GAS TRANSMISSION ACCESS CODE

Stakeholder Consultation

Guide to 2018 Changes

First Gas Limited
12 September 2018

Executive Summary

We would like to thank stakeholders for their considerable effort over the last three months in revising the GTAC. We appreciate the significant workload required to support this process and we believe that it has enabled us to reposition the GTAC to have the best possible chance of success. We have heard some well thought out cases to improve the code that was presented to the Gas Industry Company (GIC) in December 2017. Stakeholders have shown a clear willingness to work with First Gas to improve the GTAC to ensure that it best serves customer needs and positions the gas industry for the future.

We have also seen a great deal of discipline from all parties in this stage of the process to stick to addressing the points raised in the GIC's Final Assessment Paper (FAP) of May 2018. This discipline has provided the momentum needed to maintain the option of a GTAC go live date of 1 October 2019 should the GIC assess the code as materially better than the existing codes.

Along the way, we have also been able to add improvements where possible. While in some respects it would be easy not to do so, we think these changes add to the GTAC and increase the potential for the GIC to make a positive assessment.

We look forward to receiving your submissions on the GTAC released alongside this report. **In addition to feedback on the changes made to the GTAC during 2018, we are asking for stakeholder views on whether the GTAC is ready to be submitted to GIC based on the improvements identified in the FAP.**

This will help us to understand whether we are likely to meet the materially better standard at this time, or whether further work is needed. In providing your feedback on the revised GTAC, we would like to understand stakeholder views on the following points in particular:

- Are there any issues with workability from the changes that need to be resolved?
- Are there any areas where insufficient clarity on how the code functions creates an unacceptable level of risk to your business?
- Have we closed out the issues raised in the FAP that we agreed to address?

The GIC will not be consulting separately on the GTAC prior to preparing its Preliminary Assessment. The GIC is therefore also seeking your input on the document for the benefit of its MPOC s22.16(b) assessment. In particular, they would like the following information:

1. Aside from matters covered in your feedback to First Gas on the GTAC draft, if there are any elements of the proposed arrangements that you think require particular attention in Gas Industry Co's assessment, can you please explain what these are and why they are relevant?

2. Stakeholders are familiar with the methodology we used to analyse the 8 December 2017 GTAC (broadly the three step; top-down, bottom-up and holistic approach), but if there are any aspects of the analysis you think could be improved, we would like to hear your suggestions, including why these are relevant to MPOC s22.16(b).

We understand that there may be issues on which there are, and will continue to be, disagreement. There may also be findings of the FAP you don't agree with. You are welcome to raise these issues; however we would like to separate those issues from whether we have addressed the findings of the FAP in making your submission. These issues may be best raised in your responses to the GIC's questions above.

In the following sections we set out some of our thinking on the process so far and why we think that the revised GTAC is materially better than the existing codes.

Submission on the GTAC can be made through the GIC website. Submissions are due by 3 October 2018.

Table of Contents

1. How we have addressed the key issues identified in the FAP

We believe that the FAP has provided us with a solid basis for assessing the necessary improvements to the GTAC to ensure that the GIC can assess the code as materially better. We have also been encouraged by the pragmatism of stakeholders in supporting resolution of these issues (alongside a few key secondary issues) in order to move the GTAC forward.

We have come a long way already

While the FAP did not provide a positive endorsement of the GTAC overall, the GIC found that "there is a lot to like about the new Code" (FAP, 4). In particular (FAP, 3) the GIC found the following attributes positive:

> *1. streamlining of transmission products and processes, with a unified set of arrangements applying across the entire transmission system;*
>
> *2. adopting daily nominated capacity as the primary transport product, which should promote more efficient use of the pipeline system and downstream competition;*
>
> *3. widening and improving the tools available for management of pipeline congestion;*
>
> *4. adopting a system-wide approach to gas balancing;*
>
> *5. removing grandfathering provisions that can impede competition; and*
>
> *6. facilitating the trading of gas via a single receipt zone.*

We have been careful in our work during 2018 not to undermine these findings. We do not believe that any of the targeted improvements to the code to address FAP findings have detracted from the positive features of the GTAC, but we are interested in stakeholder views on whether you agree.

