

MEMORANDUM

TO: GTAC Stakeholders
FROM: First Gas
DATE: 21 August 2018
RE: Block 2 Outputs – 2 ICA Common and Essential Terms

This memo describes details of the proposed Interconnection Agreement (ICA) Common and Essential Terms (CET). These proposed terms follow on from discussions at the workshops on Tuesday 7 August and Wednesday 8 August 2018 as documented in the Draft Minutes issued by the GIC on 17 August 2018.

The proposed ICA CET changes are provided in appendix 1 of this memo. This is open for consultation until 3 September 2018. If stakeholders wish to comment on these proposed changes, this can be done during the Workshop Block occurring September 4 to 6 (which will enable discussion of the topics with First Gas) or comments can be submitted to First Gas through the GIC website prior to 3 September.

Final Assessment Paper (FAP) findings

The findings of the FAP on ICAs and were summarised in the GTAC work programme as follows:

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1. Terms that apply to interconnected parties through ICAs must mesh with the terms that apply to all other interconnected parties and to shippers through TSAs. The terms and conditions of access to, and use of, the gas transmission system must be fully described for all system users and be coherent (i.e. work together).
2. The core terms of interconnection should be standard across all interconnected parties (so that coherent, non-discriminatory access is assured), except to the extent that individually negotiated terms are appropriate.

Positions reached

The following positions were reached during the workshop. The way these points have been addressed is given in the table below.

Item	Addressed by
7 August	
2.2.1 The applicable technical standards in ICAs need to provide for a minimum standard so that parties are comfortable that a minimum standard is met and know what they will be required to comply with.	Schedule 2 to each ICA is included as a CET. They describe in detail the applicable technical requirements for RP and DPs. Specific references to gas specification, metering standards and odourisation standards have been included in the CETs (see CETs section 5 (and Metering Requirements), CETs section 7, and the Gas Specification definition in the GTAC.
2.2.2 The GTAC needs to allow for IPs with existing technology standards so that there is no step change to the standards (i.e. grandfathering).	See GTAC section 7.13(g) and CETs Schedule Two (which allows for a transition period for existing Metering equipment)
2.2.4 First Gas will include a list of published material on OATIS in Schedule 5/6 of the GTAC.	This work is in progress and will be provided for comment separately.
2.2.5 The requirement for an interconnected party to ensure that any contract for the purchase of gas includes a requirement that the gas complies with the gas specification (DP ICA section 6.1) should only apply to gas transported through First Gas's transmission system.	Change made to refer to gas in the Transmission System in DP CET section 6.1. A corresponding change was made in GTAC section 12.
2.2.6 The ability to request demonstration of compliance with the gas specification should extend to interconnected parties.	Refer to the changes made to DP CET section 6.6 and 6.7. These changes mirror those made to the corresponding provision in section 12 of the GTAC. This change has not been included in the RP CET (as RP ICA parties inject gas rather than take delivery of gas).
8 August	
2.2.6 Records of meter tests should be a common and essential term (maintenance of records for 7 years was suggested).	A new Records provision has been added to the ICAs to address the point raised. That has been included as a CET (see CETs section 19.6).

Points raised during discussion

Item	Addressed by
7 August	
2.3.1 First Gas and its stakeholders discussed the addition of common and essential terms into the GTAC and the legal mechanism for integration of ICAs with the GTAC. Stakeholders were asked to provide feedback on the appropriate legal mechanism for integration of ICAs with the GTAC and identify any individual terms that think should be included or excluded from the list of common and essential terms and should provide supporting reasoning (preferably by 15 September).	Feedback has been received from Methanex on this point. For formatting reasons this response has been set out below this table.
2.3.2 Stakeholders considered that gas quality and odorisation provisions (in ICAs and the GTAC) should fit with the Gas (Safety and Measurement) Regulations. For example, it should be possible to require testing more frequently than 9 months (having regard to the shippers' need to meet the requirements of the Regulations and increased costs for producers)	The requirement that demonstration of compliance under the GTAC and DP CET should be no less frequent than every 9 months has been deleted. The comment in the Workshop that there should be reasonableness requirements associated with such request has been included. See GTAC sections 12.6 and 12.7; and DP CETs sections 6.6 and 6.7.
2.3.3 First Gas should check wording for exceptions to monitoring frequencies provided for in section 6.10 of the RP ICA (comparing section 6.10 of the RP ICA with MPOC section 17.15).	We have reviewed the wording in s. 6.10 of the RP ICA and believe the coverage to be equivalent. We have therefore made no change to the wording.
2.3.4 First Gas should check for coverage of gas chromatographs in the definition of metering (in the context of the requirement in section 4.2 of Schedule 5 that gas quantities shall not be determined by "other indirect means").	We have reviewed the wording of section 4.2 and removed the wording "or by other indirect means". We believe this resolves this issue.
2.3.5 First Gas should consider the exclusion of ramp up/down from the requirements in relation to "Excessive	The relevant clause (CET section 3.4 (formerly section 3.5) has been amended

