

# Gas Transmission Access: Proposed Decisions and Next Steps

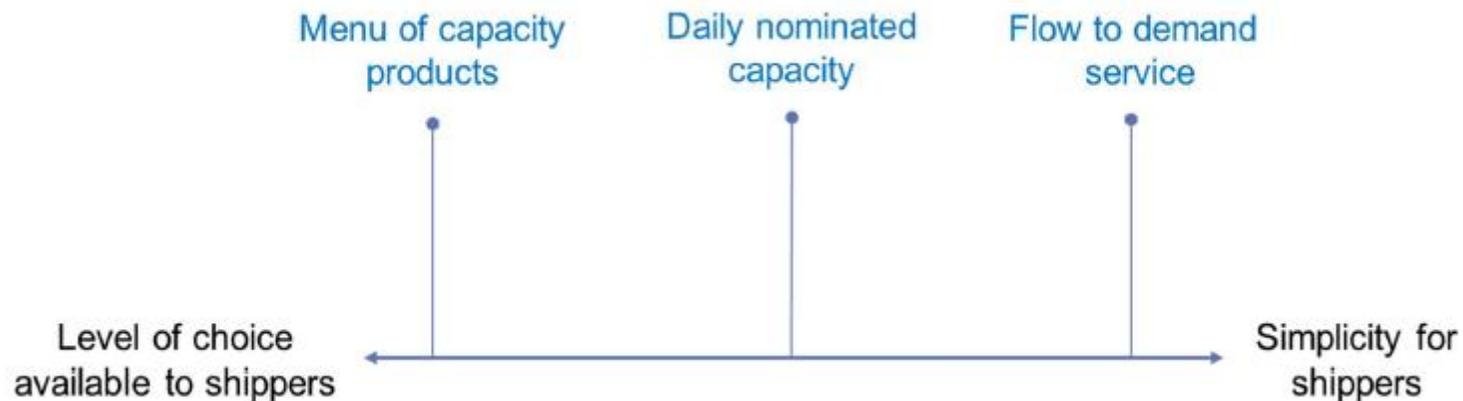
28 February 2017

The logo for Firstgas, featuring the word "Firstgas" in a white, sans-serif font. The letter "g" is stylized with a flame-like shape at its top and bottom curves.

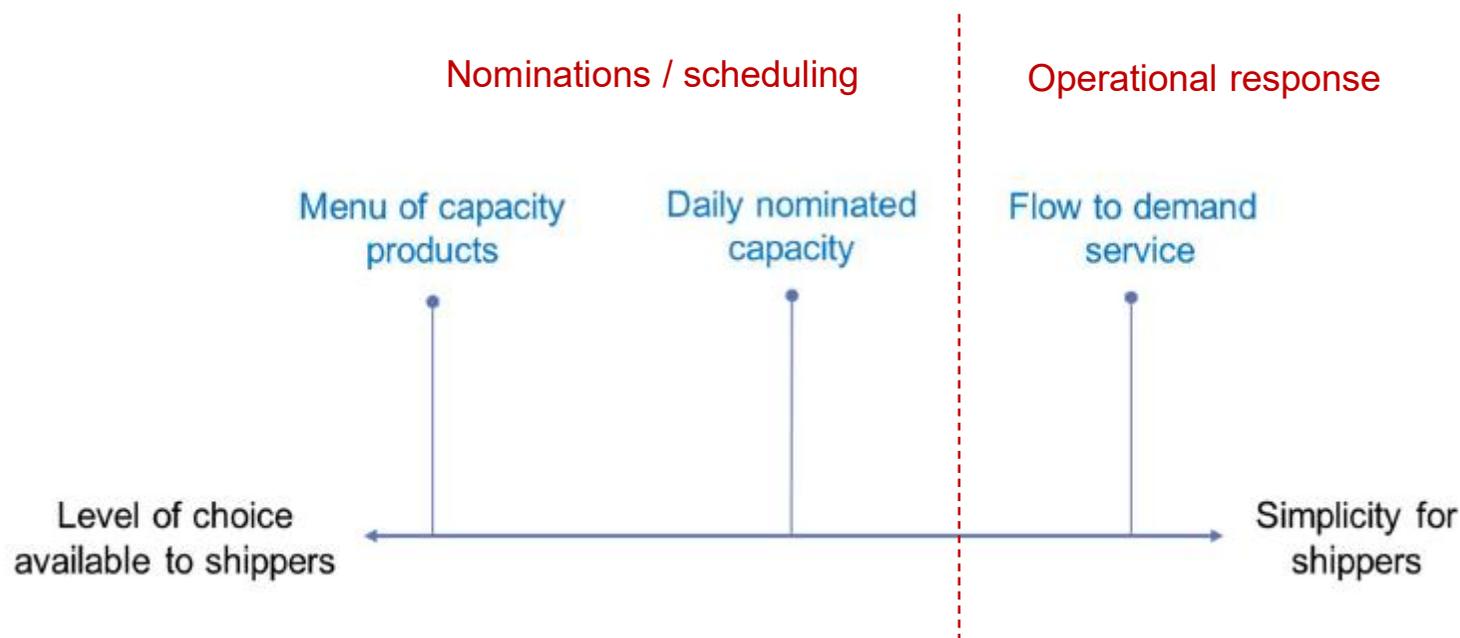
- Purpose of today's session
- Brief recap of SCOP2
- Submissions and evaluation of options presented in SCOP2
- Provisional decisions
  - Form of the Code
  - Capacity Product Design
  - Pricing
  - Code Governance
  - Allocation and Balancing
  - Gas Quality
  - Non-standard Agreements
- Example of simplification in provisional decisions
- Next steps and proposed process for 2017

- Explain our provisional decisions and get feedback
- Present work plan for GTAC development and implementation
- We are not requesting submissions, but want to know of any “showstoppers” early and welcome further input into development

