MEMORANDUM

TO: GTAC Stakeholders

FROM: First Gas

DATE: 3 July 2018

RE: Workstream 3 – 3.3 Wash-up Summary

This memo proposes some principles for how transmission wash-ups will work under the GTAC. We hope this helps to provide more clarity on how wash-ups will be approached under the GTAC. This memo summarises the current wash-up arrangements and highlights some transitional considerations when considering a change to wash-ups. These issues will be discussed at the GTAC workshop on 12 July 2018. This discussion is intended to support future discussions that will be held regarding wash-up arrangements following submission of the GTAC.

Final Assessment Paper (FAP) findings

The findings of the FAP were as follows:

- If the New Code is approved and First Gas proceeds to adopt it, Gas Industry Co would make progress with developing the necessary changes to the downstream reconciliation rules so that the consultation process would commence in parallel with IT development for the GTAC. However, we accept that in a world where daily OR/UR fees apply, the absence of agreed wash-ups are a more significant concern. We continue to assess this aspect of energy allocation as being modestly negative because a wash-up agreement should be straightforward to prepare (68).

While only a modest negative assessment, we are keen to discuss how the GTAC can facilitate a seamless move from existing wash-up arrangements to future arrangements.

Current Arrangements under the VTC and MPOC

The following sections outline the current arrangements for transmission and balancing wash-ups under the VTC and MPOC. While MPOC arrangements are somewhat simple, the VTC arrangements rely on a number of different data sources and ancillary agreements. These agreements are summarised in Attachment 1.

Allowance for wash-ups to apply

Both codes allow for wash-ups to be applied to invoices based on new (more accurate) data. There is no time limit on wash-ups under the MPOC. Under the VTC changes to invoicing are limited to 18 months following the month of the invoice. However, due to the provision of information under the ancillary arrangements, wash-ups under the VTC are unlikely to happen later than 13 months after the date of the invoice. Under the VTC invoices may be reopened after the time limit due to wash-ups under the MPOC or Special Allocations from the Downstream Reconciliation Rules (DRRs) at the discretion of First Gas.

Wash-up data sources

Under the MPOC, the data is sourced from welded parties and therefore is applied as corrections are identified by the metering owner. The VTC relies on external data and allocations, and corrections are therefore reliant on the schedule for provision of that data. These include:

- Gas Transfer Agreements (GTAs) for receipt quantities
- MBB D+1 Pilot Agreement calculations
- DRRs data
- Methodologies in the VTC itself
- OATIS data for metering
- Maui system cashout data

Under the DRRs and the MBB D+1 Pilot Agreement, the following timing applies for provision of allocation information (and potential for wash-up adjustments):

- D+1 Allocation – business day following flow
- Interim Allocation – published 4 months after flow
- Final Allocation – published 13 months after flow

Transmission Invoice Wash-ups Calculation

Both codes use the same basic calculation for transmission invoice wash-ups:

> Calculated amount using new data less Previously calculated amount = Wash-up amount

In neither code is there an impact from transmission invoice quantities other than to adjust the amounts charged or credited for throughput or overrun charges.

Balancing Invoice Wash-ups Calculation

Wash-ups under the MPOC are applied as metered quantity corrections are identified. There is no formula prescribed for calculating these wash-ups in the MPOC and the application to operational imbalance would be discussed with the affected parties as to how they are applied.

VTC balancing is linked to the Maui system through cashout of the interconnection points between the pipelines. Hence, VTC balancing is separated into BPP Pools which are based on the TP Welded Point connections to the Maui pipeline (Frankley Road, Pirongia, Pokuru and Rotowaro). For each BPP Pool, a wash-up occurs when an Interim or Final Allocation is produced or there are any other changes to the relevant data. Wash-ups do not occur between D+1 Allocations and the Initial Allocations as the GIC perform a Special Allocation, where the D+1 allocated quantities become the initial allocated quantities.

Wash-ups are applied through an adjustment to gas quantities and charged amounts.

