



4 September 2017

Ian Dempster
Acting CEO
Gas Industry Company Limited
By electronic upload

Dear Ian,

RE: Maui Pipeline Operating Code ("MPOC") Transition Change Request dated 14 July 2017 ("TCR") – revised TCR dated 30 August 2017

Greymouth Gas New Zealand Limited has reviewed the letter and revised TCR from First Gas Limited (FGL) dated 30 August 2017 (**revised TCR**). However, it does not in our view resolve the issues raised in our submission on the original TCR, dated 8 August 2017. Greymouth Gas maintains that the TCR should be declined and redrafted to ensure a proper transition to the new code.

1. The TCR should still provide for more than 40 business days' lead time

The concern at the lack of time provided by the 40 business days proposed in the TCR relates to more than just IT systems. Shippers will have other business processes, as well as end-user negotiations, to manage before go-live.

Shippers should not and cannot be expected to finalise changes to commercial arrangements, business processes and IT systems unless and until there is certainty as to the new arrangements (i.e. when all GTAC go-live conditions are met). The reverse position would, if go-live is delayed, have a material impact on cash flow, mean items would not have been accounted for in the optimum financial year, and may result in unrecoverable sunk costs particularly if requirements and scope are amended.

Internal governance and approval processes to make GTAC-related changes, and to incur expenditure on IT systems, will require more certainty than an unconfirmed go-live date.

Perhaps the best comparison is against FGL's own IT process:

- The revised TCR implies that FGL will not sign a contract nor incur material IT expenses until the last item outside its control is achieved – i.e. GIC approval of the GTAC. FGL then has 9 months to do implementation, user testing and training.
- The TCR proposes that Shippers sign contracts and incur material expenses before the last item outside its control is achieved – i.e. satisfaction of all GTAC go-live

conditions. Alternatively, Shippers only have 2 months to do implementation, user testing and training (and finalise changes to other business processes).

Such a proposal reallocates risk from FGL to industry. Moreover, it does not fit well with the 'fairness'¹ or 'efficient allocation of risk'² points that GIC makes in its paper on the proposed approach to the GTAC assessment.

While 120 business days' notification of the IT specifications is appreciated and will assist Shippers to scope IT changes and prepare for the new code, ultimately all this might do is shorten Shippers' implementation windows by a few months.

With this in mind, Greymouth Gas maintains that 90 business days' lead time for satisfaction of all GTAC conditions is appropriate and fair. In the absence of such a proposal, the TCR should be declined.

2. "Fit for purpose" should mean more than just core functionality in an IT system

Greymouth Gas is also concerned about the definition of the term "fit for purpose" in the context of the IT system. FGL states that this only requires the IT system to be capable of carrying out the core functions under the GTAC. This approach runs the risk that the chosen IT system may not be capable of carrying out all the components of the final GTAC. There is also the vexed question of which parts of the new code are core, and which are not.

The aim of the GTAC process should be to achieve a durable and comprehensive set of arrangements, underpinned by and integrated with a fully functional IT system. Rushing the process, including allowing some aspects or functions of the code or the IT system to be "parked" for later, risks jeopardising the quality and durability of the new code.

3. The timeline should be revisited to ensure integrity of the new code

Greymouth Gas continues to support the GTAC process and the underlying reasons for the TCR. However, if there is not enough time to properly draft new arrangements, design a fair transition process, source an appropriate IT system, and let industry adapt to the new arrangements in time for a 1 October 2018 go-live date, then the timeline should be shifted.

Deadlines should not be allowed to compromise the integrity of the new code or unfairly allocate risks between industry participants.

Yours sincerely



Chris Boxall
Commercial Manager

¹ s43ZO of the Gas Act and the current GPS.

² s43ZN(b)(iv) of the Gas Act.