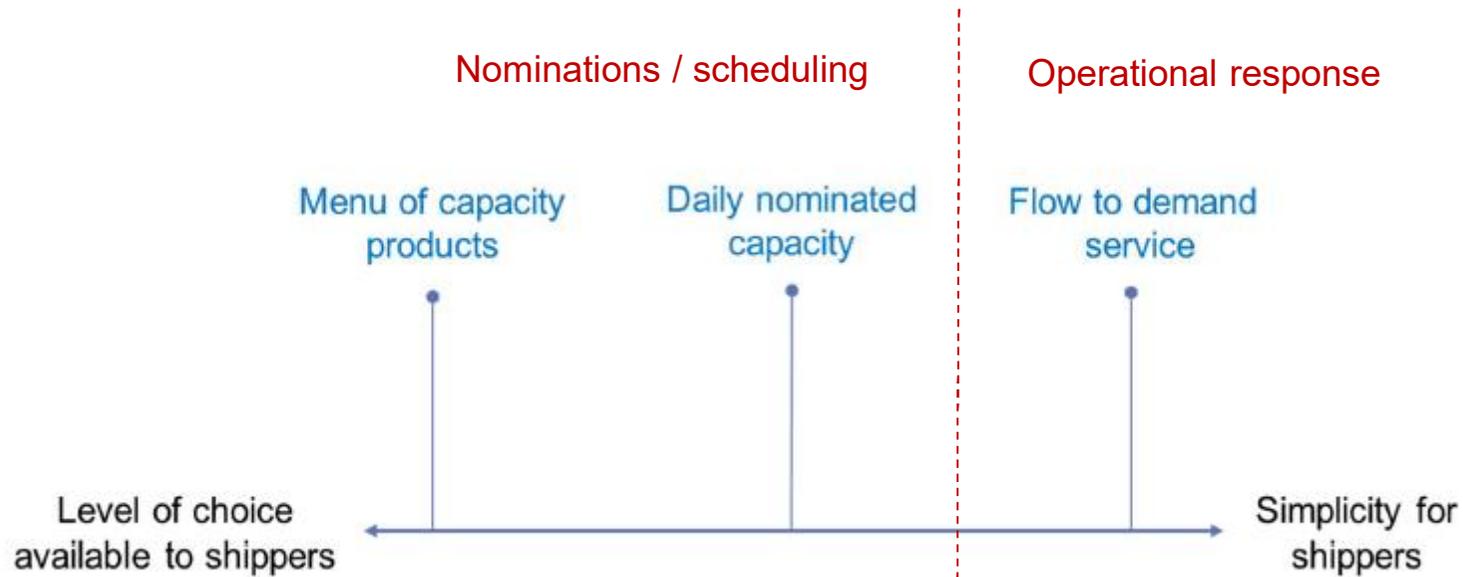
- Presented 3 high-level pathways or directions the new code could take:



- We sought feedback on:
  - How we should evaluate the direction to take (objectives)
  - Preferences between the options
  - Whether other options should also be considered

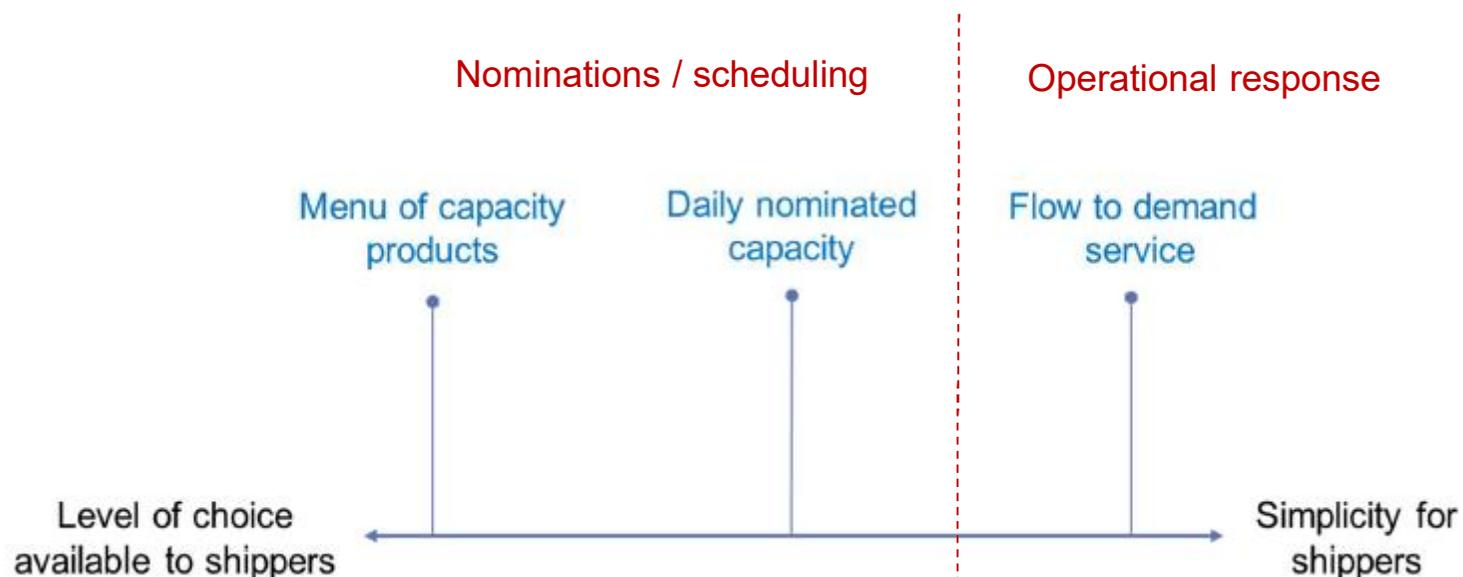


- Most submissions favoured retaining nominations-based system (Options 1, 2)
- Some concerns about workability of operational responses under Option 3, particularly in the absence of advance information from transmission users
- Choice between Options 1 and 2 came down to perception of how much effort should be put in “up front” to managing scarcity



- General preference for determining own capacity needs through a range of nomination options and priority rights for security during congestion
- Desire flexibility and transparency
- Support for simple approaches that do not impose unnecessary costs or barriers to participation