1. Do you consider that the positive features of GTAC identified in the FAP are retained in the current GTAC draft that incorporates changes made during 2018?

The three key issues have been addressed

The FAP raised the following three key issues to be resolved before resubmitting the GTAC. As with any multi-party arrangement, there are many other issues that could also have been discussed and changed. However, as discussed above, stakeholders agreed to focus on the key issues to retain the option of a 1 October 2019 go live.

1. the transport incentive charge structure in non-congested situations appears to encourage inefficient behaviour by pipeline users.

We have revised the level and structure of underrun and overrun charges to reduce the scale of incentives. This has been achieved by reducing the coefficient of the charge (F) to 1.5 and making the underrun and overrun charge symmetrical by changing this coefficient to F-2.

We have clarified when increased fees will apply through provisions that allow First Gas to give notice of congestion at each nomination cycle. This will give up to seven days' notice of congestion (in the case of a provisional nomination cycle) and allow Shippers to manage their loads accordingly.

We have also removed the rebate of transmission incentive charges. This ensures that the impact of the charges is felt directly by those incurring the charge and removed the potential for distortion of the incentive based on the size of the user.

We believe that these amendments address the FAP findings while ensuring that First Gas can increase incentives should the right behaviours not result from the current levels of charging.

2. aspects of the liability provisions are less certain in their effectiveness, undermining the incentives on pipeline users to act prudently

We have undertaken substantial work on the gas quality and liability provisions to more clearly resemble the regimes already contained in the VTC and MPOC. We have removed the previous subrogation concept and the language deeming a party not to be a RPO has been revised to align with that existing in the VTC and MPOC. We have ensured that there is a back-to-back indemnity for non-specification gas and that there is a consistent approach between the GTAC and ICAs to provide 'meshing' between the two sets of contracts. We have also adjusted the indemnity caps for inflation.

We think this ensures that parties have at least the same level of commercial protection provided under the status quo, with some minor improvements to clarify interpretation.

3. interconnection agreements are largely undefined

We have also undertaken substantial work on the structure of the ICAs for the GTAC. We have agreed that, while the contracts should remain bilateral, common and essential terms for all ICAs will be presented in a schedule of the GTAC. ICAs will be updated in line with any changes to the GTAC. Other terms will be able to be negotiated between First Gas and interconnecting parties, as long as individual terms do not materially change or undermine the common and essential terms.

We have determined the common and essential to be included based on the need for standardization where there are potential impacts other users of the system. Those terms that remain bilateral involve the need to retain flexibility to meet particular counterparty requirements and ultimately facilitate growth in use of the transmission system. We believe this retains the flexibility of the VTC with the positive benefits of standardization under the MPOC.

The Preliminary Assessment Paper (PAP) raised a fourth issue that park and loan revenue might have been unregulated. Following the PAP, we were able to clarify with the Commerce Commission that any such revenue would fall within our balancing regime and the GIC therefore considered this issue closed in the FAP.

2. *Do you have any concerns about how the three key issues identified in the FAP have been addressed in the GTAC?*

2. How we have addressed other FAP findings and made other improvements

When we met on 21 June we developed a work programme based on the core findings of the FAP above and several other points that detracted from the assessment of the code.

Over the last two months we have been able to address the following issues together. Individually, these represent relatively minor extensions or improvements to what was proposed in December 2017. However, together we think they show that we have used the time spent in 2018 productively to ensure that the arrangements hang together well as a package.

