able to work and have proper drafting. However, it is highly unlikely that the version of the GTAC submitted to GIC will resolve every issue to the satisfaction of every party. This objective of addressing everyone's issues would set the process up to fail
GGNZ	GGNZ considers that the only way to do this is to have a 2-3 day workshop that goes through the upcoming 3rd draft GTAC line-by-line with parties' business people and lawyers to edit the code	We have arranged for 2.5 days of workshops to discuss the 3rd draft of the GTAC. We suspect that this will not allow for a line-by-line review (based on our experience from the August workshops on the first draft GTAC). We believe that line-by-line review is best done via mark-ups, and have given parties two opportunities to provide mark-ups
GGNZ	How will D+1 work – there needs to be a new agreement between FG and Shippers or adopt this into the Code	D+1 is a day in arrears allocation of gas flows to network delivery points which is 'activated' via the DRRs under the GTAC (section 6.10(b)). The GTAC relies on a D+1 allocation by stating the times that First Gas will be publishing the results of calculations (i.e. publication of RM the day after gas flow requires a D+1 allocation). If industry wishes to continue to operate with D+1, First Gas is prepared to enter into a new agreement (if required) that sets out the processes to provide this information. This would extend the status of D+1 as a pilot, which we think is appropriate given the changes introduced under the GTAC. We expect that that GIC may then subsequently wish to review the DRRs once the GTAC has been in place for a period of time with the benefit of operational experience
Methanex	[We do not consider that the GTAC provides] contractual nexus between and among all parties who interact with the transmission system and the operator of that asset	See comments in response to similar issue raised by Shell (below). We consider that the contractual nexus is unchanged under GTAC – First Gas will continue to have bilateral relationships with shippers and interconnected parties. Where interconnection terms are common and important, they should be specified in section 7 of the GTAC
Methanex	[We do not consider that the GTAC determines] the most efficient and appropriate allocation of rights and	Unclear what the specific concerns are, but we disagree. When compared with the existing codes,

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	obligations between the various parties	some examples of where the GTAC provides a better allocation of rights and obligations are: • First Gas is required to identify the likelihood of congestion on the gas transmission network • Shippers will value and acquire priority rights where the prospect of congestion exists • Gas producers will need to source additional gas when daily nominations cannot be met due to plant failures, or otherwise contractually resolve such issues with their customers • Shippers and OBA parties will be required to meet their primary balancing obligations (rather than relying on automatic cash outs at the end of the Day) • Shippers will have balancing obligations that apply across the system as a whole (rather than at discrete interconnection points). This is not an exhaustive list, and we expect that ensuring the most efficient and appropriate allocation of rights and obligations between the various parties will be an important part of the GIC's review of the GTAC
Methanex	[We do not consider that the GTAC recognises] that interconnected parties (not shippers) are best placed to manage physical gas flows and balancing actions through coordination with shippers and other interconnected parties	Agree that interconnected parties are generally best placed to manage physical gas flows. This is reflected in OFOs being initially directed at ICA holders (sections 9.5-9.6). Disagree that interconnected parties are generally best placed to manage balancing actions. Those interconnected parties that are well placed to manage balancing at their point of interconnection can choose an OBA. Those that are not best placed can have their Shipper balance daily gas requirements as part of an overall position on the gas transmission system
Methanex	[We do not consider that the GTAC recognises] the fundamentally different characteristics of the Maui pipeline and the users on the Maui pipeline from those on other parts of the transmission system	We disagree that most users on the Maui pipeline have fundamentally different needs than users on other parts of the system. Most of the revenue First Gas earns from transporting gas on the Maui pipeline is shipped beyond interconnection points with other transmission assets – so all of those users demonstrably have the same needs (since they are transporting gas to the same parties). We consider that even large users on the Maui pipeline (Methanex and the Huntly Power Station) want fundamentally the same things from First Gas as provider of gas transmission services. In addition, the ability to negotiate non-standard agreements under the GTAC provides greater ability to reflect fundamentally different user characteristics (if criteria are met)

Party	Statement	First Gas response
