



**Shell New Zealand (2011) Limited**

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Gas Industry Company  
Level 8, The Todd Building  
95 Customhouse Quay  
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Attention: Ian Wilson

Dear Ian

We appreciate being given the opportunity by the Gas Industry Company (GIC) to make a cross-submission arising from developments since the GIC's assessment of First Gas Limited's (First Gas') "Gas Transmission Access Code" (GTAC).

We provide our submission in the attachment.

Yours sincerely

A handwritten signature in blue ink, appearing to read "M E Jackson".

M E Jackson  
Shell New Zealand (2011) Limited

## Preliminary Assessment of Gas Transmission Access Code (GTAC)

Cross-Submission prepared by: Shell New Zealand (2011) Limited

Contact: M E Jackson (murray.jackson@shell.com)

<b>SUPPLEMENTARY QUESTIONS</b>	
SQ1:	<p>If there are matters raised in submissions you would like to comment on, that are not addressed in the questions below, please provide your views here.</p>
	<p>Shell's view:</p> <p>We express here our reservations about various comments made as to the way forward following GIC's necessary negative assessment of the GTAC.</p> <p>We note with concern the FG comments signalling the way forward is a "refinement process", that seek to "maintain momentum on GTAC". We think seeking to move forward while retaining the GTAC in its current form (as a TSA) risks another failure.</p> <p>Therefore we reiterate our view of the need for an actual code structure that incorporates interconnected parties and shippers (for reasons expressed in our Oct 2017 Submission), and repeat our preference that evolution not revolution should be the mode for a successful outcome. The risk of further delay from perseverance with a flawed criteria, process and contract structure seems very high.</p> <p>In this context we note with concern FG's statement that it "will not commit to software development without an approved code". We observe however that FG has responsibilities to properly maintain IT to support MPOC, even if no new approved code is developed. It cannot reasonably choose to do nothing while OATIS reliability risks increase.</p>
SQ2:	<p>Methanex Q3, p6: "We disagree that peaky usage should be discouraged only in connection with congestion... the unpredictability of gas throughput and limited line pack capacity... [are why] peaking limits (which apply universally) are imposed to govern behaviour on the Maui Pipeline under MPOC, even though congestion is not a factor. It is also the reason why Methanex is particularly concerned regarding the approach taken in the GTAC of making line pack freely available to users which is also applied in an inconsistent and discriminatory manner."</p> <p><i>Do you think peaky usage should be discouraged, even when capacity is not scarce, and why?</i></p>
	<p>Shell's view:</p> <p>Yes, peaky usage needs to be subject to some fee determined as liquidated damages, but should be payable only if that peaking actually gives rise to the costs or disturbance to the transmission operator or another party (a low threshold of proof required). A development of the MPOC incentive fee mechanism should be considered. Note that such an incentive fee would be paid to the affected party (whether interconnected party or shipper).</p>

<p>SQ3:</p>	<p>Vector Q3: “The determination of whether a Delivery Point will be congested is normally made by First Gas by 30 June each year. We would be surprised if a Delivery Point will potentially or actually be congested every day of the year. We therefore question whether applying a 10 times incentive fee on days when there is a very low likelihood of congestion is efficient.”</p> <p><i>For what reason(s) would an F factor of 10 (GTAC s11.4) be appropriate at times when a Congested DP is not congested?</i></p>
	<p>Shell’s view:</p> <p>We consider a form of contingent liquidated payment regime (as suggested in SQ2 to address peaky usage) should be equally applicable to this issue (with compensation to affected parties: i.e. both shipper and interconnected parties). By contingent we mean contingent on actual congestion, and not simply congestion being deemed to exist by FG.</p>
<p>SQ4:</p>	<p>Todd Q3: “Most of the ‘Benefits of diversity’ can be achieved with fewer than ten consumers of similar size. That is hardly a number that should ‘hinder competition’.”</p> <p><i>Regarding the proposed product or pricing design, do you consider that the benefits of diversity would mostly be achieved by shippers who have 10 or more customers? If not, what level of customers would be sufficient to yield the benefits of diversity?</i></p>
	<p>Shell’s view</p> <p>No. We are somewhat sceptical with Todd’s assessment, but note its statement above relates only to small customers.</p> <p>We are concerned with the risk to competition as regards the large commercial and industrial customers with high gas demand. We do not agree with Todd that specific arrangements with those consumers can be easily arranged without the selling party already having a significant diversified market share.</p>
<p>SQ5:</p>	<p>Shell Q5: “We consider that the removal of the ability to operate Displaced Gas Nominations (as defined in MPOC) has negative implications for gas trading, and this should be factored into the GIC’s assessment.”</p> <p><i>Given the GTAC does not have point-to-point nominations, do you consider that the absence of displaced gas nominations would bring any disadvantages such as adverse effects on gas trading, and why?</i></p>
	<p>Shell’s view:</p> <p>To reiterate, we consider there could be potentially legal and governance issues arising for parties seeking to trade gas under GTAC because: (i) there has been no articulation of legal concepts underpinning trading gas within the pipeline; (ii) and there has been no articulation of the mechanics of trading such as how First Gas approvals for trades will be efficiently and promptly effected.</p> <p>In that context, displaced gas nominations might be the only mechanism available that satisfies legal requirements.</p> <p>Moreover, displaced gas nominations are likely to be necessary to provide continuity to existing interconnection arrangements (as well as allowing for other potential</p>