The VTC wash-ups are aligned with the DRRs allocations:

- Interim Allocation activated wash-up – Any data changes since the Initial/D+1 balancing calculation
- Final Allocation activated wash-up – Any data changes since the Interim Allocation wash-up

The VTC balancing quantity wash-up calculation is defined by the MBB D+1 Pilot Agreement in Schedule 3. It is applied as an adjustment to quantities and amounts debited/credited. The adjustments are determined for each day in isolation.

The wash-up quantity calculation calculates the closing position running mismatch (including revised cashout volumes) for each day and then compares this to the previous allocation's closing position running mismatch for the day. Adjustments are then applied evenly over the next month to the shipper's balancing position.

In order to determine the amount of cash-out cost to be adjusted, the revised cashout volumes are compared with the previously calculated cashout volumes. The original and revised cashout costs are calculated using the original and revised prices and an adjustment made based on the difference between the two. This is included in the next month's balancing invoice.

GTAC Arrangements

The GTAC provides for wash-up adjustments to receipt or delivery quantities due to:

- Allocations by the Allocation Agent through an operational balancing arrangement (OBA), an allocation agreement (AA) or the DRRs
- Corrections applied due to inaccurate metering.

These wash-ups affect the following items in the GTAC:

- Running Mismatch balances and Excess Running Mismatch Charges
- Allocation of Balancing Gas Charges
- Transmission Charges.

Any wash-up amounts determined during a month and any resulting changes to previously calculated amounts will be applied as debits/credits with the next invoice. Wash-ups may be applied up to 16 months after an invoice has been issued.

The method for calculating wash-up quantities and corresponding value adjustments is to be contained in the Wash-up Agreement to be agreed between First Gas and all system users.

Proposed Wash-up Agreement Principles

We propose the following principles to underpin any future wash-up agreement. These principles harmonise with existing methodologies documented in the MBB D+1 Pilot Agreement by ensuring that there is a correction of gas quantity and value in each wash-up.

Transmission wash-ups

- Amounts will be determined for changes in quantity data that are received after the Initial Allocation during a month
- Changes to Transmission Charges will be calculated as a result of the change in quantities
- Any resulting changes to previously calculated charges will be applied as debits/credits with the next invoice

Balancing Wash-ups

- Amounts will be determined for changes in quantity data that are received during a month
- Excess Running Mismatch (ERM) Charges:
    - Changes to Running Mismatch (RM) will be calculated as a result of the change in quantities and applied as quantities
    - Changes to Excess ERM will be calculated
    - Changes to ERM Charges will be calculated based on the prevailing ERM fee on that day when ERM was incurred
- Balancing Gas Costs and Credits
    - RM will be re-calculated as a result of the change in quantities and applied as quantities
    - Allocation of balancing gas will be re-calculated based on the changed RM amounts. Adjustments to RM positions in the following month will be made as a result.
    - Allocation of balancing gas costs will be re-calculated based on the changed RM amounts. Costs will be based on the balancing gas purchase price for the day.
- Any resulting changes to previously calculated charges will be applied as debits/credits with the next invoice

First Gas believes that this methodology gives certainty to parties regarding wash-ups while delivering a fair balance between debiting/crediting amounts and redistributing quantities.

Other Arrangements

In addition to the Wash-up Agreement there are other arrangements to be determined to implement the GTAC.

Opening GTAC Running Mismatch Positions

The opening RM positions for the GTAC are determined by the termination provisions in the MPOC and VTC as follows:

- MPOC - when MPOC ICAs are terminated then First Gas must settle the MPOC balancing quantities (ROI) using the Average Market Price for the termination day (s. 12.13). There is scope for wash-ups to be applied following termination based on the s. 37.1 of the MPOC, which allows for survival of certain sections of the MPOC post termination.

- VTC - First Gas must settle VTC balancing quantities (Running Mismatch) by purchasing/selling that quantity or by making that quantity available to the Shipper (s. 20.6). Wash-up of amounts incurred during the term of the VTC continue for 5 years after termination (20.8).