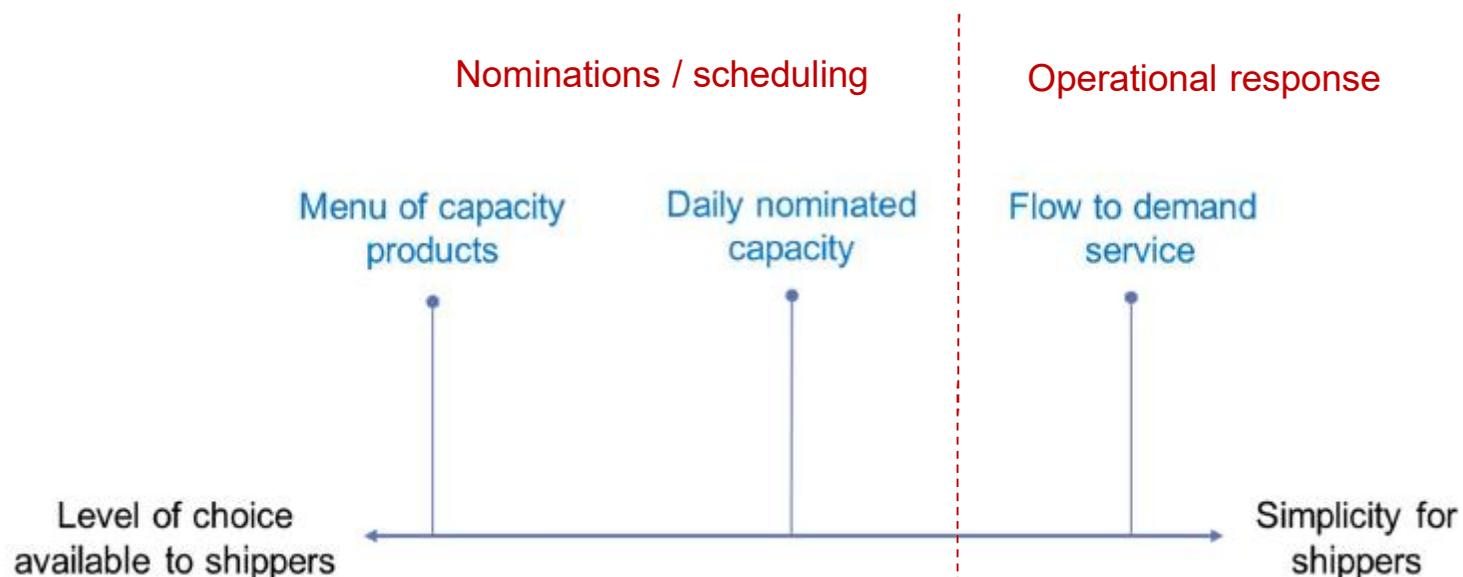
We believe a mix of options 1 and 2 provides the flexibility, transparency and security required to enable the use of gas.



- Allows transmission users to express the value attributed to scarcity through priority rights
- Demand for priority rights provides an indication of longer term investment needs

- Scarcity not explicitly priced and managed
- Concern that costs might be pushed onto First Gas

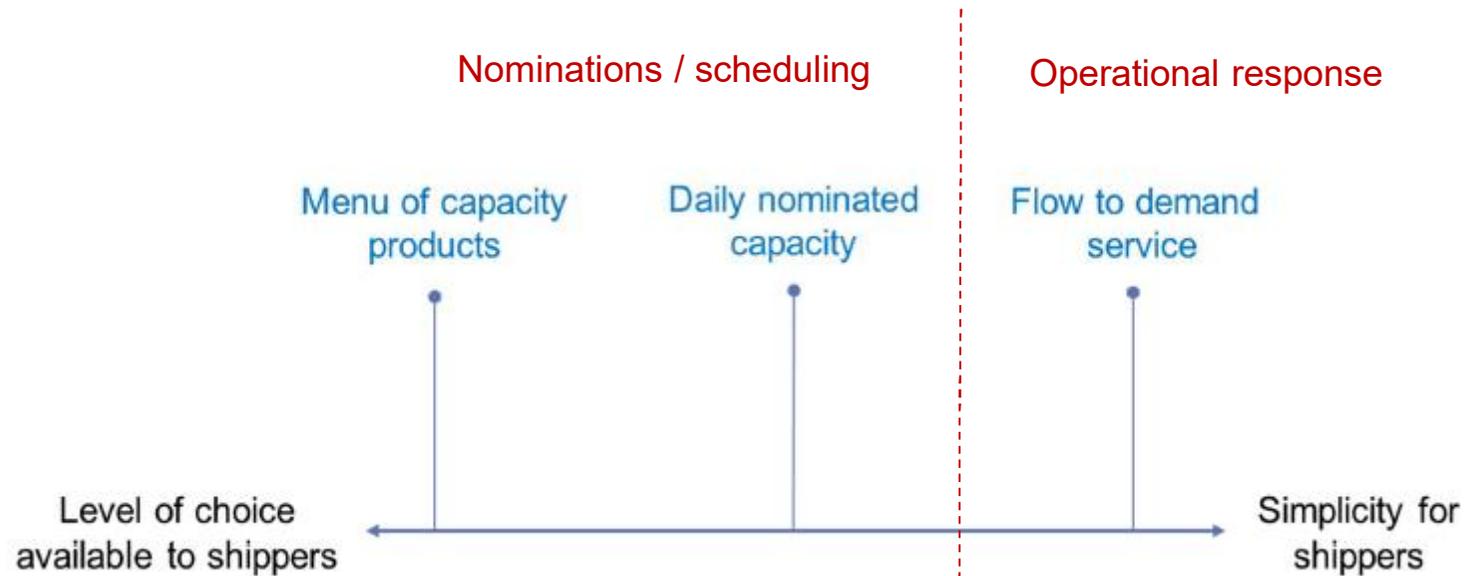
We believe that nominations and the ability to have priority allows for interactions that better match available capacity with demand, and allows greater efficiency of capacity allocation and investment



- Provides choice to nominate across multiple timeframes based on nature of demand
- Complexity is determined largely by need of shippers

- Simple during normal operation
- Uncertain during congestion
- Incompatible with nominations

While option 3 is the most simple during normal operations, it would take considerable effort to keep it simple when scarcity arises. A mix of options 1 and 2 will be much simpler than the status quo (see Appendix C and later slides)



- Provides for flexibility and customisation based on shipper needs
- Ability to publish all information needed to make good decisions

- Use of flexibility may drive system into stress
- Information on operational parameters would be published