Multiple	First Gas should clarify how nomination processes and tools (like OFOs and AHPs) will work at receipt points	In revising the GTAC we have focused our role in gas nominations at receipt points on managing any physical pipeline issues that arise (which are rare). This is provided for through the redraft of section 9.5. The ability to manage flows from receipt point interconnected parties where required will also be set out in ICAs, and we have added this term to section 7 of the GTAC. The purpose of this provision is to ensure that First Gas can manage flows at receipt points if necessary to preserve the safe and reliable use of the transmission system. This more focused role than the previous drafting, which included a standing approval role for First Gas in receipt point nominations. We remain happy to provide the IT system for gas nominations that will be entered in by Shippers and approved by producers. That system may also have added functionality for gas producers to specify priorities for available gas in the event they curtail shipper nominations
Multiple	GTAC should make clear that Shippers have little control over gas flows on the day	OFO provisions have been clarified so that they are directed first at interconnected parties (that control the valve), and then at Shippers to coordinate a response with their customers (sections 9.5-9.6). Parties proposed that the “best endeavours” obligation on Shippers to coordinate a response to OFOs should be weakened to a “reasonable endeavours” obligation. We disagree. The reason that Shippers are receiving OFOs is that an important event is happening on the system that requires an urgent response. We believe that it is in everyone’s interests for responses to be on a best endeavours basis
Multiple	Prices should be published earlier than 1 month ahead	Agree. We have changed to 3 months before prices take effect (i.e. 30 June for a 1 October start) (section 11.16). This is earlier than either of the existing codes and the earliest date when inputs are available with sufficient time for internal governance / sign off. We believe that only releasing one set of prices (i.e. no provisional pricing) is fairer since it removes the risk that parties are caught out by changes between provisional and final prices. Provisional prices are also unnecessary since Shippers will not have to book capacity for a whole year (i.e. will have the ability to adjust their capacity bookings daily)
MGUG	MGUG has appreciated the constructive and logical approach taken by First Gas to arrive at the draft code… MGUG are supportive of the basic design features of the	Thanks, that is pleasing to hear

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	GTAC and believe they align with the code objectives articulated in SCOP2, and are consistent with the guiding principles developed by the PEA in 2013	
MGUG	[Concern remains on] the extent of the incentive and penalty provisions on delivered gas cost, particularly allocations of over and under run fees, excess running mismatch fees	We understand and share this concern. Given that we are introducing new access products and incentive mechanisms under the GTAC, it is not possible to know how these will play out and work together. We think that setting out the principles that each incentive aims to achieve and being able to adjust incentives to better achieve those objectives once evidence is obtained is the best solution here
MGUG	[Concern remains on] the overall cost impact of changes to products and pricing methodology on their business… [as] overall impact can only be assessed once the code is final, the pricing methodology has determined prices, and retailer policies and procedures on pass through costs are reflected in the invoicing	Agree. As noted in relation to the same issue raised by Genesis Energy, we have tried to give a reasonable indication of the type and magnitude of price changes that will accompany the GTAC. However, this can only be finalised through the TPM to be released in 2018. As suggested by Nova, we have adjusted our approach to recycling revenue earned from overrun/underrun charges to rebate these amounts to customers immediately (rather than having to forecast overrun/underrun quantities) (section 11.13). This does not create any additional uncertainty on total transmission charges, which will still be determined by the relative accuracy of nominations
MGUG	[Concern remains on] what additional administrative burden is required by users to manage the day to day and monthly interaction with shippers	This has been an area that we have sought to address through the development of the GTAC, specifically by reducing the incentives that apply to promote accurate nominations. We believe that the processes specified in the GTAC should reduce the overall administrative burden on shippers by removing the need to transfer capacity reservations and having nominations to transport gas from origin to destination (i.e. under a single contract). Additional administrative costs will be borne at congested delivery points, but First Gas believe these are appropriate and outweighed by the benefits of allocating scarce capacity efficiently
MGUG	[Concern remains on] the lack of explicitly worded framework principles that would guide First Gas in operating and modifying the code	This point was also raised by Nova in its mark-ups on the GTAC. Nova proposed adding reference to the Gas Act objectives to section 2 of the GTAC. We can see benefits in this approach in applying the same set of principles to the initial provisions of the GTAC as to changes over time and have added a provision into section 1.2 to reflect this
Nova	An overall objective should be inserted in section 2 referencing the Gas Act and	We agree and have incorporated this proposed change (with modifications) into section 1.2.