The transitional arrangements will be discussed further in the Workstream 6 – Supporting Arrangements under item 6.5.

Status of D+1 Allocations

The GTAC requires D+1 allocations (or a suitable replacement methodology) to function. We are confident that an industry arrangement will be reached for this vital service for the industry.

D+1 allocations are currently made official via Special Allocations. The Special Allocations are issued by the GIC at the end of each month, they advise that the D+1 allocations issued during the month will replace the DRRs end of month Initial Allocation. The GIC undertake this work under the D+1 Data Agreement (between First Gas and the GIC), which is linked to the VTC.

A replacement agreement will be required to ensure that D+1 allocations will continue to be produced, are required to be produced and are recognized under the DRRs and by the GTAC. In relation to this process, the GIC found in the FAP (126) that:

> *Our experience of the DAWG suggests that industry participants will take a pragmatic view of wash-ups. While we agree with Greymouth that the outcome is uncertain, we think that the arrangements are very likely to be quite similar to the current arrangements, and we would maintain a keen interest in the development of the Wash-up Agreement, and be prepared to make recommendation for any consequential amendments to the DRR. We are therefore not concerned that the Wash-up Agreement is still to be negotiated.*

We agree with the GIC that the D+1 arrangements are an industry arrangement that can be easily replicated. We understand that stakeholders are generally comfortable with the arrangements and changes to the agreement would largely be administrative to ensure that the service continues. We propose that (in addition to maintaining a keen interest) the GIC takes responsibility for this programme of work through the Downstream Allocation Working Group (DAWG).

Remaining Wash-ups under the Existing Codes

The current agreements in place allow for wash-ups to continue to be calculated following the termination of the agreement. The provisions are as follows:

- MBB D+1 Pilot Agreement – allows for wash-ups to be calculated up to four months after the termination of the agreement. Wash-ups due to interim allocations would therefore continue to be applied up to the January of the year following a September GTAC start
- VTC – allows for wash-ups up to 5 years after expiry. Final allocations issued by the Allocation Agent would therefore be applied under the VTC rather than the MBB D+1 Pilot Agreement

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We see no issue with the above arrangements apart from the need to determine the effect of washups on the opening position of the GTAC.

Appendix 1 - List of current wash-up related agreements

Memo Name	Document Name	Description/Details
D+1 Data Agreement	Agreement between FGL and the GIC for the provision of daily balancing and peaking pool data	GIC agrees to produce post-day allocations (D+1). First Gas agrees to use that data in MBB D+1 Pilot Agreement calculations. Schedule 1 details business rules for D+1 allocation determination. Termination allowed by immediate notice from First Gas if MBB D+1 Pilot Agreement has terminated. Termination allowed by GIC through 90 Business Days' notice to First Gas.
DRRs	Downstream Reconciliation Rules	Regulations for determining Initial, Interim, Final and Special Allocations • Initial Allocations are determined for a month after the end of that month • Interim Allocations are determined for a month, 3 months after the end of that month • Final Allocations are determined for a month, 12 months after the end of that month • Special Allocations are issued/designated by the GIC as an extra allocation or in place of an Initial, Interim or Final Allocation
GTA	Gas Transfer Agreement	Determines allocation of receipt quantities for defined VTC receipt points between defined VTC shippers. Expiry aligned with VTC.
MBB D+1 Pilot Agreement	MBB D+1 Pilot Agreement	Uses D+1 data to calculate Shipper VTC balancing positions and allocate cash-out amounts and quantities. Uses DRRs Interim and Final Allocations to calculate wash-ups of balancing positions and allocated cash-out amounts and quantities. Acts as an amendment to relevant provisions in the VTC. Termination by First Gas giving 20 Business Days' notice to Shippers (and GIC). On termination/expiry wash-ups apply for Interim Allocations issued up to 4 months after.