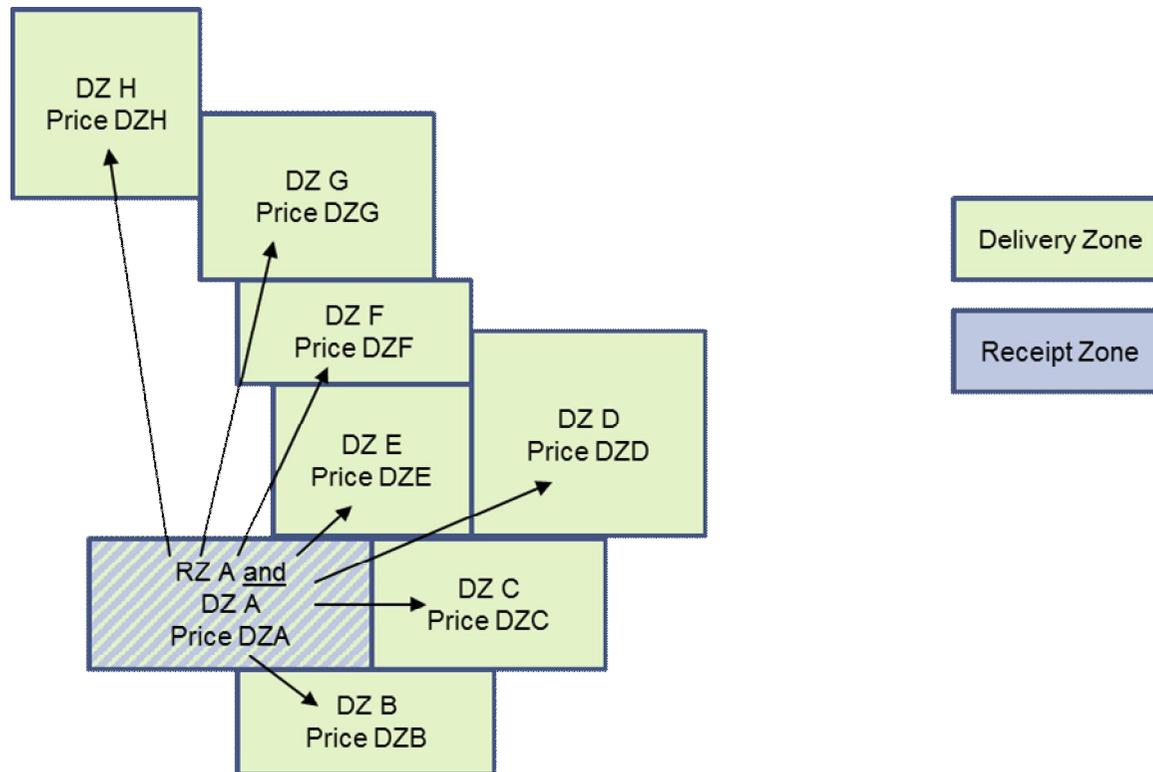
First Gas believes a mix of options 1 and 2 provides shippers with the flexibility and transparency they require – through ability access daily capacity and purchase priority rights when they are valuable

## Provisional Decisions

- Our provisional decisions represent a synthesis of Options 1&2:
  - Core product is daily nominated capacity (DNC)
  - Priority rights will be available via auction
  - DNC and priority rights will apply to different zones

Issue	Provisional decisions	To do
<b>Access products</b>	<ul style="list-style-type: none"> <li>• Access via DNC</li> <li>• Congestion managed with priority rights to DNC through periodic auctions</li> </ul>	<ul style="list-style-type: none"> <li>• Design priority rights (def., duration, freq. of auctions)</li> <li>• Design auction process (bidding, price setting, secondary trading)</li> </ul>
<b>Nominations design</b>	<ul style="list-style-type: none"> <li>• Separate receipt and delivery nominations</li> <li>• Receipt nominations will be for gas, and will be used for allocation where OBA is in place</li> <li>• Delivery nominations will be for transmission capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Explore how nominations provide greatest flexibility and value</li> <li>• Define nomination cycles (week ahead, day ahead, intra-day)</li> <li>• Consider value of additional cycles at receipt points</li> </ul>

Issue	Provisional decisions	To do
<b>Zone Based Access</b>	<ul style="list-style-type: none"> <li>Divide transmission system into delivery/pricing zones, probably with a single receipt zone</li> </ul>	<ul style="list-style-type: none"> <li>Develop criteria for defining zones and adjusting if required</li> </ul>



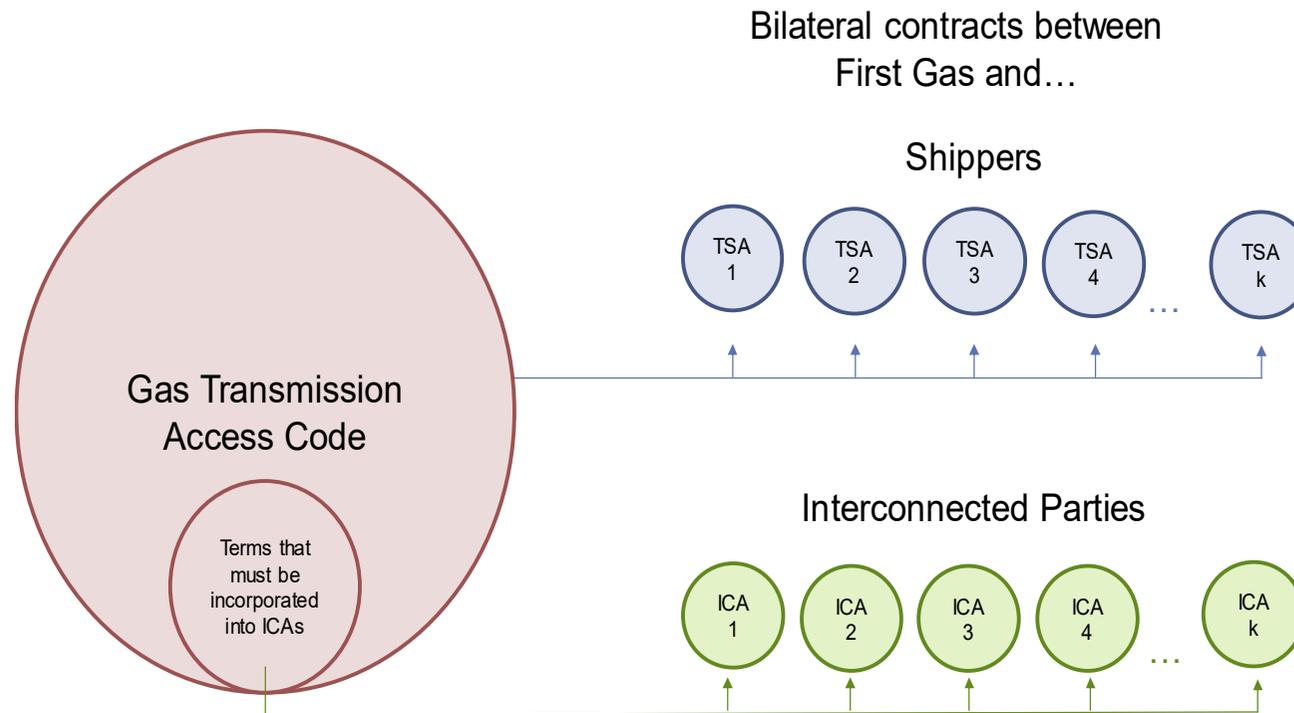
Issue	Provisional decisions	To do
<b>Pricing</b>	<ul style="list-style-type: none"><li>• Price of DNC set for each zone</li><li>• Pricing of priority rights through periodic auctions, with reserve price</li><li>• Overrun charge for exceeding DNC</li></ul>	<ul style="list-style-type: none"><li>• Design approach for setting each zonal DNC price</li><li>• Design auction process for priority rights, including how reserve prices should be set</li><li>• Explore the need for and feasibility of underrun charges</li><li>• Determine how any excess revenue will be recycled or under-recovery made up.</li></ul>