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	GPS in case of ambiguity or TSO discretion	This provision should give comfort to parties that the GTAC and any discretion First Gas has under the GTAC aligns with overall industry objectives. This also has the positive effect of having consistent objectives applied to GTAC adoption (via MPOC change request), future GTAC changes (under section 17), and GTAC interpretation. This provision should also provide some comfort that further documents released by First Gas in relation to the GTAC (such as interconnection policies, standard operating procedures, and PR auction rules) will be directed towards the same objectives
Nova	Suggest that FGL credits overrun charges each Month. Nova further suggests that such credits should be allocated pro-rata based on volumes shipped	We agree with this suggestion. This has the advantage of being consistent with the approach for rebating PR revenue, and like PR rebates avoids First Gas having to forecast quantities for the coming year. Overrun/underrun charges will be very difficult to forecast (particularly in the first year of the GTAC), so having a mechanism that avoids making those forecasts is appealing. The approach that we have adopted is to rebate overrun/underrun charges pro-rata to DNC (i.e. excluding capacity booked under Supplementary Agreements). We believe this approach is fair because overrun/underrun charges will be defined in the terms of any Supplementary Agreement. This also mirrors the current regulatory treatment of overrun revenue, which is rebated to customers through changes to standard transmission tariffs only. We note that Genesis disagrees with this approach because it would increase the cost of overruns for retailers that have more unpredictable loads. We disagree with Genesis, since overrun revenue (above forecasts of overruns) is already rebated against transmission tariffs. This change only affects the timing of the rebate by making it immediate, rather than being applied at the annual pricing reset with a lag. While DNC charges will appear nominally higher as a posted price, the immediate rebate of overrun/underrun charges against DNC means that total lifetime transmission charges per Shipper or end-user should not be different
Nova	The underrun charge multiple should be the overrun multiple (F) minus 2, rather than 1. Therefore, with an overrun multiple of 2, no underrun charges would be imposed	Disagree. Setting the underrun charge equal to F-1 intuitively has symmetry, since parties that use less transmission capacity than booked will have already paid DNC on that quantity. Parties will recall that the reason daily underrun charges were introduced was to remove any incentive to systematically overbook transmission capacity (which would lead to Shippers having two sets of differing nominations – one for gas and one for transmission capacity)

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Shell	[The] proposed design of gas transmission arrangements is not in accord with the standard that might be expected to apply given the light-handed regulatory regime currently prevailing in New Zealand	Disagree that a light-handed regime exists. The Commerce Act amendments of 2008 fundamentally changed the regulation of gas transmission, and the resulting impacts of code design choices. With respect to gas industry regulation, we consider that the essential regulatory arrangements are in place and that the code does not substitute for regulation. Shell can also take comfort from the reference added to section 1.2 of the GTAC to the Gas Act and GPS objectives
Shell	The GTAC is not a code, it is a transmission agreement for shippers. Producers and other interconnected parties injecting or taking gas from First Gas system are not parties to the GTAC and have no privity to enforce provisions within it	Agree – this contractual structure is the same as currently applies under the VTC and was selected in February 2017 after industry consultation. Provisions relating to interconnection that are important to coordinate efficient system operation should be incorporated into section 7 of the GTAC. Given the relevance of the GTAC to interconnected parties (in particular the provisions in section 7), parties holding an ICA also have standing to propose changes to the GTAC
Shell	We consider the GTAC should incorporate all substantive provisions for all gas arrangements of the entire transmission system, including injection and offtake points	Disagree. As discussed in SCOP2 and leading to the relevant decision in February 2017, it is more efficient for ICAs to address those matters relevant to interconnection (most of which are point specific) and to incorporate provisions in the code where needed to maintain common service terms for all transmission system users (via section 7)
Shell	It is difficult to see how Shell as an interconnected party could actually seek enforcement of some very important provisions under the GTAC (such as protection from excessive back pressure at its interconnection points)	Shell will have a contractual relationship with First Gas under a Receipt Point ICA. That ICA will provide for protection against excessive back pressure as per the GTAC. If this provision is common to all or a significant number of interconnected parties (such that it is truly a system issue rather than a specific interconnection point issue), then it should be covered in section 7 of the GTAC. We have added TTP to section 7