	interconnection arrangements into the FG system). GTAC must not prevent necessary interconnection arrangements from being set up.
SQ6:	<p>First Gas Q6: “We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially.”</p> <p><i>Do you think that the GTAC s2.6 obligation on First Gas to deal with Shippers impartially mitigates concerns around how tolerances would be set under s8.5(b)?</i></p>
	<p>Shell’s view:</p> <p>No, the cited provisions of GTAC do not dispel concerns as those provisions refer only to shippers. There is no assurance that First Gas will be impartial as between the concerns of interconnected parties (such as those using OBAs) as well as shippers.</p>
SQ7:	<p>Methanex Q6: “In general terms, we don’t believe that GIC has sufficiently assessed changes made in the GTAC regarding physical balancing arrangements, particularly in regard to the implications of FGL relaxing its obligations in regard to managing pipeline pressure and line pack (section 8.5/8.6 in particular), and its diminished responsibilities to pro-actively undertake balancing actions when the pipeline approaches the acceptable limits (including through operation of Section 8.6).”</p> <p><i>Do you consider that the GTAC would relax the obligations on First Gas to manage pipeline pressure and, if so, is that detrimental?</i></p>
	<p>Shell’s view:</p> <p>Yes. We agree with Methanex’s perspective.</p> <p>Yes, it is very detrimental to us and other interconnected parties for reasons submitted previously.</p>
SQ8:	<p>Shell Q6: “The burden of proof should not be on submitters to prove that the ERM mechanism is worse, it should be on the GTAC proposer to demonstrate that it is better than the current system of daily balancing, and in accord with good gas practice that has been proven elsewhere.”</p> <p><i>Overall, do you consider that the ERM mechanism, coupled with back-to-back balancing, is likely to improve on, or be worse than, the current balancing arrangements (MBB, coupled with the Balancing and Peaking Pools)?</i></p>
	<p>Shell’s view:</p> <p>We maintain this view, that the ERM mechanism will be worse than the current daily balancing system when the interests of the whole industry is considered. Change should be justified by the same standard of analysis that was applied to establishing daily balancing, and should not be on the basis of a casual canvassing of opinions as this is.</p>
SQ9:	<p>Trustpower Q6, 8.11.3: “... the proposal will provide sustained upward pressure onto market prices by incentivising market offers to be \$0.60/GJ ABOVE the last trade, while bids will only be \$0.20/GJ BELOW the last trade.”</p>