We believe this multi-product offering will provide the following benefits:

- Unified access terms across the entire transmission system
- Increased flexibility in that the DNC can be nominated to any zone without the need to arrange for reserved capacity with the pipeline operator
- Greater product choice
- Vary transmission capacity for different periods at short notice
- Greater certainty during congestion through priority rights
- Greater certainty, via priority rights, to secure capacity for new gas using facilities
- Mitigate risk of capacity sterilisation (through use it or lose it design of priority rights)
- Better control over transmission charges

## Provisional decision

- All code terms to be incorporated by reference into each TSA
- Some code terms must be reflected in each ICA



Issue	Provisional decisions	To do
<b>Code change process and dispute resolution</b>	<ul style="list-style-type: none"> <li>• First Gas and all shippers may propose code changes</li> <li>• Full consultation process for material changes</li> <li>• Streamlined process for non-material changes</li> <li>• GIC to assess proposed code changes and to approve, reject or recommend amendment</li> </ul>	<ul style="list-style-type: none"> <li>• Define GIC’s role</li> <li>• Create processes for substantive and non-material code change proposals</li> <li>• Define non-material code change</li> </ul>

We believe this approach to code governance:

- Creates a single approach
- Differentiates between between material and non-material changes
- Allows for the GIC to independently review code changes with reference to its legal and regulatory obligations

Issue	Provisional decisions	To do
<b>Balancing</b>	<ul style="list-style-type: none"><li>• Shippers retain primary balancing obligation (receipts ~ deliveries) across the system each day</li><li>• Where OBAs apply, the interconnected party will have a contractual obligation to match injection/offtake to nominations</li><li>• A daily incentive will be applied to motivate shippers to balance</li></ul>	<ul style="list-style-type: none"><li>• Explore options for pricing daily cash outs</li><li>• Explore feasibility and interest for a park and loan service</li></ul>

We believe this approach to balancing:

- Will provide Shippers with the ability to manage their total portfolios across the entire transmission system
- Will allow users of single receipt and delivery points to opt for OBA if they wish
- Provide adequate incentives for all parties to stay in balance and not exceed their nominated capacity

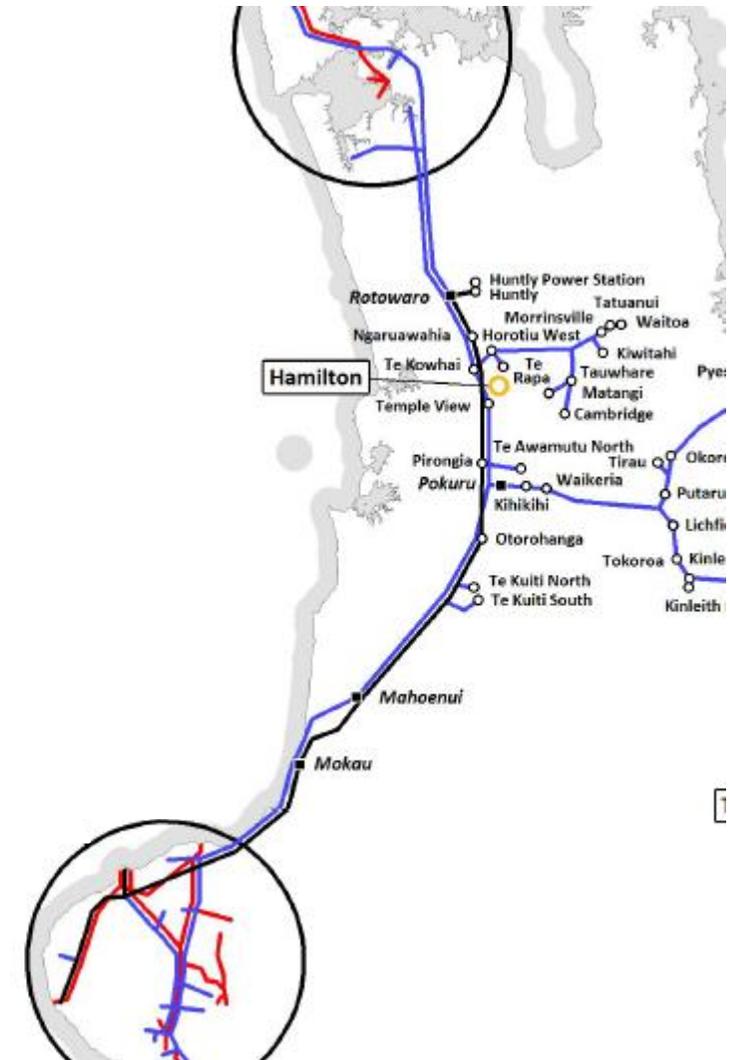
Issue	Provisional decisions	To do
<b>Allocation</b>	<ul style="list-style-type: none"><li>• Existing MPOC and VTC receipt point arrangements to remain available</li><li>• An OBA will be an option at each receipt point (possibly incorporated into ICA)</li><li>• An OBA will be an option at each single-user delivery point (possibly incorporated into the ICA)</li><li>• Downstream Reconciliation Rules (including D+1) will continue to be needed for delivery to shared networks</li></ul>	<ul style="list-style-type: none"><li>• Investigate the impact of different allocation methods at receipt and delivery points</li></ul>

<b>Issue</b>	<b>Provisional decisions</b>	<b>To do</b>
<b>Gas Quality</b>	<ul style="list-style-type: none"><li>• Generally reflect current code provisions</li></ul>	<ul style="list-style-type: none"><li>• Draft new code provisions</li></ul>

<b>Issue</b>	<b>Provisional decisions</b>	<b>To do</b>
<b>Non-standard agreements</b>	<ul style="list-style-type: none"><li>• New code will provide for non-standard agreements in prescribed circumstances</li></ul>	<ul style="list-style-type: none"><li>• Develop objective/pragmatic criteria</li></ul>