Issue	Resolution	Impact
The integration of associated documents	Clarification of how the Metering Requirements and Interconnection Policy and SA policy will work with the ICAs and the GTAC itself.	Stakeholders have certainty over standards while there is an ability for First Gas to maintain currency of the documents.
Metering Requirements	Consultation on a Metering Requirements document for GTAC and provided a copy for feedback. A consultation process for revisions to the Metering Requirements has been included in this document as well as more integration of this document with the GTAC.	Metering requirements have been clarified and the timeframes and implications for stakeholders are clear.
Meter testing	We have reduced the allowable time between a shipper's requests for an unscheduled testing of metering from 9 months to 3 months to address the perceived deterioration of terms.	The timeframes for requests for meter testing remain comparable with existing codes.
OFOs/Curtailment	We have extended the ability to call for an Extra ID cycle to all Interconnected Parties and have maintained the notice for Extra ID cycles at 1 hour.	Interconnected parties can now call for an ID cycle and the functionality of s. 15.2 of the MPOC has been maintained in the GTAC.
Target Taranaki Pressure	Provisions relating to Target Taranaki Pressure have been strengthened in the GTAC, and in the common and essential terms of the ICAs.	The requirements relating to TTP are consistent with that of the MPOC, maintaining consistency in the pressure regime that applies.
Balancing tolerances	We have proposed a revised methodology for allocating tolerance. The principles First Gas will apply in setting the Line Pack Limits and the overall amount of tolerance have been presented to stakeholders. The Balancing SOP that applies those principles has also been issued for stakeholder feedback.	Greater certainty over individual allocation and equity of allocation in relation to system usage. Clarity on the order of balancing actions and the total amount of system tolerance. Removal of fixed tolerances that led to overallocation in the MPOC.

Issue	Resolution	Impact
Peaking	Creation of an hourly Peaking Regime to target users that can affect other users of the transmission system. Charging that mirrors the revised daily overrun regime but users are not subject to both. Provisions to allow for shut down and start up of large users and producers.	Simpler, more targeted provisions that those in the MPOC that ensure those using pipeline flexibility are not impacting other users. Similar provisions for relief from charging in the event of plant start up and shut down.
Allocation Methods	The allocation methods for receipt and delivery points have been clarified to ensure that, while there is still flexibility, there will be some 'pre-built' options and that there will be not impact on other users from the allocation method used through better definition of the characteristics of allocation methodologies. Interconnected party rights enhanced to allow for them to have greater input into the allocation agreement.	There is some standardization that will streamline processes for users at delivery points, which improves on the VTC. Allowing the interconnected party to 'own' the allocation agreement ensures that the party with the enduring relationship to the point is driving the allocation.
Nominations	We have provided a new scheme for mass market load nomination. We have also provided the ability (but not the obligation) for all Interconnected Parties to approve nominations, which will assist in management of curtailment.	This scheme is a significant improvement in retail competition, not only getting rid of annual capacity reservations, but also not increasing administrative burden on shippers that only intend to serve mass market customers.
Priority Rights	We have strengthened provisions requiring transfer of PRs where a shipper no longer has a legitimate interest.	Ensuring shippers only have a genuine interest in a delivery point to hold PRs guards against hoarding of rights and therefore improves on the previous design.
Termination	We have made changes to the provisions on termination for cause to ensure an appropriate ability to cure default. The term of the code has been extended to 10 years and a process put in place to ensure there is a process to be followed to replace or extend the code.	Changes to default provisions are fairer and bring the code in line with the existing codes. The extension to the term of the code gives greater certainty to stakeholders while ensuring there is potential for a code improvement through the end of life changes process.

Issue	Resolution	Impact
Confidentiality	We have agreed with the findings that parties should be able to identify what information is confidential and provide for a confidentiality agreement for authorised disclosure. We have also inserted provisions allowing for a confidentiality audit.	These improvements ensure the confidentiality provisions are fair and are consistent with existing codes.
Supplementary Agreement (SA) Governance	We have provided for more transparency on the information to be provided to support new SAs and have provided as much information as possible about existing SAs. We have confirmed the requirement for an SA Policy to clearly state how decisions will be made on SAs.	There is more certainty now that stakeholders will be able to hold First Gas to account in relation to SAs due to greater transparency of information. This is an improvement on the VTC.
Change Requests	We have revised the timing of the change requests to ensure there is enough time for all parties to review submissions.	These changes are fairer and ensure that the change request process allows for adequate consultation while maintaining a swift process.
ERM	We have revised the ERM charges to be symmetrical.	This change ensures that stakeholders equally incentivized to maintain their primary balancing obligation.
Rebates	We have removed the rebate of incentive and balancing charges but retained those for PR Charges.	This ensures that issues with pass through of rebates to customers are avoided.