Shell	[RPO definition should retain] operating standard requiring reference to “good practice recognised internationally”	Disagree. We think such a provision simply begs the question of what RPO obligations mean in other jurisdictions. We have carried out this research (as have other parties), and found that the terms “diligence, prudence and foresight” are common requirements
Shell	We suggest that a balance sheet test should be developed and become an acceptable prudential	We are open to this suggestion and the prudential requirements under an ICA could be negotiated to reflect this. One of the benefits of having bilateral ICAs is to better reflect the particular circumstances of interconnected parties, including joint ventures
Shell	In order to promote competition by removing the risk of capacity hoarding, and	We have received conflicting submissions on this issue. Some parties are concerned that restricting the availability of PRs (as proposed by Shell) will

Party	Statement	First Gas response
	remove the risk of contractual congestion and price volatility, we consider that in offering PRs the GTAC should require that First Gas will offer PRs of not more than 70% of the prevailing amount of Available Operational Capacity	artificially drive up the price of PRs and therefore fail to achieve the primary objective of signalling the true value of scarce transmission capacity. We believe the current wording of the code that FG can provide “up to” operational capacity preserves options for PR release plan and detailed auction design
Trustpower	We continue to consider that the proposed GTAC, as a whole, would not represent an improvement on the current arrangements outlined in the MPOC and VTC	It is unclear whether Trustpower has drawn this conclusion by weighing the benefits of the GTAC (such as removing the risk of hoarding reserved capacity) against the costs and risks that Trustpower has identified under the GTAC. That is the exercise that the GIC will undertake and we encourage stakeholders to consider the same exercise from their position
Trustpower	The workability of some core aspects of the new GTAC arrangements (particularly Priority Rights) have not been able to be demonstrated, and… the design has not been considered fully	We accept that further design is required to operationalise aspects of the GTAC (including PRs, P&L, and other provisions). This reflects the status of the GTAC as a contract that defines the legal rights and obligations of First Gas and its counterparties. We do not think it is efficient to prescribe PR auction rules in the GTAC. However, we accept that parties desire greater certainty that PR will not be allocated via auction until acceptable rules have been developed and are published
Trustpower	We consider that mass market end users need be excluded from the currently proposed arrangements or automatically assigned firm transport capacity upfront. Mass market customers cannot be expected to respond if congestion arises – a point recognised clearly in the [CCM Regulations]	Disagree. This statement confuses the contractual right afforded by PRs (to be at the front of the queue for DNC) with the physical status afforded by the CCM Regulations (not to cease supply to mass market gas consumers). We see the position of a Shipper serving mass market customers that does not hold PRs under the GTAC as being comparable to a Shipper serving mass market customers that does not hold Reserved Capacity under the VTC (a situation which occurs frequently). The Shipper does not have a transmission product to supply its mass market customers, and so it pays overrun charges. Despite not having booked transmission capacity, in the event of an emergency or critical contingency those mass market customers are the last to be physically curtailed. We do agree that mass market customers have different characteristics than other end-users of the gas transmission system. However, we are not convinced that those characteristics render PRs unworkable for Shippers supplying mass market customers. Those characteristics will lead to a different willingness to pay for PRs, which PR auctions are designed to reveal

Party	Statement	First Gas response
Trustpower	The proposed arrangements constitute a significant change from the status quo (i.e. under the VTC), where gas transmission capacity is firm by default, to now being “un-firm”, unless Priority Rights are successfully purchased via an auction or secondary trades, in which case the capacity becomes “firmer”	Disagree. Unless a Delivery Point or Delivery Zone faces the likelihood of Congestion (a defined term in the GTAC), then DNC has the same level of firmness as reserved capacity as under the VTC. That is, it can only be curtailed in the event of emergency, force majeure or critical contingency. This goes to the efficient management of congestion – is it better to artificially constrain the available contractual capacity (as per a reserved capacity system), or allow full use of physical capacity but require prioritisation if capacity may be exceeded? The GTAC adopts the latter approach, which we believe is more efficient