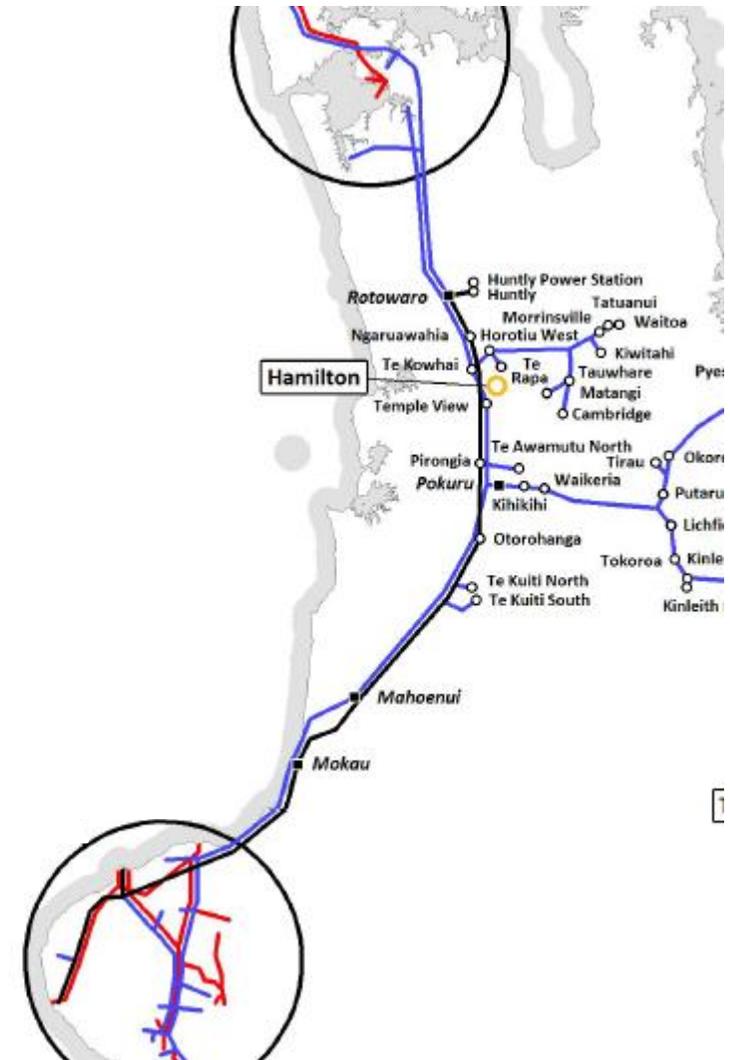
## *Under existing codes...*

- TSA under VTC (to become a VTC shipper)
- Receipt point GTA (must be VTC shipper)
- GTA for Frankley Rd
- TSA under MPOC
- GTA for Rotowaro



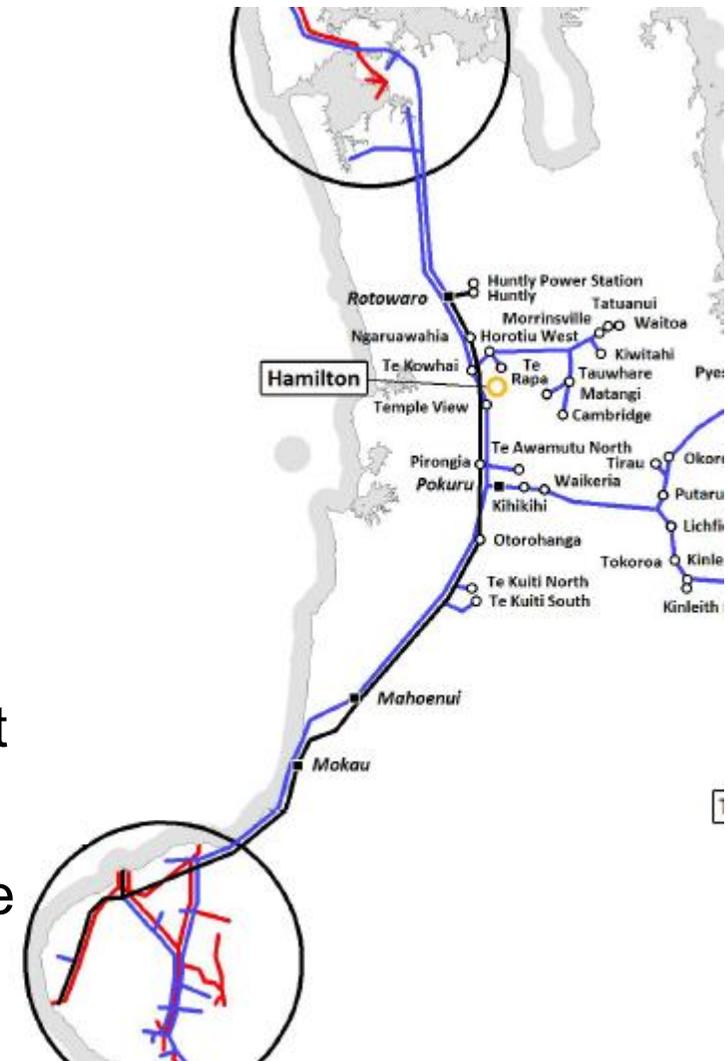
## *Under new code...*

- TSA under GTAC (to become a shipper)
- Receipt point GTA



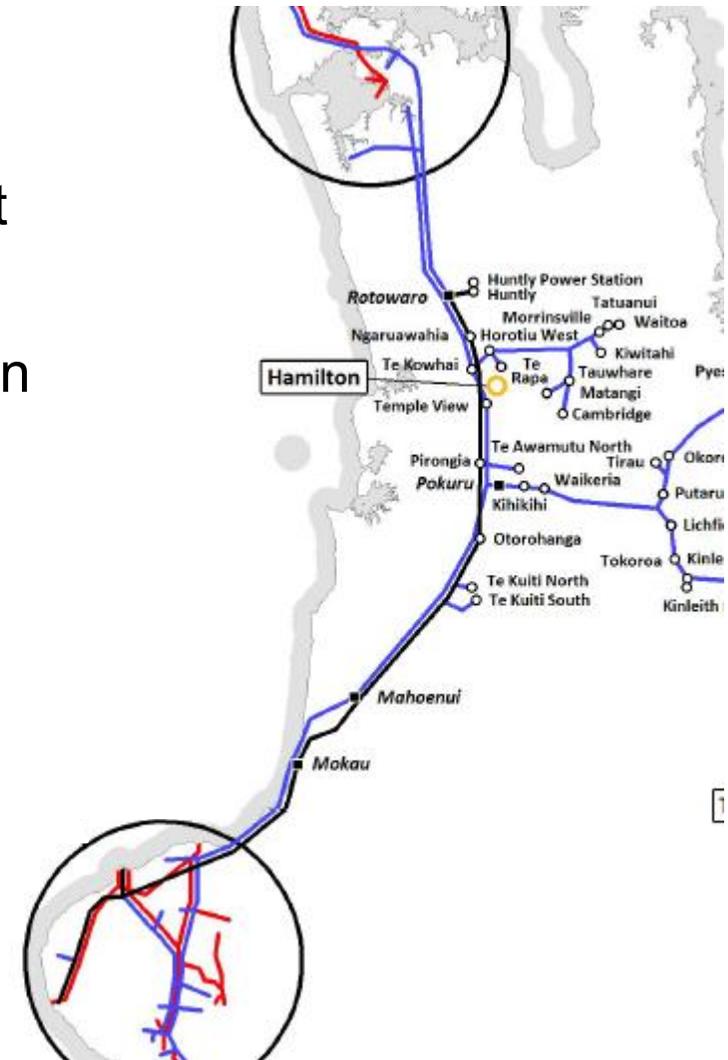
## *Under existing codes...*

- Reserve capacity in Greater Auckland in annual booking round
- Transfer capacity around (non-Maui) system to optimise capacity utilisation and minimise overruns
- Pay VTC capacity reservation fees, throughput charges and overruns (if any)
- Provide receipt information to Gas Transfer Agent
- Pay transmission charge on Frankley Rd pipeline
- Nominate receipt quantity at Frankley Rd and (the same) delivery quantity at Rotowaro
- Pay MPOC tariffs 1 and 2