3. ***Do you have concerns about how we have implemented the solutions from the workshops to address the other FAP findings?***

3. We also found some other improvements

During the course of these discussions there were a number of issues that, while not mentioned in the FAP, were considered by stakeholders to require improvement. These improvements were adopted based on stakeholder views on the improvements, which we agreed with.

- *Regional Curtailments*
  During discussions on curtailments we were challenged on whether we had the tools to curtail in instances where the causer of the problem could not be determined. We revised the definition of OFO to ensure that we could ask shippers to adjust upstream and downstream nominations as well as adjust flows at an affected point. We have also published guidance on how we will curtail, which will form the basis of our Curtailment SOP to be published next year.

- *Nomination Cycle Timing*
  Stakeholders told us they wanted more ID cycles and put forward a cogent proposition which we have agreed to implement.

- *Information Provision for Change Requests*
  When we looked at the requirement to provide further information on a Draft Change Request we found that this could be used to frustrate the process through onerous information requests. We therefore allowed Change Requestors to refuse onerous requests for information.

- *First Gas Right of Veto*
  Together with stakeholders, we identified that it may be appropriate for First Gas to veto a Change Request if it has changed after the draft stage. We have also shared information about the GTAC allows us to exercise this veto.

- *Pricing*
  We shared information about our proposed pricing under the GTAC. This gave stakeholders an understanding of the pricing methodology which will be the subject of formal consultation in 2019 when we prepare our Transmission Pricing Methodology under the Commerce Commission regulations.

- *Incorporation of the MBB D+1 Pilot Agreement*
  During discussions on wash-ups we identified jointly that there was a need to clarify the arrangements under the MBB D+1 Pilot Agreement. We agreed that the key provisions would be incorporated into a schedule of the GTAC and Bell Gully was tasked with drafting these provisions.

- *PR Auction Terms and Conditions Scoping*
  Although the FAP did not find that the lack of PR Auction Terms and Conditions was an issue, we have nonetheless shared with stakeholders the potential scope of this document. This document will be produced for assessment by the GIC in 2019.

5. *Do you consider that the changes we've made together have the intended impact and retain the positive features of GTAC identified in the FAP?*

4. We did not adopt some suggestions from stakeholders

There were some things that we were not able to refine or improve as part of revising the GTAC. We set out our reasons for these decisions below.

Notification of gas quality incidents and the use of the AEMO Guidelines

During the discussion on gas quality, we acknowledged work by the Australian Energy Markets Operator work on gas quality and notification standards. With the support of stakeholders, we will jointly review the application of this standard during 2019. We believe this work will be a material improvement for our industry by providing joint standards on gas quality notification.

Outage Notification

The GIC assessment in the FAP was that more detail was required in the ICAs in relation to the notification of outages. However, that the general rule was that greater transparency of information would be beneficial for the gas market. We agree that greater transparency would be beneficial.

In discussing the provisions of the ICAs with stakeholders we found that they agreed on the need to provide First Gas with information on outages. However, stakeholders had markedly divergent views on the publication of such information. Given the stark divide between camps we were unable to improve on the MPOC/VTC transparency for this information.

We will support effort by the GIC to improve transparency through an industry scheme.

Limiting the Scope of SAs to only alter price

We were asked if we would consider limiting the scope of SAs to only alter the price of transmission. On the face of this it is attractive as it simplifies a number of GTAC arrangements and allows the SA to work in with PRs and other GTAC provisions. It is our preference to maintain standard fee structures, wherever possible.

However, where an SA does contain non-standard fees, they are not always discounted: they may be just a different structure of fixed and variable. In addition, an SA with fully-fixed fees may result in the average transmission charge ($/GJ) being either higher or lower than if standard prices applied, depending on the annual delivery quantity (GJ). This simply reflects a different allocation of risk, with some end-users of gas preferring to lock in a fixed transmission charge for several years that does not vary with demand.

Where First Gas needs to recover capital expenditure, it is likely that transmission fees will be predominantly fixed. The fees payable under such an SA may be higher than standard fees, due to the capital-recovery component.

