

**APPLICATION FOR GAS INDUSTRY COMPANY'S RECOMMENDATION ON
PROPOSED AMENDMENTS TO THE MAUI PIPELINE OPERATING CODE ("MPOC")**

Date of Application: 14 July 2017

Applicant: First Gas Limited

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1. Introduction

1.1 In accordance with the standard "Recommendation Request Form" issued by Gas Industry Company Limited (**GIC**), this application by First Gas Limited (the **Applicant**) includes the following information:

- (a) details of the amendments to the MPOC proposed by the Applicant; and
- (b) the reasons for the proposed amendments.

1.2 Please also find enclosed with this application a marked up copy of MPOC showing the Applicant's proposed amendments in full.

1.3 In making this application, the Applicant has taken into account:

- (a) its purchase of the gas transmission pipelines formerly owned by Vector Limited and Maui Development Limited;
- (b) the requirement to maximise efficiency by operating the gas transmission pipelines purchased as a single integrated system;
- (c) the consequent requirement to develop and implement a single gas transmission operating code (**GTAC**), which will govern the access conditions and operation of the combined gas transmission system, rather than continue to operate two separate codes for different parts of the system; and
- (d) the results of consultations with pipeline users through individual meetings and industry workshops on the development of the GTAC.

1.4 The implementation of the GTAC requires the simultaneous termination of the Vector Transmission Code (**VTC**), and the MPOC on a specific date (**New Code Date**). The MPOC does not have specific termination provisions that envisage its replacement by another pipeline operating code. The objective of this change request is to:

- (a) insert provisions in the MPOC that allow for its termination on the New Code Date and its replacement by the GTAC; and
 - (b) provide for the termination of the TSAs and ICAs governed by the MPOC, and their replacement with new shipper agreements that will be made under the GTAC, and bilateral interconnection agreements that will be offered by the Applicant; and
 - (c) set out the conditions that must be met for the changes in (a) and (b) above to occur.
- 1.5 The transition to the GTAC requires the termination of the VTC on the New Code Date. This will be achieved by setting the expiry date for the VTC to the New Code Date by means of a VTC change request. Provision will be made for Shippers using pipelines governed by the VTC to obtain new shipper agreements made under the GTAC. Existing interconnection agreements made for points governed by the VTC will continue.

2. **Transition Conditions**

- 2.1 The transition from the MPOC and VTC can only occur if the conditions listed in the attached change request have been met 40 business days before the New Code Date. These conditions fall into two categories:
- (a) the substantive condition which requires the GIC to have published a 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 (**Government Gas Policy Statement**). This process will include appropriate consultation, with Shippers and Welded Parties being asked whether they support the transition;
 - (b) the procedural conditions which require:
 - (i) the Applicant to have published the New Code which includes provisions allowing:
 - (aa) all Shippers using the Maui Pipeline, and VTC Shippers using the Transmission Pipelines governed by the VTC, to continue to transport gas through those pipelines; and
 - (bb) all Welded Parties to continue to connect their respective Pipelines to the Maui Pipeline,

on and after the New Code Date;
 - (ii) the VTC and all transmission services agreements incorporating the VTC to terminate on the New Code Date;
 - (iii) the Applicant to have published the New Code Date on the TSP IX;

- (iv) the Applicant to have certified that the information technology and other systems required to implement the New Code are ready to be put into production on the New Code Date; and
- (v) the Applicant to have delivered an executable contract to:
 - (aa) each Shipper and VTC Shipper for it to continue to transport Gas through the Maui Pipeline and the Transmission Pipelines covered by the VTC;
 - (bb) each Welded Party for it to continue to connect its Pipeline(s) to the Maui Pipeline; and
 - (cc) emsTradepoint to allow the Trading Platform to continue functioning,on and after the New Code Date.

2.2 Because the process of implementing the GTAC is expected to require considerable time and expense for all parties, the Applicant will require this MPOC change, the corresponding changes to the VTC, and the determination by the GIC to be in place before the implementation process for the GTAC can be commenced.

3. **Effect on the Operation of the Maui Pipeline and other Relationships**

3.1 The Applicant notes that adoption of this change request does not change the rights and obligations of parties to TSAs and ICAs nor does it change the operation of the Maui Pipeline when operating under the MPOC. The change request sets the timing and conditions under which the MPOC can be terminated and replaced by the GTAC. As noted in clause 2.1(a) above, evaluation of the GTAC in terms of its compliance with the Government Gas Policy Statement and the Gas Act requirements will be the subject of a separate determination by the GIC.

3.2 Similarly, Applicant considers that the proposed change request does not affect dealings between First Gas and pipeline users, which will remain at arm's length, transparent, commercial and non-preferential when operating under the MPOC. These are requirements against which the GTAC must be assessed before the MPOC can be terminated and the transition to the GTAC can occur.

4. **Government Policy Requirements and Gas Act Objectives**

4.1 The Applicant considers that this change request does not affect compliance with the Government Policy Objectives and the Gas Act requirements while the Maui Pipeline operates under the provisions of the MPOC. Furthermore, the Applicant considers that the introduction of termination provisions to the MPOC subject to the transition conditions in section 2 of this memorandum is compliant with the Government Gas Policy Statement objectives and the Gas Act requirements because these provisions are required for the introduction of the GTAC. In particular, the requirement that the GIC determine that the GTAC be materially better than the current terms and conditions for access to and use of gas

transmission pipelines ensures that the Gas Act and Government Gas Policy Statement objectives will be met.