	<i>Do you consider that the ERM fees will distort the market price of gas compared with the status quo?</i>
	<p>Shell's view:</p> <p>We see Trustpower's assertion as being entirely plausible. As we have already submitted, there is a lack of analysis of the ERM mechanism and no demonstration of such a mechanism working elsewhere. We see there are many reasons to expect that the market price of gas will be significantly distorted relative to the status quo by the ERM mechanism.</p> <p>We see it would be improper for GIC to approve such an important mechanism when it has not been demonstrated to be workable by reference to overseas practice and detailed analysis, particularly given the history of this issue in New Zealand.</p>
SQ10:	<p>First Gas Q7: "We agree that the single balancing regime across the system will have significant benefits in terms of efficiency. We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially."</p> <p><i>Do you consider that the requirements for First Gas to be impartial (eg GTAC s2.6 and 2.7) should dispel concerns about the uncertainties of how ERM tolerances will be allocated?</i></p>
	<p>Shell's view:</p> <p>No, not only for this topic of tolerance uncertainties, but other issues as well, the cited provisions of GTAC do not dispel concerns as those provisions refer only to shippers. There is no assurance that First Gas will be impartial as between the concerns of interconnected parties (such as those using OBAs) as well as shippers.</p>
SQ11:	<p>Greymouth Q14, item 2: "We consider that a change in transmission products and access terms should require a reassessment of the basis and terms on which non-standard pricing terms are offered to end-users – policies that may have been appropriate under current codes may no longer be fit for purpose under the new arrangements."</p> <p><i>Do you agree with Greymouth, that the Supplementary Agreements should be reassessed in light of any change from the current access arrangements to new access arrangements?</i></p>
	No comment.
SQ12	<p>Methanex Q14, p3: "Lack of transparency due to the non-disclosure of those agreements [SAs] has made it impossible to determine the level of impact they have on the rights of MPOC users during the GTAC consultation process. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC. GIC comments that GTAC is an improvement over existing codes by reducing information asymmetries and in so doing reducing barriers to competition. We contend that in this respect there is a substantial reduction in the level of transparency that is currently enjoyed by MPOC users."</p>

	<i>Do you consider that the confidential nature of non-standard pricing and other terms of existing SAs would raise more concerns under the GTAC regime than under the current access arrangements?</i>
	Shell's view: Yes. We agree with Methanex's assessment and we are concerned about the impact of terms of existing SAs under the GTAC regime. There is no such issue under MPOC.
SQ13:	Shell Q18: "No party considering entering into gas transmission or interconnection arrangements should be expected sign an agreement which states there are circumstances where the party can be "deemed not to have acted as a Reasonable and Prudent Operator". Such a determination should be determined by the facts. Any necessity for such a "deeming" is indicative of a flawed design in the liability provisions."  <i>Do you consider that the proposed provisions deeming a party not to be an RPO are significantly worse than provided for in the current codes?</i>
	Shell's view: Yes. We see them as significantly worse, and unnecessary.
SQ14:	There are some strongly contrasting views on whether the nominations workload would significantly increase the administrative burden for stakeholders. For example, Greymouth Q2: "We consider the potential impact on end-users of punitive fees for incorrect nominations has been underestimated. The workload on those end-users whose shipper agreements delegate nomination obligations to them will increase significantly." And, in contrast, Genesis Q15: "We agree that once the upfront capital cost of the systems upgrade is paid for, the ongoing staffing costs associated with nominations should not be material."  <i>Do you consider that the proposed nomination arrangements would significantly increase or decrease the administrative burden for stakeholders?</i>
	Shell's view:  We support Vector's comments to the effect that for good operators seeking to maintain a balanced position between supply and customer offtake, there will likely be no difference whatsoever to workload, and that there is likely to be a net reduction in nomination workload and costs.
SQ15:	There are some strongly contrasting views on whether the proposed balancing arrangements would increase or decrease spot market activity. For example, Shell Q6: "There is no basis for the GIC's assertion that the GTAC proposal for balancing has the "potential for increased activity in the spot market". With the reduced incentive for shippers to balance, the GTAC proposal will likely reduce the activity on the spot market." And, in contrast, Todd Q6: "Todd agrees with the discussion of the various aspects of the GTAC balancing arrangements. In terms of the assessment, it agrees that the tolerance terms could be improved, but believes the overall efficiency gain is in fact a very material improvement on current arrangements. The likely incentive for greater trading on the emsTradepoint gas market is one aspect of that improvement."

