

**MEMORANDUM**

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**TO:** Gas Industry Stakeholders

**DATE:** 12 August 2016

**SUBJECT:** Single Code Development Process

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**Introduction**

The gas transmission pipelines formerly owned by Vector and MDL have been purchased by First Gas. Following these purchases, First Gas has agreed to develop a single operating code that will govern the operations of the combined gas transmission system. The development and implementation of this code will require substantial engagement with major gas consumers and pipeline users, and close coordination with regulatory bodies (Gas Industry Company (*GIC*), the Ministry of Business, Innovation and Employment (*MBIE*), and the Commerce Commission).

The process of developing a single operating code is expected to take some time. Our current assessment is that even if the development and implementation programme proceeds at a brisk pace, the new code is unlikely to “go live” before the gas year starting on 1 October 2018. This preliminary paper outlines the steps we have to take to get there.

**Summary of proposed process**

First Gas and GIC have discussed what kind of process is suitable for developing the new code, and what roles each organisation should have in the process. We conclude that:

1. The process for developing new gas transmission access arrangements will be:
  - a. Open: we will share information with stakeholders where practical
  - b. Fair: we will provide equal treatment to all system users
  - c. Collaborative: we will encourage and value participation
  - d. Timely: we will aim for a 1 October 2018 “go-live”.
  
2. First Gas and GIC will be co-leaders of the process, with complementary responsibilities for:
  - a. Initial description and analysis of design options (First Gas)
  - b. Identification and assessment of IT options (First Gas)
  - c. Procurement and deployment of IT (First Gas)
  - d. Drafting legal documents (First Gas)
  - e. Training (First Gas)
  - f. Testing proposals against Gas Act and GPS objectives (GIC)
  - g. Ensuring that all reasonably practicable options have been considered (GIC)
  - h. Drafting and recommending regulations regarding access and use, if required (GIC).

**The new code**

We propose to draft a new transmission code, rather than starting with either of the existing codes as a base. This will ensure that the new code reflects the characteristics of the First Gas transmission network as a whole, and the opportunities that now exist to improve access and pricing arrangements.

Development of a new transmission code requires the integration of four separate elements:

- Development of efficient access arrangements and pricing structures that provide the regulated revenues that First Gas is entitled to earn.
- Selection and implementation of the operating software needed to run the pipelines under the new code.
- Drafting the structure and wording of the new code.
- Drafting operating procedures that are practicable and consistent with the new code.

These elements can all interact and affect each other. For instance, there is no point in drafting code arrangements that cannot be implemented by the operating software selected. Similarly, the pricing methodology will reflect the type of operating regime chosen, whether common carriage, contract carriage or some other method. Operating procedures will have to meet regulatory and industry requirements as well as being compliant with the new code.

### Drafting the new code

We see the process of preparing the new code going through three main phases:

- An **options analysis** leading to the initial development of a preferred option or options.
- A **detailed design** phase, followed by a Gas Act review by the GIC.
- A **legal drafting** phase leading to the preparation of a draft code, working in parallel with a process to procure the required operating software.

Each of these phases will provide opportunities for stakeholders to provide input and make submissions, including for GIC to make assessments against the Gas Act and GPS objectives.

Some parts of the new code will be able to be drafted separately from the rest. In these cases, topic working groups may be created to carry out the work.

### Options Analysis

The first substantive step in developing the new code will be to complete an analysis of possible options. This will include an articulation of the objectives that will guide the development of the new code, and the code provisions needed to achieve those objectives.

While we have not yet landed on a complete list of objectives, our intention is to take a broad view of the outcomes that the new code should promote, rather than limiting objectives only to outcomes that affect gas transmission. For example, we think that the code should aim to promote competition in upstream and downstream gas markets.

### Implementation of the new code

The effort in implementing a new code, once it is drafted, should not be underestimated. We currently expect the operating software that will replace OATIS to be ready for installation early in 2018. Between then and the “go live” date for the 2018 gas year, documentation will have to be prepared, training sessions organised and time and assistance provided for customers to adjust their own IT systems. A period before the “go live” date when the new software is running alongside OATIS in shadow mode will also allow any problems to be identified and fixed.

Should GIC come to a view that some elements of the arrangements should be regulated, the same time period can also be used for any regulatory process that is required. It is not yet clear what form this will have to take (if any), but it is unlikely to be accomplished quickly.

### **Interim measures during new code development process**

Development of the new code will be time consuming for all concerned, and a substantial portion of the resources will be provided by First Gas. For this reason, First Gas does not want to divert significant resources to promoting and seeking approval for amendments to the existing VTC and MPOC codes over the new code development period.

However, given the level of shipper concern about the possibility of shippers being cashed out for more than their Running Mismatch under the D+1 Pilot Agreement, we believe that an interim solution to this issue needs to be found. We will discuss our current thinking on a possible solution at the initial meeting described below. We consider that First Gas ownership of both gas transmission pipeline systems provides the opportunity to put such a solution in place without the need to amend either the VTC or the MPOC. An amendment to the D+1 Pilot Agreement will be needed and this will require shippers' consent.

### **Resources and Schedule**

First Gas established a project team for the new code development process. This team will have its own resources, but will also be able to draw on expertise elsewhere in First Gas and external consulting resources where necessary. We welcome feedback on this work plan.

An initial version of the work plan for the new code development process is presented on the following page.

### **Initial Meeting**

GIC has offered to co-ordinate and host an initial workshop where gas users, shippers, welded parties, regulatory agencies and other stakeholders can discuss the arrangements outlined in this memo with us. We see this as a key meeting that will establish the groundwork for how we can all work together to achieve a good outcome, and we hope you are able to attend.