4.2 The Applicant considers the GTAC:

- (a) will promote operation of the gas transmission system as a combined entity which will lead to greater efficiency;
- (b) assist in reducing operating and staff costs;
- (c) allow improvements to both gas allocation and information provision;
- (d) allow gas to be transported from any point on the system to any other point using a single nomination, thus improving efficiency;
- (e) allow barriers to competition to be reduced.

4.3 In developing the GTAC, the Applicant has adopted five clear objectives:

- (a) a primary objective of enabling the use of gas;
- (b) ensuring the efficient transmission of gas;
- (c) keeping procedures for transmission of gas simple;
- (d) promoting flexibility in the provision of access products;
- (e) promoting transparency in the provision of information.

4.4 The Applicant considers that these objectives and benefits will not be easily achievable unless a single operating code can be adopted.

5. **General**

5.1 The Applicant considers that all of the proposed amendments comply with the Commerce Act 1986 and all other relevant laws.

5.2 GIC can assume that the Applicant supports the proposed amendments. However, the Applicant acknowledges that the parties to ICAs and TSAs have the right to make submissions to GIC in relation the proposed amendments.

5.3 In this application:

- (a) each capitalised term used has the meaning given to it in the MPOC; and
- (b) each section reference refers to a section of the MPOC.

Schedule: Summary of Proposed Amendments

| Section | Issue | Proposed Change | Rationale for Proposed Change |
|---------|---|--|--|
| 22.15 | <p>Requirement for MPOC termination conditions to be inserted to allow for introduction of GTAC.</p> <p>Insert new clauses 22.15 and 22.16.</p> | <p>22.15 In section 22.16:</p> <ul style="list-style-type: none"> (a) “New Code” means the set of terms and conditions meeting the requirements of section 22.16(a); (b) “New Code Date” means 0.00 hours on the new code date set out in the notice posted in accordance with section 22.16(d); (c) “VTC” means the Vector Transmission Code; and (d) “VTC Shipper” means a “Shipper” as that term is defined in the VTC. <p>22.16 TSP may terminate every ICA and TSA simultaneously with effect at 0:00 hours on the New Code Date subject to the following conditions being satisfied not later than 40 Business Days before the New Code Date:</p> <ul style="list-style-type: none"> (a) TSP has published the New Code on the TSP IX which includes the following provisions: <ul style="list-style-type: none"> (i) all Shippers using the Maui Pipeline, and VTC Shippers using the Transmission Pipelines governed by the VTC, may continue to transport gas through those pipelines; and (ii) all Welded Parties may continue to connect their respective Pipelines to the Maui Pipeline, | <p>The gas transmission system owned by First Gas currently operates under two different pipeline operating codes. To improve efficiency and assist in reducing costs a single operating code covering the entire gas transmission system is being developed. To allow the implementation of the new operating code, (the GTAC), the existing pipeline operating codes, the MPOC and the VTC, must be terminated.</p> <p>The MPOC does not currently have termination provisions that allow its replacement by another operating code. This change request inserts termination provisions that apply to the MPOC and its associated TSA and ICA agreements and sets out the conditions that must be met before these terminations can occur.</p> <p>Section 22.15 provides some definitions used in section 22.16.</p> <p>Section 22.16 allows for First Gas to terminate the MPOC and all then-current TSAs and ICAs simultaneously at 00.00 hours on the New Code Date if certain conditions are met. This will allow the GTAC to come into force immediately after the MPOC and VTC have been terminated.</p> <p>In sections 22.16(a) to (e), the proposed code change sets out the conditions that must be met 40 business days before termination can occur.</p> <p>These conditions specify provisions that must be included in the New Code, require the simultaneous termination of the VTC, and the</p> |

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|---------|-------|--|--|
| | | <p>on and after the New Code Date;</p> <p>(b) 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;</p> <p>(c) the VTC and all transmission services agreements incorporating the VTC shall terminate on the New Code Date;</p> <p>(d) TSP has published the New Code Date on the TSP IX; and</p> <p>(e) TSP certifies that the information technology systems required to implement the New Code are fit for purpose and ready to be put into production on the New Code Date;</p> <p>(f) TSP has delivered an executable contract to:</p> <p>(i) each Shipper and VTC Shipper for it to continue to transport Gas through the Maui Pipeline and the Transmission Pipelines covered by the VTC;</p> | <p>delivery of new transmission contracts to MPOC and VTC shippers and interconnection contracts to MPOC welded parties. They also require the GIC to determine that the New Code is materially better than the current terms and conditions for access to and use of gas transmission pipelines when assessed against the requirements of the Gas Act and the Government Policy Statement on Gas.</p> |

| Section | Issue | Proposed Change | Rationale for Proposed Change |
|---------|-------|--|-------------------------------|
| | | <ul style="list-style-type: none"> <li data-bbox="709 305 1262 399">(ii) each Welded Party for it to continue to connect its Pipeline(s) to the Maui Pipeline; and <li data-bbox="709 423 1226 540">(iii) emsTradePoint to allow the Trading Platform to continue functioning, on and after the New Code Date. | |