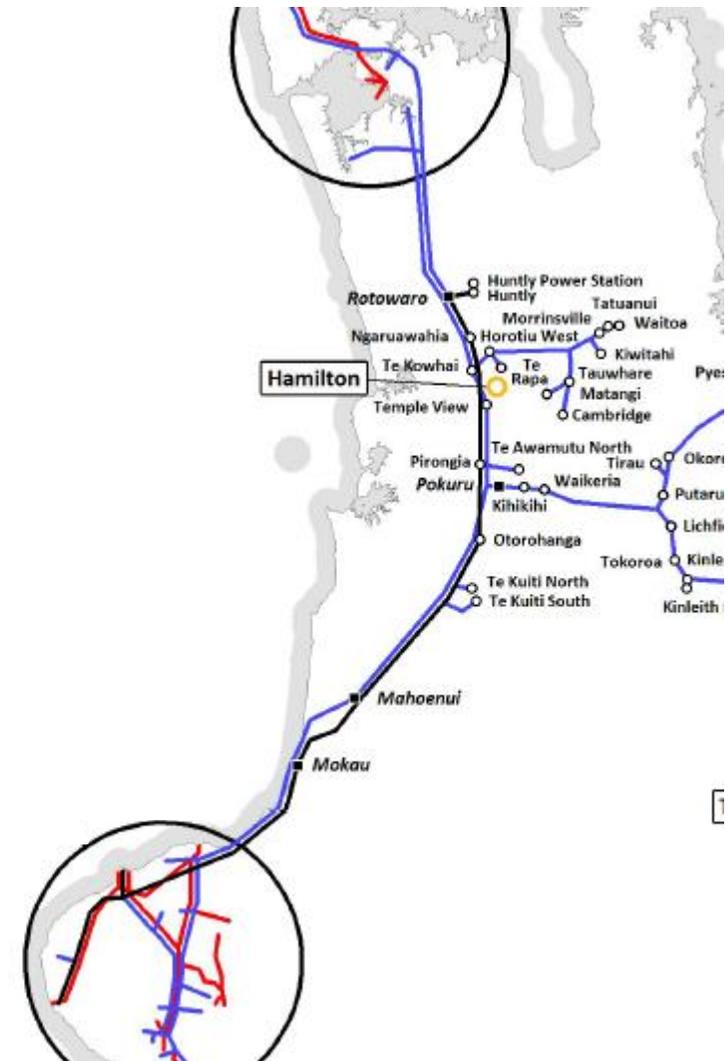
## *Under new code...*

- Provide receipt information to Gas Transfer Agent
- Nominate for DNC in delivery zone
- If desired, participate in auction for priority rights in delivery zone
- Pay GTAC transmission charges



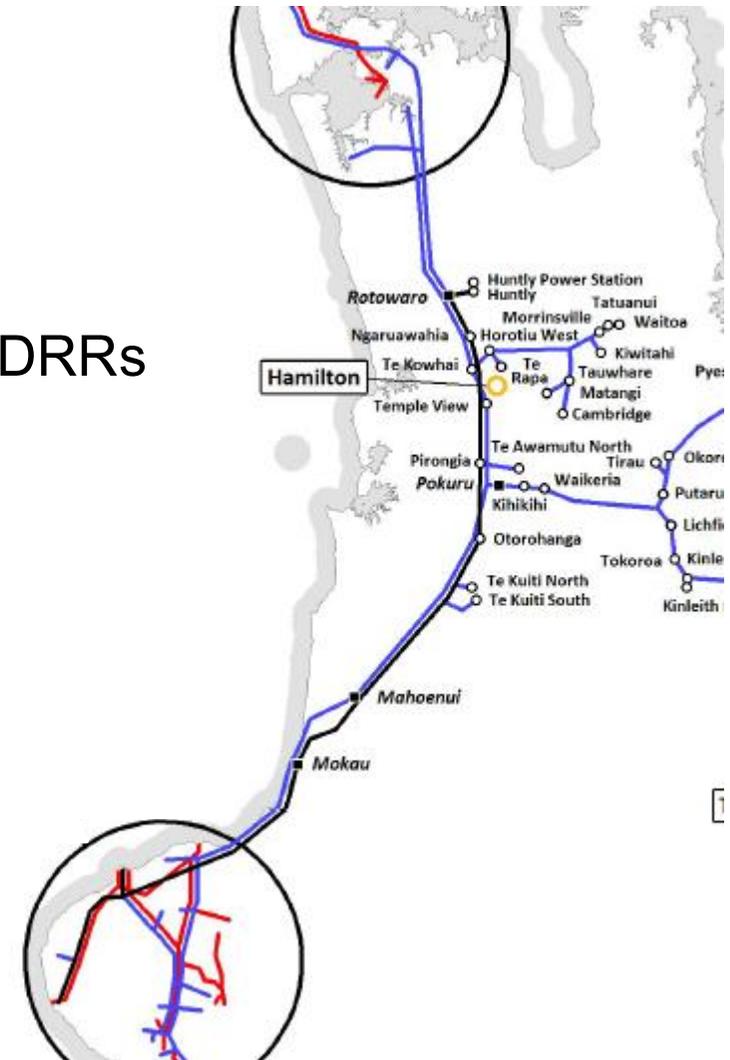
## *Under existing codes...*

- Gas receipts determined by Gas Transfer Agent
- Deliveries at Frankley Rd as per approved nominations
- Deliveries at Rotowaro as per approved nominations
- Receipt quantity at Rotowaro determined by Gas Transfer Agent
- Quantity allocated to shippers at Auckland under DRRs