Trustpower	What is it about the NZ gas transmission system that means a unique arrangement for access products is required?	Problems with reserved capacity systems are well-documented outside NZ. Australia is currently trying to address the same inefficiencies that arise with reserved capacity, and is also taking a bespoke approach (in that case mandating un-nominated capacity to be auctioned day ahead). Rather than taking this approach, the GTAC DNC+PRs approach builds on the experience in NZ with daily transmission capacity being contracted via a nominations process under the MPOC. This approach also applies the recommendations of the PEA process, which considered the specifics of NZ’s gas industry arrangements in detail
Trustpower	Why, under the current Priority Rights design, must households that use gas in congested areas be potentially exposed to unmanageable risk?	This question mischaracterises PRs. Households that use gas in congested parts of the network face no additional risk. Shippers that serve households have an additional product available to meet their customers’ gas transport needs, and this adds cost in serving those customers. This added cost is by design and reflects the higher marginal value of using scarce transmission capacity
Trustpower	Would it be better to adjust the Priority Rights regime to just be a long-term investment signal rather than trying to also be an operational management tool (as is currently the case)?	Agree that PRs are not an operational management tool, and need to be clearly distinguished from curtailment. PRs simply put shippers at the front of the queue for DNC. Whether a shippers’ customers actually flow gas, or are asked to curtail their demand in an emergency or critical contingency, bears no relationship with PRs. We have added greater clarity on how we will respond to congestion, including through investment, interruptible contracts, and PRs (see section 3.4). This aims to make the different tools clearer and more coherent. We have also moved provisions for First Gas to enter into interruptible contracts from section 10 to section 3. The purpose of this relocation is to clearly distinguish between process for contracting ahead of possible congestion (IL and PRs) from the processes for operationalising the priorities under those contracts in the event of congestion.

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Trustpower	Why have market power mitigation arrangements not been included into the design to date?	The PR auction rules have not yet been developed. That process should consider evidence on whether market power problems would arise given the clear financial incentive on shippers not to acquire more PRs than the physical load they supply
Trustpower	Why do the proposed Priority Rights arrangements not better integrate with the existing arrangements for managing a critical contingency?	As noted above, PRs provide a mechanism for shippers to obtain contractual rights to capacity. They do not need to align with curtailment rules in an emergency or critical contingency. Reserved capacity under the VTC does not integrate with the existing arrangements for managing a critical contingency
Trustpower	There appears to be limited benefit (if any) to Shippers and end-users of the proposed new Priority Rights arrangements	The main benefit we see from PRs is to enable Shippers and end-users to either: • Gain greater certainty of their contractual rights to available capacity in congested areas if they are willing to pay at auction • Pay lower charges if they do not place a high value on using scarce capacity in congested areas. The PR regime also places an obligation and incentive on First Gas to identify congestion ahead of time. This provides notice to Shippers and end-users of possible or emerging system constraints
Trustpower	We suggest the following objectives act as the primary goals for Priority Rights auctions: • Promote workable competition… • Achieve transparency and efficiency in price discovery… • Transaction efficiency… Promote the right balance of least cost and highest value outcomes	We agree that these are good objectives for PR auctions. We consider the best place to refine and record these objectives is in the auction rules that will seek to achieve these specific objectives. Some comfort can be taken from inserting an overarching objective for the GTAC referring to the Gas Act and GPS objectives (which include competition and efficiency) (section 1.2)
Trustpower	We continue to be of the view that ensuring workably competitive outcomes arises, through establishing appropriate market power mitigation arrangements should be a core design element of the GTAC, particularly with respect to the proposed Priority Rights arrangements	The most significant competition concern that we are aware of under the existing codes is grandfathering of reserved capacity under the VTC. Grandfathering is not a feature of the GTAC. The absence of other material concerns under the existing codes suggests that creating formal market power mitigation mechanisms would be unnecessary. This is not surprising since infrastructure access contracts (like the GTAC) generally focus on non-discrimination to support competition upstream and downstream, rather than constraining the behaviour of industry participants.

