



# GTAC PRELIMINARY ASSESSMENT

## STAKEHOLDER PRESENTATION

DATE:


1 March 2018

AUTHOR:

Gas Industry Co



## Thanks to submitters



... special thanks to those who  
used the Submissions Template

- High quality submissions on 8 December GTAC helped us greatly
- We need your help again... your submission on the Preliminary Assessment can:
  - Tell us how to improve the analysis
  - Tell us what we got right/wrong (and why!)
- Timetable is still:
  - Submissions on Preliminary Assessment – Monday 19 March
  - Final Assessment – Friday 20 April

## Summary of Preliminary Analysis Paper

- GTAC is not materially better than MPOC/VTC
- Lots to like about GTAC
- But:
  - Uncertainty about ICAs
  - Complexity and uncertainty of liability provisions
  - Level of Overrun/Underrun fees
  - Status of Park and Loan arrangement
  - Various other “red arrow” concerns

# Content

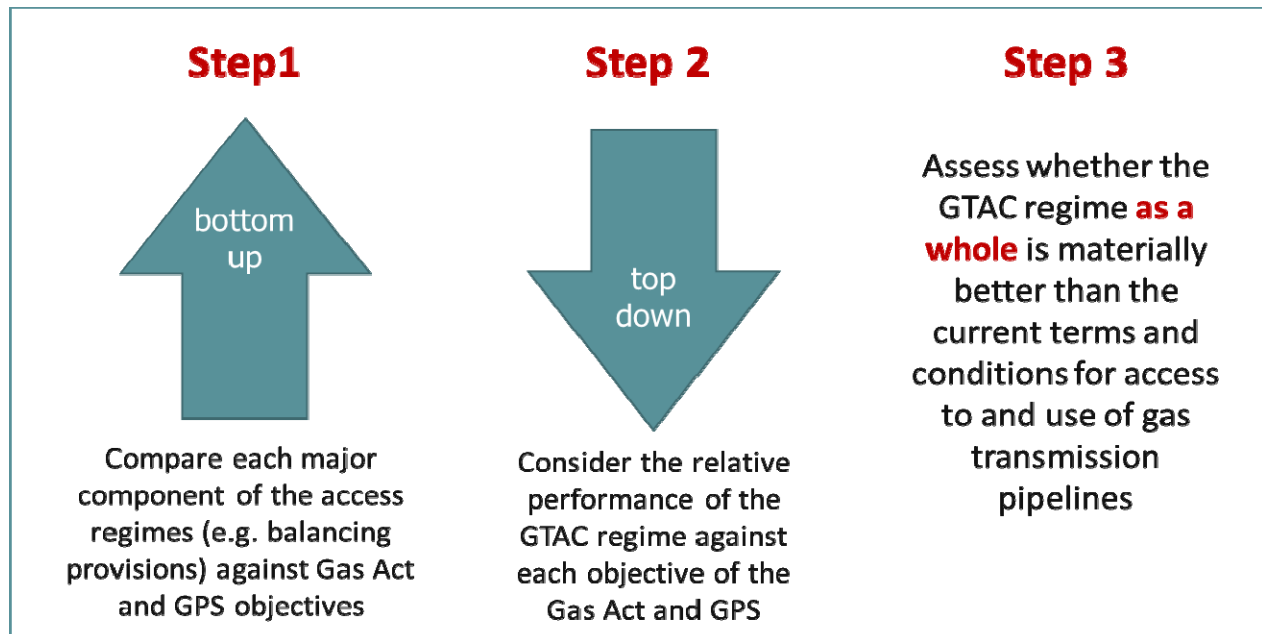
1. Background
2. Results of Preliminary Assessment

