

23 December 2016

Ben Gerritsen
First Gas Ltd
(via upload to GIC website)

Dear Ben,

Consultation Paper – Gas Transmission Code: Single Code Options Paper November 2016

1. This submission is on behalf of the Major Gas Users Group (MGUG). MGUG was established in 2010 as a consumer voice for the interests of a number of industrials who are major consumers of natural gas.
2. Membership of MGUG includes:
 - Ballance Agri-Nutrients Ltd
 - Oji Fibre Solutions (NZ) Ltd
 - Fonterra Co-operative Group
 - Goodman Fielder New Zealand Limited
 - New Zealand Steel Ltd
 - New Zealand Sugar Company Ltd
 - Refining NZ
3. MGUG members have been consulted in the preparation of this submission. Nothing in this submission is confidential and some members may choose to make separate submissions.
4. This submission follows the template provided in paper.

Question	Response
Objectives for the Gas Transmission Access Code	
Q1: Do you agree with the objectives proposed in this paper? Are there any other objectives or outcomes that we should be aiming for that are missing?	<p>The paper suggests that the objectives are:</p> <ol style="list-style-type: none"> 1. Enable the use of gas 2. Minimise cost of transport 3. Simplicity

Question	Response
<p>Q2: Which objectives do you see as most important?</p>	<p>4. Flexibility 5. Transparency</p> <p>We agree with these but suggest that the <u>primary objective</u> is concerned with enabling the use of gas (as described in terms of gas competing effectively with other energy sources). The other objectives are elements that contribute to the primary objective.</p> <p>The paper suggests that this is also First Gas' view but it is not clear. The advantage of a single overarching objective to weigh options against is that it avoids having to subjectively weight competing objectives.</p> <p>Although all of the objectives are important MGUG members have a particular interest in whether the code can achieve reliability and simplicity.</p> <p>Hence <u>reliability</u> is another objective which should be included and is concerned with confidence that gas transmission will deliver contracted gas to end users who value it the most.</p> <p>Simplicity means not having to intensively manage transport logistics including scheduling and other transactions.</p>
<p>Q3: Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?</p>	<p>Yes.</p>

Scope of the Gas Transmission Access Code

Question	Response
Q4: Do you agree that the five other legal or subsidiary instruments presented above are all relevant to establishing the boundaries of the new code? Are there any other legal or subsidiary instruments that are missing?	The Commerce Commission imposes restrictions and obligations on revenue, pricing, costs, and information disclosure through Part 4 of the Commerce Act. This flows through into pricing methodology, and regulated vs non-regulated services with tariff structures in the code.
Q5: Do you agree with the way that we have described what should sit inside the code, and what should fall outside? Are these particular elements of the arrangements that we have described as sitting outside the code that you consider should be covered by the code (or vice versa)?	Yes – basic principles guiding the question are clear and pragmatic. In the case of SOPs there might be value in ensuring they are available, on request.
Q6: Are there any other elements to the scope of the code that we should consider?	

Overview of options for the access regime

Q7: Are there other code options that you believe should be considered in the process of developing a new code in addition to those described above?	<p>Market carriage is one that could be considered (gas commodity and its despatch are automatically linked through separate commodity market platform).</p> <p>While we don't think that market carriage is suitable in the short to medium term in New Zealand we do see advantages in the concept of seamlessly combining transmission with the gas commodity, particularly for hub traded gas.</p>
Q8: Are there particular lessons from international experience that you consider First Gas should seek to learn from when designing and implementing the new access code?	We are not aware of any. Nevertheless we think the code should be able to anticipate the different contracting arrangements that exist (and could exist) for commodity gas sales and not create barriers for further gas market developments.

Question	Response
<p>Q9: How much focus do you think should be placed on ensuring that transmission access arrangements facilitate further development of the wholesale gas market? Are there particular features of a new access code (in addition to short term availability of capacity) that are important?</p>	<p>It is critical that the code should remove current barriers to gas trading and emerging gas contracting models.</p> <p>If we assume that Frankley Rd is the gas trading hub and that its products include on the day, day ahead, week ahead, and month ahead, then matching these periods with transmission rights to delivery (and from receipt) points should be kept aligned. Transacting matching capacity should be kept simple and be able to be matched in the same time frame as the gas transaction itself.</p>

Option 1: Menu of capacity products

Q10: Do you have a view on whether the priority right product should be designed as an option (subject to nominations) or a fixed property right?

There may need to be room for both if this option is adopted.

To maximise asset utilisation a priority product with nominations is preferred. However some users, because of lack of ability to forecast or nominate sufficiently ahead of time (such as peaking power stations) may require a no notice service. In these instances a fixed property right aka a capacity reservation may be the only product that suits their needs.