	<i>Do you consider that the proposed balancing arrangements would likely increase or decrease the spot market trading your business might engage in?</i>
	<p>Shell's view:</p> <p>They will likely decrease activity. From our perspective, incentives on shippers to resolve their imbalances commercially would be considerably reduced under GTAC, and that would directly reduce the driver for shippers to use the gas market.</p>
SQ16:	<p>There are some strongly contrasting views on whether the proposed requirements for parties to demonstrate the need for a Supplementary Agreement (SA) would likely result in more or less SAs. For example, First Gas Q14: "The assessment seems to miss the importance of requiring parties to demonstrate the need for an SA." And, in contrast, Genesis Q14: "We note that supplementary agreements may be more necessary than the GIC realises in its assessment. For example, Genesis may need to 'contract out' of the GTAC's hourly overrun charge regime to maximise gas throughput at Huntly."</p> <p><i>Do you think SAs are likely to become more prevalent under the proposed GTAC arrangements? For what reason(s)?</i></p>
	<p>Shell's view:</p> <p>We agree with Genesis' perspective.</p>
SQ17:	<p>There are some strongly contrasting views on whether the proposal would bring more excursions from the Target Taranaki Pressure (TTP). For example, First Gas Q19: "The GTAC drafting better reflects reality. As system operator, we endeavour to keep TTP within the range, but there are factors outside of our control that cause divergence. This therefore appears to be more an issue of contractual wording, rather than requiring any change in behaviour from First Gas as system operator." And, in contrast, Methanex Q19, p20: "In regard to there being frequent (but brief) excursions, we consider that the obligation to maintain pressure between 42-48 bar in MPOC does not infer strict observance but it does place an obligation on FGL to act in order to return pipeline pressure to the mandated range. This contrasts with the much weaker reasonable endeavours obligation in GTAC, which is further weakened by the TTP also being subject to the level of "aggregate ERM", which is at best an ambiguous modifier."</p> <p><i>Do you think the proposed arrangements put weaker incentives on First Gas to maintain the TTP, that could lead to more relaxed management and increased costs to interconnected parties?</i></p>
	<p>Shell's view:</p> <p>Yes, we believe First Gas has sought to weaken its obligations to control backpressure below 48 barg within Taranaki, leading to relaxed management and increased costs to Shell.</p> <p>Under our interconnection arrangements to be negotiated we will seek that First Gas adopt pressure management obligations as follows (in addition to managing Line Pack to within Acceptable Line Pack limits):</p> <ul style="list-style-type: none"> <li>• First Gas will use its reasonable endeavours, acting proactively as a reasonable and prudent operator, to operate the pipeline to ensure that the pressure at the</li> </ul>

	<p>Receipt Point is below 48 barg at the Receipt Point, and that its reasonable endeavours will include First Gas selling Gas from Line Pack;</p> <ul style="list-style-type: none"> <li>• First Gas’ obligations to manage pressure at the Receipt Point will have no exclusions or exceptions that relate to whether ERM exists or not;</li> <li>• First Gas will use reasonable endeavours to minimise the backpressure down to 42 barg (as per the current MPOC standard).</li> </ul> <p>We also reiterate our point made at the presentation of submissions, that the other critical factor influencing pipeline pressure (in addition to running mismatch) is how First Gas operates the pipeline, in particular the compression facilities. This aspect has had insufficient analysis to-date, but we suspect that greater compliance could be achieved with the TTP by changing the compressor operation. This is important in the context that current discussion has been limited to the effectiveness or otherwise of balancing incentives. We note again that the Standard Operating Procedures have not yet been drafted for the GTAC and circulated for consultation.</p>
<p>SQ18:</p>	<p>There are some strongly contrasting views in relation to gas quality. For example, Methanex Q9, p11: “We believe GIC is misrepresenting “passive” wording in GTAC for what is, a substantive reduction in FGL’s obligations to protect its customers from the prospect of receiving non-specification gas. In particular, we dispute that the provisions of [GTAC] Sections 12.8 and 12.11 are passive in absolving FGL of responsibilities and liabilities.” In item 40, p11, of its submission Methanex lists a number of instances where it considers the GTAC gas quality assurances are significantly less than those of the MPOC. This contrasts with the views of other submitters – eg Contact, Greymouth, MGUG and Todd – who agreed with the Preliminary Assessment that there would be “no noticeable change” in relation to gas quality.</p> <p><i>Do you consider that the Methanex is correct to say that the proposed arrangements would bring a substantive reduction in First Gas’ obligations to protect its customers for non-specification gas?</i></p>
	<p>No comment</p>
<p>SQ19:</p>	<p>There are some strongly contrasting views on whether, if the Overrun (OR) and Underrun (UR) fees are balanced, the proposed level of OR/UR fees would still be a concern. For example, Todd Q16, p8: “As noted above, the formula applied in the GTAC is incorrect. Once corrected, and the value of F is no greater than 2, then these charges are much less (and probably one third less) than the levels projected by GIC because there would be no underrun fees applying. Many of the concerns about GTAC pricing would therefore fall away under this correction.” And, in contrast, Genesis Q16: “We are concerned the daily over and underrun charges will increase costs to serve the mass market, which will be exasperated by lower incentive pool rebates. This does not reflect the flexibility the transmission system has been designed to afford.”</p> <p><i>Do you consider that, if the OR and UR fees are balanced, the proposed level of OR/UR fees would still be a concern and, if so, why?</i></p>