# 1. Background

## Reason for Preliminary Assessment

- VTC will expire 30 September 2018 (unless extended)
- MPOC can only be replaced, under MPOC s22.16(b) if:
  - “ following an appropriate consultation process which includes GIC publishing a draft determination and asking each Shipper and Welded Party whether it supports the New Code, **GIC has published a final determination that the New Code is materially better** than the current terms and conditions for access to and use of gas transmission pipelines having regard to the objectives in section 43ZN of the Gas Act 1992 and any objectives and outcomes the Minister has set in accordance with section 43ZO of the Gas Act 1992 ”
- First Gas submitted GTAC for assessment on 8 December 2017

## GTAC assessment process



# What did GIC's assessment compare

key

- Existing arrangement replaced with substantially new arrangement, or new arrangement where none existed before
- A few changes required
- No/minor changes to existing arrangement

## GTAC Access Regime



**Associated arrangements TSP is responsible for:**

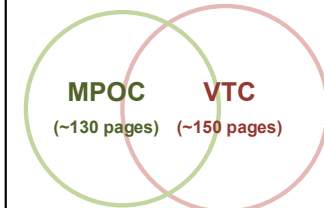
- TSAs
- ICAs
- Supplementary Agreements
- Interruptible Agreements
- Wash-up Agreement
- SOP for balancing
- Metering requirements document
- Policy on Interconnection
- Pricing methodology
- Park and Loan
- PR auction rules

**Associated arrangements others are responsible for:**

- Gas Act
- Critical Contingency Regulations
- Downstream Reconciliation Rules
- D+1 agreement
- Gas Trading Market Rules
- Gas Transfer Code
- Gas Transfer Agreements
- Allocation Agreements
- Upstream GSAs
- Downstream GSAs

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## MPOC/VTC Access Regime



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## What did GIC's assessment compare

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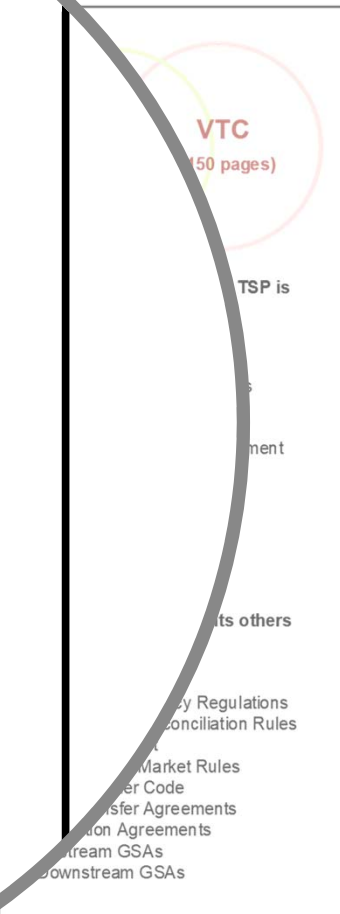
- Existing arrangement replaced with new arrangement, or new arrangement was added
- A few changes required
- No/minor changes to existing arrangement

### Associated arrangements TSP is responsible for:

- TSAs
- ICAs
- Supplementary Agreements
- Interruptible Agreements
- SOP for balancing
- Metering requirements document
- Policy on Interconnection
- Pricing methodology
- Park and Loan
- PR auction rules

### Associated arrangements others are responsible for:

ROC/VTC Access Regime





## Submission Template



- Q 1 – approach to analysis
- Q 2-10 – bottom-up analysis (products, pricing, etc.)
- Q 11 – top-down analysis
- Q 12 – overall assessment
- Q 13-21 – significant issues (ICAs, SAs, Nominations, etc.)
- Q 22 – First Gas discretion
- Q 23 – public information disclosure

## 2. Results of Preliminary Assessment







## GTAC Gas transmission products and pricing

Component	Assessment	Reasons
Gas transmission products	Moderate up 	<ul style="list-style-type: none"> <li>• DNC/zone design more flexible and pro-competitive, reduce barriers to entry</li> <li>• IAs allow for demand side management, and PRs have potential to allocate scarce capacity more efficiently</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• Transition costs</li> <li>• Transaction costs</li> <li>• Mass market shipper PR risks</li> <li>• Wide scope of ICA negotiations</li> <li>• AHP design</li> </ul>






