MEMORANDUM

TO: Pipeline Users

FROM: First Gas

DATE: 30 November 2017

RE: Agenda Item C – ERM and Overrun/Underrun Charges

At the GTAC workshop on 17 November 2017, First Gas agreed to review provisions relating to ability to change overrun/underrun charges and ERM charges (i.e. use of specific values, ranges, limits on change) (Agenda Item C).

A mark-up of the proposed changes is attached. Only parts of the code that give effect to these changes have been included in this document. The intent of the changes is listed below along with the action item being responded to.

*ERM charges (8.14)*

* If there is a need to change the ERM fee from a First Gas perspective, the maximum charge shall $1/GJ. This gives Shippers and OBA Parties greater certainty in a way that is administratively simple.
* Changes to the fee within this limit would be in response to a failure to achieve the objective of encouraging primary balancing.
* First Gas considered referencing an upper bound to ERM charges to prevailing gas market conditions, however this raises a series of more detailed questions that the GTAC avoids (which market, which price, which time period, etc).
* Starting NERM prices are based on an average market price of $6/GJ and existing cashout premiums of 10% applied under the MPOC. First Gas considers that a plausible upper range for market prices of $10/GJ is reasonable. Based on the same cashout premium under the MPOC, this gives an equivalent maximum ERM charge of $1/GJ.
* If First Gas or any shipper or interconnected party sees the need to change this upper limit it can propose a Code Change Request.

*Overrun charges (11.4)*

* Changes to F under 5 are as per the current text with a change to the notification period to 60 Business Days. Changes within this limit respond to a failure to achieve the objective of encouraging accurate nominations.
* Changes to F to a value above 5 would be dealt with through a Code Change Request.

We welcome comment on these mark-ups by **5pm Wednesday 6th of December 2017.**

## Marked Up Sections Relevant to ERM and Overrun Charge Changes

# **BALANCING**

## Excess Running Mismatch Charges

* 1. The fees referred to in *sections 8.12* and *8.13* respectively will be:
		1. FNERM: $0.60/GJ; and
		2. FPERM: $0.20/GJ,

provided that where it reasonably believes these fees are not providing an appropriate incentive to remove ERM, First Gas may increase FNERM or FPERM on expiry of not less than 5 Business Days’ notice to all Shippers and OBA Parties. Any increase in FNERM or FPERM to a level greater than $1.00/GJ shall be subject to a Change Request. First Gas may also reduce either FNERM or FPERM subject to the same notice.

# **FEES AND CHARGES**

## Daily Overrun and Underrun Charges

* 1. Subject to *section 11.12*, a Shipper shall pay, in respect of a Delivery Zone or Individual Delivery Point and Day:
		1. a charge for any Daily overrun quantity (*Daily Overrun Charge*), equal to:

DNCFEE × DOQ × F

where:

*DNCFEE* has the meaning referred to in *section 11.1*;

*DOQ* is the Shipper’s Daily overrun quantity, equal to the greater of:

* + - 1. DDQDNC - DNC; and
			2. Zero; and
		1. a charge for any Daily underrun quantity on a Day (*Daily Underrun Charge*), equal to:

UQ × DNCFEE × (F – 1)

where:

*UQ* is the Shipper’s Daily underrun quantity, equal to the greater of:

* + - 1. DNC - DDQDNC; and
			2. zero,

where, for this *section 11.4(a)* and *(b)*:

*DNC* is the Shipper’s Daily Nominated Capacity;

*DDQDNC* is the Shipper’s Daily Quantity shipped using DNC; and

*F* is, for each:

* + - 1. Delivery Zone and non-Congested Individual Delivery Point: 2; and
			2. Congested Delivery Point: 10,

provided that where it considers the current value of F is not providing Shippers with an appropriate incentive to maximise the accuracy of their NQs, First Gas will notify, and consult with Shippers concerning the value of F that would, in its view, better achieve that outcome. Subject to Shippers providing compelling evidence as to why it should not do so, First Gas may (but not sooner than 60 Business Days’ after the date of its notification) increase the relevant value of F for each Delivery Zone and non-Congested Individual Delivery Point, to a maximum of 5. Any increase in the value of F to a level greater than 5 (and any increase in the value of F for a Congested Delivery Point to a level greater than 10) shall be subject to a Change Request. First Gas may decrease the current value of F on expiry of 60 Business Days’ notice to Shippers.