Item	Addressed by
Flow” and “Low Flow” in sections 3.5 and 3.6 of Schedule 5.	to add an additional reference to low flow rates during plant start-up and shut-down
2.3.6 First Gas should check that the GTAC provides for automatic confirmation of the allocation method selected by the interconnected party.	We believe that this point relates to IT functionality and the ability to select allocation methods from a predefined list. We confirm that this functionality will be included in the IT system.
2.3.7 First Gas should confirm the pressure obligations/publication regime to check that parties are receiving at least the same information as that provided for under the MPOC and the VTC.	A review of the publication obligations in the GTAC versus that in the MPOC and VTC has been undertaken. Given the differences in commercial arrangements there are many terms that are not comparable between the two documents. We do not believe that there are differences in publication but are concerned not to reduce information provision.
2.3.8 First Gas should revisit the requirement to flow at a “constant rate” (section 3.3 of Schedule 5) in light of interconnected party concerns that they would have difficulty flowing at a constant rate when correcting balancing positions.	This has been removed from CET and RP ICA. Former sections 3.2 and 3.3 deleted accordingly.
2.3.9 First Gas to check that the right for the end-user to determine the rules to be applied by the Allocation Agent in section 5.4 of Schedule 6 works for allocation between end-users not covered by the Downstream Reconciliation Rules (e.g. Stratford 3, Ngatimaru Road).	The wording of section 5.4 has been changed to move responsibility for the allocation agreement to the interconnected party rather than the end-user. We believe that this resolves this issue.
2.3.13 First gas to check whether the OBA tolerance provisions are reflected in the common and essential terms (having regard to recent changes to tolerances in the GTAC).	The charging mechanism or ERM is fully contained within sections 8.8 and 8.9 of the GTAC and then referenced through the OBA Charges in section 11.10 of the CET. The tolerances are therefore integrated into the setting of the charge by reference to the GTAC.
2.3.14 First Gas to consider whether suspension should be a common and essential term.	FG ability to suspend provision of services has been added as a CET. See CETs section 14.6 (note this has been renumbered from section 14.5).
2.3.15 First Gas to determine the extent of force majeure disclosure (whether the actual FM report is disclosed or whether disclosure is limited to a	See GTAC sections 15.7 and 15.8 which already provide for this.

Item	Addressed by
certain amount of detail regarding the event).	<p>Corresponding provisions are included in CETs sections 15.6</p> <p>Note that FG is to publish a summary of the FM report it receives from Shippers and Interconnected Parties (and from FG, if FG prepares the report).</p>
8 August	
1.2.1 First Gas to check section 9.9 of the RP ICA against the Gas Governance (Critical Contingency Management) Regulations (having regard to the fact that the critical contingency operator (CCO) can't instruct a receipt point).	<p>Changes made to GTAC section 9.11 and to CET sections 9.9 to refer to compliance with CCO directions and CCM Regulations.</p> <p>We have also included the additional provisions that was discussed in Workshops that OFOS are to be consistent with CCO instructions.</p>
1.2.2 First Gas to check the consistency of shut-down under the GTAC with the CCO flow profiles (i.e. the profiles should generally apply to provide certainty).	Shut down profiles given to FG are to be the same as those profiles given to the CCO. See CETs sections 9.7.
1.2.3 First Gas to check the preference and priority between shippers and interconnected parties (i.e. what stops First Gas from discriminating in favour of shippers over interconnected parties?)	<p>In relation to new and existing IPs, this is addressed in GTAC section 7.12.</p> <p>It has now also been addressed in GTAC section 2.6 and expressly provides that FG will deal with all Shippers and IPs on an arms' length basis.</p>
5.1.1 First Gas to consider the inclusion of "developable capacity" in the GTAC as per the MPOC (third party development of the transmission system when First Gas does not want to undertake the development).	We consider developable capacity in the section below.
5.1.2 First Gas to consider the inclusion of a requirement in the GTAC that First Gas always maintain an interconnection policy.	This has been included in GTCA section 7.12.

Methanex submission on ICA CET

The Methanex submission is set out below.

Methanex considers that some common and essential terms have been omitted from the draft Schedules which were contained in the earlier ICA templates. We understand the need to address non-standard terms outside the common Schedules but consider that FGLs proposal to omit certain provisions is sweeping and in some cases provisions that should be standard have been omitted.

We think that there are some rules that should be apply universally in both the bilateral interests between FGL and the particular counter-party, and for the wider assurance of other Shippers and Interconnected Parties, that suitable, standard and consistent terms apply to all Interconnected Parties.