## GTAC Gas transmission products and pricing

Component	Assessment	Reasons
Pricing	Moderate up 	<ul style="list-style-type: none"> <li>• DNC charges do not discourage peaky annual demand until constraints emerge</li> <li>• IA charges more flexible, and recovered from beneficiaries</li> <li>• PR prices established via auction and should allow a better price-quality trade-off</li> </ul>
	Moderate down 	<ul style="list-style-type: none"> <li>• Level of Overrun/underrun fees</li> <li>• Incentive fees in SAs and IAs</li> <li>• Rebates to SAs and IAs</li> <li>• Asymmetric ERM charges</li> <li>• Hourly overrun charges</li> </ul>








## GTAC System Operation components

Component	Assessment	Reasons
Energy Quantity Determination	Modest up 	<ul style="list-style-type: none"> <li>• Same metering standards across all pipelines</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• 9 months between special tests</li> <li>• Missing Metering Requirements</li> </ul>
Energy Allocation	Moderate up 	<ul style="list-style-type: none"> <li>• Greater choice of allocation method</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• Wrinkles for OBA parties</li> <li>• Missing Wash-up agreement</li> </ul>
Balancing	Moderate up 	<ul style="list-style-type: none"> <li>• Single regime across all pipelines</li> <li>• More spot market activity</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• Uncertain tolerances</li> </ul>




## GTAC System Operation components

Component	Assessment	Reasons
Curtailment	Moderate up 	<ul style="list-style-type: none"> <li>• Pro-rata curtailment more competitively neutral than on historic usage</li> <li>• Complexity of MPOC curtailment removed</li> <li>• Stronger sanctions on OFO non-compliance</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• Shippers can't always comply with OFOs</li> </ul>
Congestion management	Substantial up 	<ul style="list-style-type: none"> <li>• Willingness to pay allocation of scarce capacity leading to more consideration of price-quality trade-off</li> <li>• Barriers to competition reduced</li> </ul>
	Moderate down 	<ul style="list-style-type: none"> <li>• Discretion on SAs &amp; IAs</li> <li>• Mass market shipper PR risks</li> <li>• Cost of PR auctions</li> </ul>
Gas quality and odourisation		

## GTAC Governance

Component	Assessment	Reasons
Prudentials, FM and Assignment		
Liabilities	Moderate down 	<ul style="list-style-type: none"> <li>• Less certain</li> <li>• Material non-specification gas changes</li> <li>• Less likely to be accountability for losses caused</li> </ul>
Code changes	Modest up 	<ul style="list-style-type: none"> <li>• Participants less able to block changes</li> </ul>
Dispute resolution	Modest up 	<ul style="list-style-type: none"> <li>• Less complicated</li> </ul>
Term and termination	Modest down 	<ul style="list-style-type: none"> <li>• Short term of GTAC</li> <li>• No opportunity for default to be remedied</li> </ul>
Confidentiality	Modest up 	<ul style="list-style-type: none"> <li>• Parties can determine if information is confidential</li> </ul>
	Modest down 	<ul style="list-style-type: none"> <li>• Absence of confidentiality undertaking</li> </ul>

## Associated arrangements

Component	Assessment	Reasons
TSAs, pricing methodology, PR auction rules, Wash-up agreement, First Gas discretion and Balancing SOP		
ICAs		<ul style="list-style-type: none"> <li>uncertainty about ICA terms: <ul style="list-style-type: none"> <li>Narrow range of terms in GTAC s7.13</li> <li>The ICAs still to be negotiated</li> </ul> </li> </ul>
Park and Loan		<ul style="list-style-type: none"> <li>Uncertainty if P&amp;L is outside the Part 4 revenue cap (giving First Gas a financial incentive to a dedicate a larger proportion of line pack flexibility to it)</li> </ul>

## Next steps

- Stakeholders submissions on preliminary assessment due 19 March
- GIC submissions analysis and final assessment due 20 April
- At any time First Gas may revise the proposed GTAC/associated arrangements