We see the Refining New Zealand TPA/SA example as a useful model for large investments that may be made in future. The arrangement has been beneficial for all system users by increasing aggregate system usage and therefore lowering transmission fees for other users. At the same time, the structure of the agreement ensures that the cost of system expansions is recovered from those using those system improvements.

In accordance with the Commerce Commission's Pricing Principles, First Gas is committed to undertaking investments in the transmission system that are beneficial to users of the system. We believe that this could be limited if First Gas is unable to offer firm capacity in return for firm pricing.

We currently maintain an SA Policy and will update this for the GTAC. In it we intend to outline the types of pricing mechanisms that would apply in different types of SA scenario to ensure that stakeholders have clarity on how we propose to set transmission fees under SAs.

SA priority in relation to PRs

We were asked to provide clarification on the priority of Supplementary Capacity in relation to PRs. We do not feel that this is appropriate due to the nature of SAs. SAs can provide for certainty of capacity given an investment in transmission system capacity to support an end user. In this case it would not be appropriate for SAs to rank lower than PRs in relation to a congested point as the end user had underwritten development of the transmission system. However, if the purpose of the SA was to provide a lower cost due to bypass risk or fuel substitution, it would potentially be appropriate for supplementary capacity to rank alongside DNC in congested situations.

The treatment of SAs is therefore difficult to prescribe in advance and doing so may preclude SAs being entered into due to uncertainty. This would not be of benefit to stakeholders. However, we agree that the prospect of congestion should be taken into account when considering SAs. FG does not want to put users in a position where scarce capacity has already been allocated under a long term agreement at a value that does not reflect congestion.

We have included the consideration of congestion as a specific factor to evaluate when considering any request for a SA. We also intend to outline the potential treatment of SAs in relation to PRs in different scenarios in our SA policy to be produced next year.

We have chosen not to replicate the Incentives Pool under the MPOC

The Incentives Pool is cited as a liquidated damages scheme for Shippers who are unable to offtake their gas due to the actions of other parties. In practice, we do not believe that the current mechanism in the MPOC is workable or provides any practical protection for Shippers. Under this scheme in the MPOC (flowing through to the BPP in the VTC) for a Welded Party to be covered for an inability to take gas the loss must occur on a day when Line Pack falls below the Low Line Pack Threshold **and** a Balancing Gas Call is made **and** another party exceeds the Peaking Limit on an hourly basis to pay into the pool. These are all sensible limitations to ensure that collecting charges for damages only occurs on days when there are likely to be damages.

While it may seem probable that these events may coincide with a party missing out on gas, in practice this has not been the case. This may be due to the over-allocation of tolerances at welded points, or that overtaking may be occurring at small welded points which do not have peaking limits. Other causes may be that that may be a timing issue between cause and effect – peaking on the prior day may affect availability the next day. In sum, the practical effect has been to negate the efficacy of the scheme.

We therefore do not believe that the absence of such a scheme in the GTAC is worse than the MPOC/VTC. The GTAC and MPOC are essentially the same as the current scheme does not work. The comparative assessment can therefore only be neutral. We also believe that we should focus rather on the tools we have in place to incentivise that parties than compensatory mechanisms for loss.

The GTAC has strong incentives to ensure users are not affected by others' use of the system such as ERM Charges, Overrun charges and the Peaking Regime. These incentives increase at times when line pack is not adequate, which reinforces the strength of the incentive. These positive measures along with stronger measures such as balancing gas and curtailments will provide First Gas with the tools they need to ensure all parties can use the system.

Rebates to OBA parties

In removing the rebates of transmission and balancing fees we were asked to consider the impact on OBA parties. As interconnected parties do not pay transmission fees, they would not benefit from wash-up of revenue into future years in the same way that Shippers do. This reverts to the current situation under the MPOC and VTC and therefore there is no negative impact on continuing this practice. We believe the equity issue is less significant under the GTAC than the due to the nature of the balancing regime, which will reduce the number of transactions (and the quantum of balancing charges available for rebate). Moreover, interconnected parties are well-placed to manage their risks associated with these fees as they control the interconnection point. We therefore believe the effect of this decision on the GTAC to be neutral.

6. ***Do you consider that our decision to not make certain changes to the GTAC has deteriorated access provisions in relation to the existing codes?***