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		We see this concern as relating specifically to PRs (which is the only "market" process established under the GTAC). As noted above, the process for establishing PR auction rules should consider evidence on whether market power problems would arise given the clear financial incentive on shippers not to acquire more PRs than the physical load they supply. In the absence of such evidence, this seems like a solution looking for a problem
Trustpower	We request that there is incorporated in the GTAC a new complaints mechanism, whereby Shippers and First Gas would be able to bring a complaint to the GIC, alleging breach of the TSA by other Shipper(s), Interconnected Party(s) that are an OBA Party, or First Gas… The GIC and the Rulings Panel would have the powers, rights and obligations as set out in the Gas Regulations in determining/settling a complaint	We consider that the dispute resolution provisions in the GTAC provide an effective avenue for parties (including First Gas) to bring a complaint and have that adjudicated by an independent party (a suitably qualified expert or an arbitrator). If the complaint is of a broader nature, parties are also able to advise the GIC and potentially have the issue reviewed (for example, if the issue is detracting from Gas Act objectives)
Trustpower	Information from receipt point interconnects on planned and unplanned outages should be available on OATIS	Agree that this is desirable and that greater information would support competition. We have added this to list of matters in section 7 that will be provided for in ICAs (particularly at receipt points)
Trustpower	We consider that a multi-party contract is not the most efficient mechanism for achieving greater transparency of the broader gas market and recommend that the GIC and MBIE progress a regulated solution to ensuring transparency of information through a GBB	We agree that it may not be possible for parties to have access to all of the information needed to make the best decisions simply by relying on the GTAC. However, the GTAC does increase the information that will be available (for example by requiring full disclosure of agreements and running mismatch positions). We intend to increase the accessibility and presentation of information with the launch of the new IT system that will administer the GTAC. In our view, the best time to consider whether regulation is required will be once the new IT system has been developed and the new information portal is available
Trustpower	We are concerned with the significant discretion that is afforded to First Gas as the TSO and limited level of design detail that is provided in places… our preference is for a more prescriptive GTAC to be developed as this will provide greater certainty to Shippers and other	We understand that shifting away from the prescriptive drafting in the current codes to a principles-based approach creates nervousness. However, we continue to see significant benefits for the industry in allowing greater flexibility for First Gas as the system operator to respond to different situations in the most appropriate and efficient way. As noted above, we have added a provision to the GTAC to clarify that the objectives of the Gas Act and GPS will guide the approach to interpreting

Party	Statement	First Gas response
	interconnected parties around how the new arrangements will operate in practice	GTAC provisions, and the exercise of discretion by First Gas under the GTAC (section 1.2)
Trustpower	Information of relevance to GTAC requirements should be published on OATIS	Agree – capacity modelling presented in our AMP will be incorporated into a release before PR auctions are held and posted on OATIS, and security standard criteria also presented in our AMP will be made available on OATIS
VGTL	[Some sections are still in design stage including] whether priority rights (PRs) apply until the day before gas flow or whether these rights continue to apply during the day of gas flow (we support the latter)	The fact that we are continuing to explore the merits of different design choices for the GTAC is a good thing. It is an inevitable part of the process of First Gas proposing solutions, and receiving feedback on those proposals. We are also continuing to narrow down the range of design choices being made, rather than expand those choices. Based on the feedback received from several parties on the application of PRs during the day, we have adopted VGTL's preference (section 3.6)