Back-up slides

## Energy Quantity Determination

Issuing of reports (DDRs, Gas Composition Data etc.) not significantly changed.  
Common metering requirements (testing, correction methodology etc.) across all pipelines to be specified in Metering Requirements document

- Only Methanex and Vector expressed concern about what was proposed in GTAC and what may emerge in Metering Requirements
- Methanex points out MPOC testing requirements are fully prescribed, IP may request a special test, User ability to request a special test not limited by First Gas' contractual arrangements with the meter owner, special test interval can be 60 days (not 9 months), costs to owner if inaccurate)
- Vector suggests service level target of publishing Gas Composition Data at 10am
- First Gas say Metering Requirements changes are not expected to be controversial

Mixed assessment – Modest up & Modest down

## Energy Allocation

Main difference is that GTAs now an alternative to OBAs on Maui Pipeline RPs

- Methanex – OBA definition incomplete and inconsistent (eg OBA Parties not entitled to AHP, no s5 Metering rights). Allocation method and AA should be determined by OBA Party
- Greymouth – Initial Allocation determined by industry agreement that doesn't yet exist
- Shell – there needs to a method for IPs to approve Shipper noms

Mixed assessment – Moderate up & Modest down

## Balancing (1 of 2)

New features are system wide balancing, ERM charges, B2B cash-out, and P&L

- First Gas – single system balancing promotes flexibility, transparency and optimal compressor use. B2B cash-out allows users to balance and reduces First Gas market transactions. ERM fee is an additional system management tool
- Contact, Genesis, Greymouth, Shell, Vector – uncertainty about tolerances
- Methanex – concerned about First Gas' diminished role, TTP obligations significantly relaxed, no criteria for establishing the bounds of Acceptable Line Pack
- Shell – key pressures more meaningful than system-wide linepack. ERM fee not justified. Has perverse effects during a facility shutdown. Also, ERM price should be linked to market price, and may not be effective because of rebate. ROIL multiplier better than P&L

## Balancing (2 of 2)

- Todd – P&L potentially useful, but First Gas incentives will be different if not part of price-quality cap
- Vector – Suggests First Gas should not be involved in setting ERM fees, and possibly use the MPOC s12.12(d) “adjustment” value. P&L should be fully developed before being introduced to the GTAC. Concerned about the basis of allocating tolerance, and the allocation between DNC Shippers and OBA Parties, and there being no allocation to Supplementary capacity

Mixed assessment – Moderate up & Modest down

## Curtailment

Covers physical flow and noms. Primarily addresses Shippers.

- First Gas – better able to target OFOs to Shipper or IP
- Contact, Greymouth – Unfair that Shippers are liable for loss if an OFO is not complied with, because Shippers may not control that outcome
- Greymouth – GTAC s9.11 is ambiguous
- Methanex – OFOs should be directed to the party that controls flow, not the Shipper. IPs allowed for in partial (only at DDPs, not RPs) and unsatisfactory manner (eg safe shut down, Critical contingency and failure to comply not provided for)
- Todd – Single code allows for greater operational flexibility and responsiveness
- Vector – a Shipper is required to indemnify First Gas if the Shipper fails to comply with an OFO (GTAC s9.12) – not so in MPOC or VTC

Mixed assessment – Moderate up & Modest down

# Congestion Management

## Allows for IAs and PRs as congestion management tools

- First Gas – better information for planning and investment (nominations, advice on new/increased load, and PR prices)
- Genesis – effectiveness of PRs depends on auction rules
- MGUG – More detailed specification of congestion management options, and notification/assessment of new load are improvements
- Todd – additional mechanisms for reducing congestion, and tools for managing it are material improvements
- Vector – Supports demand management tools

Mixed assessment – Substantial up & Moderate down

## Gas Quality and Odourisation

GTAC s12 provisions mostly mirror MPOC s17 and VTC s12, except that provisions relating to Interconnected Parties have moved to the ICAs.