Question	Response
<p>Q11: Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?</p>	<p>We would expect that there might be interest from power stations and potentially on parts of the system currently showing as having less than 2TJ/day capacity.</p> <p>Interest will depend on what the supporting arrangements are for capacity allocation when it is scarce.</p> <p>If capacity is dynamically priced (including in a way so as to minimise price shocks) according to willingness to pay and timely investments in capacity is determined by these price signals (and good forecasting by First Gas) then there might not be any need for priority right products.</p>
<p>Q12: Do you have any views on the broad features of the priority right product, such as the length on the contract, the frequency of booking rounds, etc?</p>	<p>In addition to offering multi-year priority rights we think that it would be useful if the term matched the terms of the wholesale trading platform – i.e. on the day, day ahead, weekly, and monthly strips.</p> <p>This suggests that there are no booking rounds. Rather First Gas needs to establish total capacity for the priority right products on different parts of its system. These become automatically available when a party can demonstrate a match with gas entitlement.</p>

Question	Response
<p>Q13: Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?</p>	<p>The role of nominations should be to manage line pack and signal physical capacity constraints. If we stick with the current intra-day nominations we have a preference for the last ID nomination later than it is.</p> <p>Nominations, frequency and timing will depend on other supporting arrangements including balancing and what the penalties or service costs (e.g. park and loan) imposed by First Gas might be.</p> <p>Our members currently have systems in place to meet the current MPOC nominations regime but if it is possible to reduce the resource intensity of intraday nominations than this would be welcomed.</p>
<p>Q14: Do you have any preferences on the allocation methodology at receipt points and delivery points (OBAs, rules based approaches, or a combination of different approaches)?</p>	<p>No view, other than promoting simplicity for consumers.</p>
<p>Q15: Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?</p>	<p>A menu of capacity products is useful if consumers require an insurance product to minimise chance of curtailment and to give added confidence to gas expansion investments by minimising uncertainty on available capacity.</p> <p>It is unlikely that there would be much demand for capacity products in the short term so there is a good chance that effort will go into designing a system that has no or little demand.</p> <p>The same effort may be better spent on designing scarce capacity allocation based on dynamic pricing that could be used across all three options.</p>

Question	Response
Option 2: Daily nominated capacity	
<p>Q16: Do you have any views on how scarcity should be signalled if a daily nominated capacity option was developed?</p>	<p>Presumably scarcity would be signalled day ahead by curtailment notices (AQ<NQ).</p> <p>Potential scarcity could also be signalled further ahead based on reasonable forecasts using a traffic light warning system.</p>
<p>Q17: Are there any elements of the daily nominated capacity option that you consider should differ from capacity nominated as part of a menu of capacity products (option 1), such as the frequency and timing of nomination cycles, and the role of nominations?</p>	<p>We are assuming that these will be the same.</p>
<p>Q18: Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?</p>	<p>The value of daily nominated capacity (including intraday nomination) is that it should facilitate the use of hub traded products on the current Vector system as well as the current Maui system.</p> <p>The concern is in understanding what the mechanism is for allocating scarce capacity and whether that would be allocated to users who value it the most.</p>
Option 3: Flow to demand service	
<p>Q19: What information do you think it would be realistic for shippers to provide as forecasts for managing the transmission system under a flow to demand service option?</p>	<p>Daily and seasonal variation is more reliably judged by historical flows possibly with some algorithms that build in some demand determinants (such as weather).</p> <p>Shippers should be providing exception forecasts based on structural demand shifts. i.e. is to add or subtract new demand profiles from downstream markets (new connections, vacant connections, decommissioned load, demand expansion/ contraction for specific sites)</p>

Question	Response
<p>Q20: What information would you require from First Gas to provide you with confidence in security of supply both in the short and long term under this approach?</p>	<p>Current capacity reporting under AMPs should give sufficient confidence on long term capacity investments.</p> <p>A traffic light system based on First Gas forecasts should signal potential short term capacity constraints.</p>
<p>Q21: How dynamic do you think pricing should be under a flow to demand service approach?</p>	<p>Pricing should reflect scarcity and should be supported by mechanisms/information that makes it transparent.</p>
<p>Q22: Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?</p>	<p>Value is in (apparent) simplicity for consumers. This would also reduce the administrative cost associated with nominations. Both for end users and shippers. First Gas is providing a service and managing its business without needing its customers involved in how gas gets to their meter.</p> <p>The concern is that there are no examples in other jurisdictions where this system has been adopted in gas markets. This may be for historical rather than practical reasons but it would be useful to understand if it has been considered elsewhere and why it hasn't been adopted.</p> <p>It is also not clear how this option affects other arrangements (balancing, title tracking etc) and how this would flow through to shippers/ retailers and then on to consumers</p>