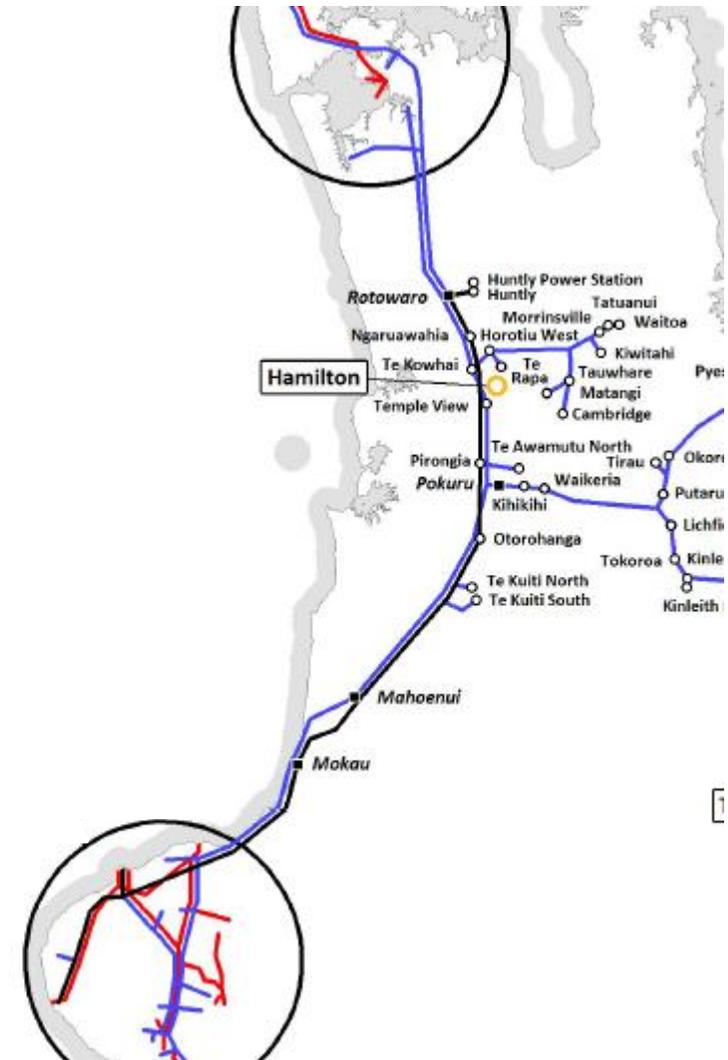
## *Under new code...*

- Gas receipts determined by Gas Transfer Agent (unless OBA is introduced at receipt point)
- Quantity allocated to shippers at Auckland under DRRs

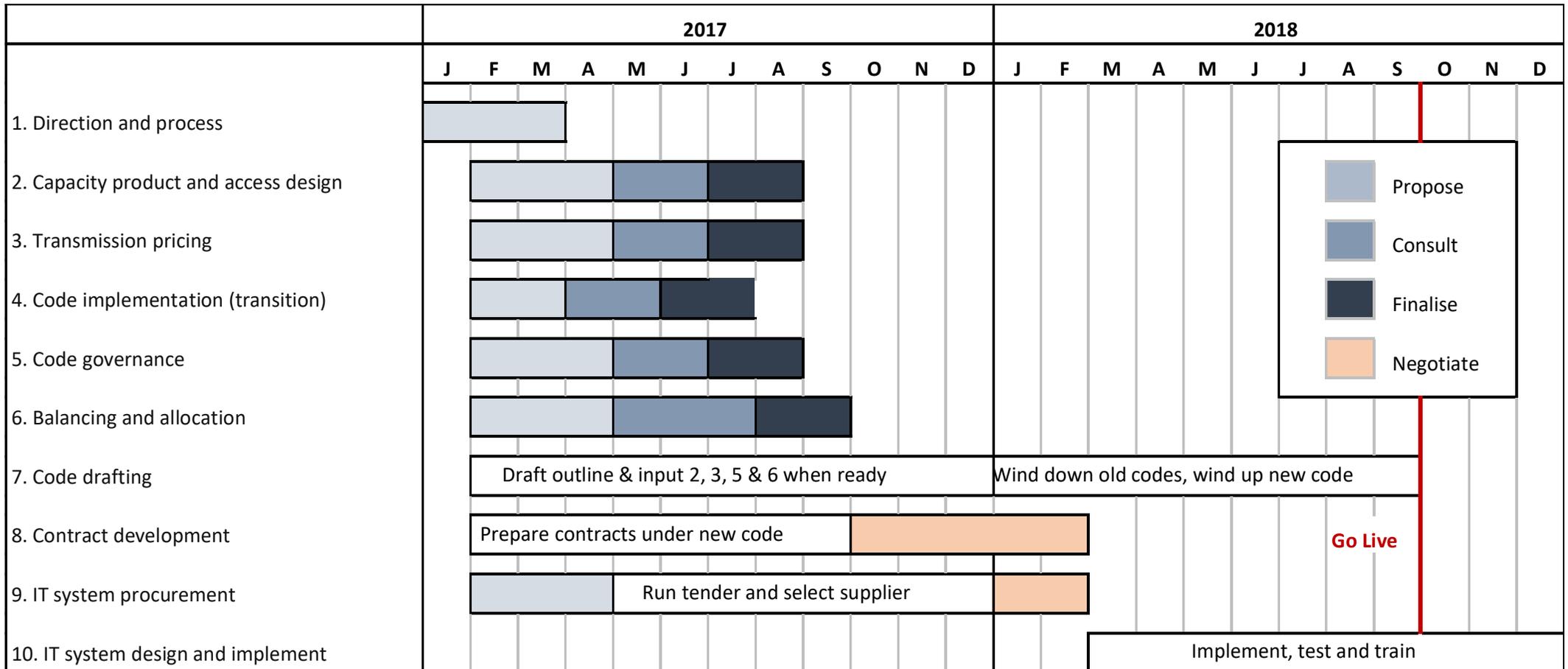


## *Under existing codes...*

- Need to manage potential for:
  - Shipper mismatch on SKF pipeline
  - Operational imbalance on Maui pipeline at Frankley Rd and Rotowaro
  - Shipper mismatch on North pipeline







- MPOC change request will be needed to transition onto new regime
- VTC due to expire on 30 September 2017, so either:
  - Extend for one year, or
  - Mirror MPOC change request
- Interested in stakeholder views on how to transition from existing codes to new in an efficient and fair way

- We will engage stakeholders through:
  - Selected involvement of stakeholders to identify issues and high-level testing of proposals.
  - Use of exposure drafts to selected stakeholders.
  - One-on-one meetings as required.
  - Workshops before a final decision is published by First Gas.
- The GIC will be engaged throughout of the process.

Questions?