We have listed the following provisions left out of the Schedules which were contained in the earlier template ICAs and which should, at least in part, be incorporated into the Schedules.

<i>Prudential</i>	<p><i>We accept FGLs position that there may be non-standard features that require variations to the prudential requirements, including:</i></p> <ul style="list-style-type: none"> <i>• Standard and consistent rules on suitable credit rating</i> <i>• Notice periods on calling up prudential requirements and requiring additional credit support should be standardised</i>
<i>Invoicing and Payment</i>	<p><i>Some of the provisions set out in GTAC should be included the schedules, including those elements that are essentially boiler plate and for which there is no reason to consider non-standard, including:</i></p> <ul style="list-style-type: none"> <i>• GST</i> <i>• Other Taxes</i> <i>• Disputed Invoices</i> <i>• Incorrect Invoices</i> <i>• Default Interest</i>
<i>Term and Termination</i>	<p><i>Methanex considers that Suspension is a better response than Termination to address default in the context of pipeline operation.</i></p> <p><i>If termination for cause is retained we consider that further standardisation is needed in respect to addressing the consequences and effects of termination.</i></p> <p><i>We also consider that “Termination without prejudice to amounts outstanding” is an important term as assurance for other Shippers and Interconnected Parties that all Interconnected Parties remain liable to FGL (particularly important when assuring any back-to-back indemnity).</i></p>
<i>Dispute Resolution</i>	<p><i>This section should be restored in full, all Interconnected Parties should be have the confidence of operating under a single set of Dispute Resolution provisions (which should also be the same as the relevant GTAC provision).</i></p> <p><i>Note that GTAC, as presently drafted, is restricted to dispute resolution between Shippers and FGL (and also excludes OBA Parties).</i></p>
<i>General and Legal</i>	<p><i>We consider that all ‘boiler plate’ provisions should be standardised, and question the grounds on which FGL would consider non-standard general and legal provisions as necessary or advisable.</i></p> <p><i>Note that the General and Legal provisions in GTAC are for the most part limited to FGL and Shippers.</i></p>

We agree with Methanex's proposal to include Dispute Resolution in the CET. We have therefore amended the CET to include s. 18 on Dispute Resolution.

We also agree with Methanex that termination should be without prejudice to amounts outstanding. We have therefore amended the CET to include s. 14.11.

While we agree that the other items mentioned by Methanex are largely standard, we do not agree that they affect other users of the system. Moreover, while we can say that these are standard at the moment, we are unable to be assured that some need to individualise terms may not arise in the future. We have therefore retained these sections outside the CET.

Developable Capacity

Developable is described in the MPOC as follows:

- 2.11 *From time to time new investments on the Maui Pipeline will need to be considered. These may be as simple as upgrading Metering or may involve significant construction, such as building a new compressor station or pipeline. They may also span a range of time horizons, have different risk profiles and require customised financial and legal arrangements. The general principles that TSP will apply to such new investments are as follows:*
- (a) *TSP will always endeavour to offer a Transmission Service on the Maui Pipeline even if it involves the development of new capacity;*
 - (b) *TSP has first right to invest in the development of the Maui Pipeline;*
 - (c) *TSP will, acting as a Reasonable and Prudent Operator, set standards for the construction, operation and maintenance of the new facilities;*
 - (d) *Shippers and Welded Parties will be given the opportunity to contribute to the costs of developing new capacity but TSP shall be under no obligation to grant any special right or interest in the Maui Pipeline or the Transmission Services to such Shipper or Welded Party in consideration for such contribution; and*
 - (e) *the costs of new investments incurred by TSP will be included in the calculation of Throughput Charges.*

The intent of this provision is to ensure that the TSO develops capacity on the network, allow for contribution by interconnecting parties and provide for cost recovery by the TSO.

We believe that the paradigm for pipeline development has moved on since the development of the MPOC:

- The provision of transmission services has been regulated under the Commerce Commission
- The DPP regime has been implemented to allow pipeline owners to recover investment in the pipeline
- First Gas has purchased the pipeline and with a different approach to that of previous owners.

Overall these changes have created greater impetus for the pipeline owner to develop capacity and we trust that our activities in business development demonstrate this change in paradigm. Moreover, our Interconnection Policy allows for capital contributions alongside construction by First Gas. We therefore no longer perceive a need for this concept and feel that the regulatory and policy settings allow for development of the pipeline.

Summary and way forward

First Gas has undertaken a consistency and conforming review of the CETs in light of the changes to the related provisions of the GTAC and the discussions in the workshops to date. The changes resulting from that review have been included in the CETs and/or the GTAC as appropriate. This work was done having regard to the specific comments on this topic from Methanex in Workshop Block 2.

First Gas has also included in the revised CETs the applicable changes from the drafting memorandum previously provided by the GIC.