Link between access options and system characteristics

<p>Q23: Do you believe that the new code access arrangements should reflect the physical constraints on the transmission system? If so, which option does this support in your view?</p>	<p>Physical constraints require a capacity allocation mechanism that reflects scarce capacity. This is a supporting arrangement that needs to be developed for each option. It is not clear that any of the options are better than others in managing this.</p>
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Question	Response
<p>Q24: Do you have any views on how capacity on the system should be defined and priced (i.e. between points or between zones or between points and zones), and why?</p>	<p>Zone to zone would seem to offer least complexity for delivery of short term gas in trading market.</p> <p>Postage stamp rate based on the delivery zone would further simplify transmission pricing by removing distance permutations from prices.</p>
<p>Q25: Of the options described in this paper, which do you prefer and why?</p>	<p>Overall, all three options appear to be an improvement, at least in terms of VTC arrangements.</p> <p>It is difficult to have a clear preference without more detail around supporting arrangements, particularly scarce capacity allocation. Option 3 on the surface appears to be the least transaction intensive system and seems more attractive to users. However without a clear view of the detail we are reluctant to express a strong preference for this option.</p>
<p>Code governance</p>	
<p>Q26: Do you have any preference on the legal form for the new code, and who should be counterparties to the new code?</p>	<p>We support First Gas’ preference for TSAs and separate bilateral ICAs.</p>
<p>Q27: Are there particular code change processes or features that you consider important or valuable for the new code?</p>	<p>We support the tiered approach (pre-consultation followed by formal consultation).</p> <p>We would see the GIC as the independent assessor of the formal change request against the provisions of the Gas Act including the Gas Policy Statement.</p>

Balancing, linepack management and allocation

Question	Response
Q28: Do you agree with the comments on balancing and linepack management above? If not, why not?	We see line pack and balancing as primarily issues between shippers and First Gas with incentives to be applied to shippers to balance their daily receipts and deliveries.
Q29: Are there any particular arrangements for balancing and linepack management that are not discussed in this paper that you consider critical to include in the new code?	No. We'd expect First Gas to be the experts in this topic.

Non-standard Agreements

Question	Response
<p>Q30: Do you agree with the comments on non-standard agreements above? If not, why not?</p>	<p>Users would be most sensitive to non-standard agreements that offer lower pricing or other favourable price terms to other parties that are direct subsidies of a competitor, or a cross subsidy to other industries.</p> <p>We agree that there may be limited circumstances where it is justified and generally only where the alternative is a competing pipeline service.</p> <p>Gas transmission costs, although not trivial, are not the main cost driver of delivered gas relative to network charges and the gas commodity itself (see GIC Gas Story, Gas Pricing Chapter). If gas is only economic if transmission is being subsidised by the rest of the industry it is not economic. First Gas shouldn't allow itself to be swayed by arguments that transmission pricing is the deal breaker to a decision to use gas instead of a competing fuel. We back this view by the observation that there are currently parties on non-standard agreements on the Vector system that have no special treatment for the same amount of gas transported on the Maui system.</p> <p>We also see current non-standard arrangements as a consequence of pricing structures that do not meet the individual needs of consumers. Special arrangements should be less likely if gas transport is purely a variable charge on delivery so that users with low load factors are not penalised with high option costs for periods when their demand is low.</p>

Question	Response
<p>Q31: Are there any particular arrangements for non-standard agreements that are not discussed in this paper that you consider critical to include in the new code?</p>	<p>We see some potential conflict of interest between First Gas’ transmission and network businesses and we would assume that this would be managed by First Gas’ networks not being subject to non-standard arrangements.</p> <p>We also prefer that non-standard arrangements should be time or circumstance bound with no rights of renewal. If the circumstances that required the “prudent discount” changes the special provisions should also change.</p> <p>If there is a prudent discount this should also have some penalty/ lower level of service, e.g, lowest priority order during periods of scarcity or available as interruptible capacity only.</p>

Gas quality

<p>Q32: Do you agree with the comments on gas quality above? If not, why not?</p>	<p>We support a greater emphasis and accountability on process by First Gas for assuring gas quality, e.g. external auditing of gas quality controls under ICAs.</p>
<p>Q33: Are there any particular arrangements for gas quality that are not discussed in this paper that you consider critical to include in the new code?</p>	

Next steps

Question	Response
<p>Q34: Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?</p>	<p>We support the process and are particularly appreciative of the approach that consults on options and framework ahead of code details.</p> <p>We consider it unlikely that there will be a strong consensus on a preferred option out of this round of consultation. Although we support First Gas making a decision we believe that it would be helpful that the arguments (including cost/benefit analysis) for pursuing a particular option is presented and discussed before design is started. We would therefore suggest that First Gas convenes a workshop/ briefing session as part of its submission analysis.</p>
<p>Q35: Are there particular issues or aspects of the new code that you would particularly like to be more closely involved in, including by participating in work streams to prepare code exposure drafts and working papers?</p>	<p>No.</p> <p>We are happy with the current process where working papers are explained before more detailed drafts are put out for submissions.</p>

Yours sincerely



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