VGTL	[Some sections are still in design stage including] whether to release all Available Operating Capacity as PRs at a Congested Delivery Point/Zone	As noted above in relation to a suggestion from Shell, we have received mixed feedback on whether to make PRs available at or near the level of operational capacity. We have retained flexibility to offer "up to" Available Operating Capacity
VGTL	[Some sections are still in design stage including] auction terms and conditions	As signalled in the industry teleconference on 31 August, our intention is to develop PR auction terms and conditions in 2018. We are keen to work with interested stakeholders on this development project
VGTL	Daily nominated capacity (DNC) is a core product under the GTAC… It does not seem to make sense that another charge is proposed to be added for actual throughput	Agree – we have accepted VGTL's mark-up to remove the provision for a throughput fee
VGTL	First Gas has indicated that very few breaches of the hourly quantity based on the Specific HQ/DQ are likely to occur. This being the case, we believe this charge should be removed	Disagree. The absence of a significant level of charges does not remove the benefit of having hourly overrun charges – which is to provide incentives not to impose excessive peaks on the transmission system. We believe that it is also fair that parties choosing to use the transmission in a peaky fashion pay an appropriate amount for that ability, with those charges known in advance (unlike the MPOC)
VGTL	We propose that Recoverable Costs associated with Balancing Gas, ERM Charges,	Agree that all parties participating in the balancing regime should receive any rebates arising from recoverable balancing credits (since they are liable for paying ERM charges). This is practically

Party	Statement	First Gas response
	Emergency Park and Loan, and Park and Loan should be returned to the parties who would be paying these charges. We believe this is an efficient and fair approach	challenging to achieve, which is perhaps why the MPOC does not currently achieve this symmetry of approach. The particular challenge we see is that simply pro-rating ERM rebates across all gas flows would tend to favour OBA parties, since their ability to manage to a position is generally greater than a Shipper supplying to a shared delivery point and serving a diverse range of customers. To resolve this issue, we have proposed to separate out ERM charges paid by Shippers and First Gas from ERM paid by OBA Parties, and to provide rebates based on those respective payments. For example, if we are rebating $100 of ERM as recoverable credits, and total ERM charges are 90% paid by Shippers and 10% paid by OBA parties, then $90 would be rebated on gas deliveries to Shippers (with parties that have maintained a better balancing position benefitting from that rebate) and the $10 rebated on gas flows by OBA parties, i.e. injections and deliveries (with OBA parties that have maintained a better balance at their points winning from that rebate).
VGTL	Clarify relationships between DNC, MDQ, MHQ, and Approved NQ, as the current drafting appears to result in circular references	Agree that it is useful to clarify the relationships between the physical dimensions of DNC (i.e. MDQ and MHQ) and how DNC is obtained via nominations and approvals processes. We have revised the definition of DNC to link the TSA in a consistent way with the definitions of the other 2 forms of capacity, (i.e. Supplementary Capacity and Interruptible Capacity) and the contract types under which they are provided (i.e. Supplementary Agreements and Interruptible Agreements)
VGTL	Suggest that a percentage of the “market price” for Gas might be better than “hard coding” the balancing incentive fees into the GTAC	We continue to favour the simplicity and transparency of the current approach. The benefit we see is that it eliminates the need to specify a particular market price or index in the GTAC, and removes the prospect of complaints that the market price did not accurately reflect the true value of Gas over a particular time period (for example due to liquidity concerns)
VGTL	A pricing formula should be applied to park and loan services	Disagree. We consider that more flexibility is required for offering park and loan, and pricing may need to reflect current market conditions and changes in linepack usage (for example across different seasons)