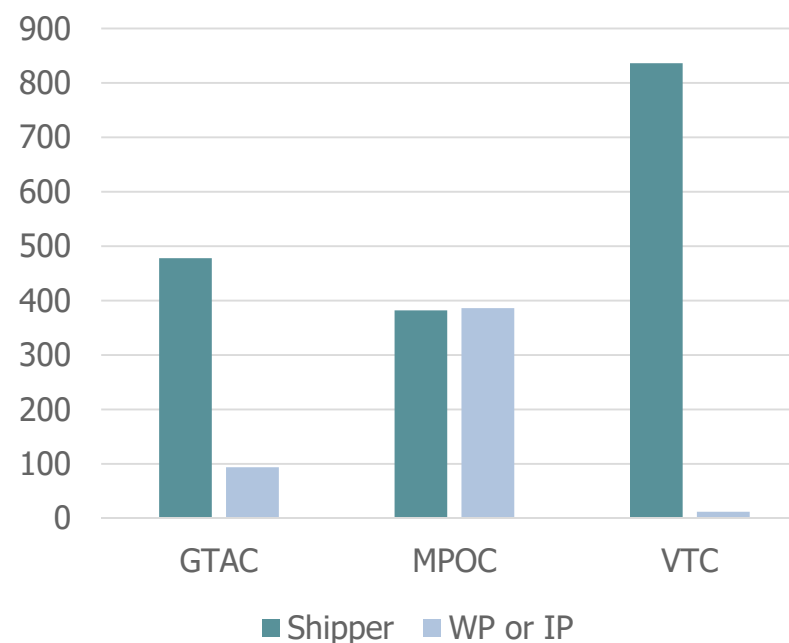
- Greymouth – proposes that incremental improvements First Gas identified following its Demonstration of Compliance survey of producers should be included in GTAC. Also suggests further investigation of related liability
- Methanex – presents a detailed comparison with the MPOC provisions and concludes that the GTAC proposals reduce First Gas responsibility and liability for gas quality
- Vector – First Gas' now has no liability for delivering non-spec gas. Odourisation provisions formalise publication of monthly odourisation tests. GTAC does not allow Shippers to audit First Gas odourisation procedures (Vector believes this is necessary for retailers to demonstrate compliance with the Gas (Safety and Measurement) Regulations 2010)

Assessment – no change

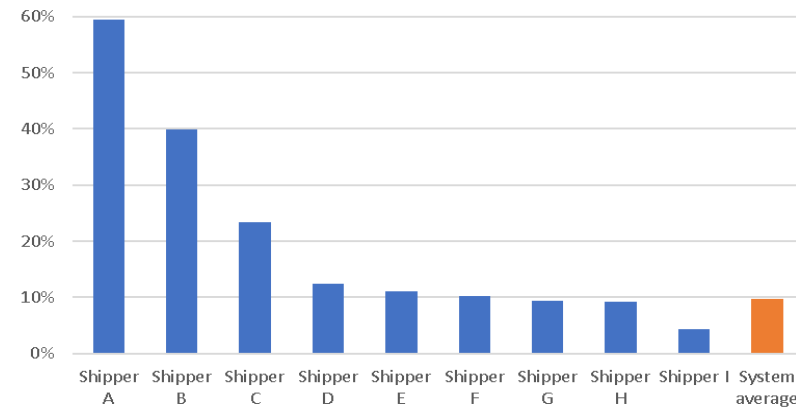
## Fun facts – # of time “Shipper” & “WP/IP” terms are used

- Trivia question: How many times do the codes refer to “Shipper” or “Welded party”/“Interconnected Party”/“OBA Party”?

	GTAC	MPOC	VTC
“Shipper”	478	382	836
“Welded Party”, “Interconnected Party” “OBA Party”	94	386	12



## Modelled GTAC incentive charges using D+1 allocations as nominations



## Overrun charges as share of total revenue