	<p>Shell's view:</p> <p>See our comment under SQ3 above.</p>
<p>SQ20:</p>	<p>There are some strongly contrasting views in relation to Priority Rights. For example, Trustpower 7.1.14, p7: "We are pleased GIC and other submitters recognise our concerns that: a) the PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs in either the primary or secondary markets they have no effective means of reducing their demand. b) it is also not fair that retailers may not be able to buy affordable PRs and so could become caught in a squeeze between their customers and the competing priorities of the network owner and/or other access seekers." And, in contrast, First Gas s4.2, p29: "While we acknowledge that mass market shippers cannot control their customers' demand, we do not believe that PRs are any more onerous than the existing codes. If a mass market shipper does not hold sufficient reserved capacity under the VTC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. If a mass market shipper does not hold PRs under the GTAC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. The key difference under the GTAC is in how the price of scarce capacity is set –with the PR price being set via an auction."</p> <p><i>Do you consider that the Preliminary Assessment gives undue weight to concerns that, if mass-market shippers may be unable to secure PRs, they have no effective means of reducing their demand?</i></p>
	<p>Shell's view:</p> <p>Yes. We tend to agree with First Gas. Mass-market shippers should assess the risk of service of their mass-market shippers by taking into account the potential cost of any necessary PRs. The choice as to the extent of marketing to the affected region should be on the basis of that risk assessment. While their response in real time might be limited, they do have considerable choice as to their demand exposure ahead of any event.</p>
<p>SQ21:</p>	<p>There are some strongly contrasting views on whether the level of First Gas discretion is always appropriate. For example, Methanex Q22, p21: "We strongly disagree that FGL discretion is appropriate or fair in regard to providing tailored Specific HDQ/DDQ allowances and we are generally concerned that GIC has not considered this as an area which, on efficiency and fairness grounds, is materially worse than the status quo. Further, we consider the rationale set out in GTAC of 'striking a balance', at FGL's discretion, between the proper operation of the pipeline system against the commercial requirements of particular end users to be entirely inappropriate." And, in contrast, First Gas Q22, p45: "We agree with the analysis of First Gas discretion. We believe that the areas of discretion identified strike the right balance for a transmission system operator."</p> <p><i>How have submitter views on First Gas discretion altered your opinion?</i></p>
	<p>Shell's view:</p> <p>Yes, there is no requirement for First Gas to act impartially between the interests of shippers and the interests of interconnected parties. We therefore agree with Methanex' perspective and do not support the analysis of First Gas discretion.</p>

<p>Q22:</p>	<p>There are some strongly contrasting views on whether the proposed arrangements will provide more transparency. For example, Shell Q23, p11: “In terms of the commitment to publish information, we agree that the GTAC is not as open as MPOC, to the extent that we consider that the GTAC is materially worse than MPOC. In contrast to MPOC, GTAC does not commit to publish in real time: •The then-prevailing hourly Scheduled Quantity (SQ) established for each receipt or delivery point (or delivery zone in GTAC); •The metering quantity for each hour at each receipt point or delivery point (or the aggregate delivery quantity in each delivery zone in GTAC); •The imbalance between scheduled and actual flow at each major receipt or delivery point.” And, in contrast, First Gas Q23, p45: “We believe that the publication of interconnection agreements is significantly more transparent than the current VTC. Publication of running mismatch positions is more transparent than either current Code. Moreover, changes suggested to publish reasons for SAs will further increase transparency.”</p> <p><i>In light of the submissions, how do you consider the proposed arrangements compare in relation to transparency to the current arrangements?</i></p>
	<p>Shell’s view:</p> <p>Our comment stands. However in relation to First Gas comment; we believe the choice of First Gas to not seek improvements of the VTC over the last 5 years or so can be a reason for the MPOC parties to be forced to agree to materially worse transparency of arrangements (among many other issues).</p>