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Dear Ian

GIC assessment of the proposed GTAC: Preliminary views

Genesis Energy Limited (**Genesis**) welcomes the opportunity to provide comments to the Gas Industry Company (**GIC**) regarding its assessment of the gas transmission access code (**GTAC**) proposed by First Gas.

We appreciate the GIC taking time to seek preliminary views on the Final Draft GTAC (**final draft**) published 8 December 2017. We hope that this step of the process consolidates the positions of industry stakeholders on the relative merits of different sections of the GTAC, serving to better inform the GIC's view whether the GTAC is materially better as a whole.

Genesis' assessment of the GTAC

As Genesis is involved in the production, treatment, interconnection, transport, trading, and end-use of gas, we have a vested interest in the outcome of the GTAC process and have engaged closely in its development to-date.

At each step, we have considered if we can determine whether the new arrangements will be materially better for our customers, our business and our shareholders. A meaningful assessment has been difficult up to now, with material changes coming through each iteration of the drafting and considerable uncertainty hanging over Genesis' key matters of concern.

We now have final draft in front of us and a signed letter of understanding (LoU) with First Gas¹, which puts us in a better position – at least to some degree - to share our assessment below. We acknowledge First Gas for working with us to confirm our joint intentions where possible to address Genesis-specific issues in the LoU. Some caveats on our assessment below:

- Our comments are limited to, and conditional on, the wording provided in the final draft, and the protection of interests afforded by the LoU;
- We have only focussed on primary matters that we consider are materially better or worse. Where something is the same or a neutral change as per the status quo, we have not provided comments;
- Despite having the final draft and LoU to consider, unfortunately there are some uncertainties that remain a concern for Genesis. In absence of confirmation to the contrary, we have treated these as being materially worse where we consider this to be a real possibility and significant to us as a business. We acknowledge they could be materially better once developed further by First Gas;
- We have included the *[objectives]* in the Gas Act 1992 and Government Policy Statement on Gas Governance that each of our points below relates to informing the GIC's view of the GTAC's consistency with relevant regulatory frameworks.

	Materially better	Materially worse
Access products and services	<p>Removal of grandfathering rights has removed a major barrier to entry. We consider this benefits new entrants and existing players alike as it promotes competition and growth in the gas market. <i>[efficiency, barriers to entry, fairness]</i></p> <p>Having a single set of transmission arrangements is</p>	<p>While we support incentivising accurate capacity nominations, we are concerned that the incentive fees (daily over and underrun fees and hourly overrun charges) are punitive and disproportionate to the true costs of service. We agree First Gas should have access to accurate information to best manage the transmission system, but do not believe it</p>

¹ In our submission on the Second Revised Draft GTAC dated 24 November 2017 Genesis wrote that it intended to pursue a letter of understanding with First Gas that agreed both parties' common understanding of certain matters of concern e.g. the status of existing supplementary agreements under the GTAC.

	<p>simpler for new entrants than having to interact with two codes, which reduces barriers to entry. <i>[efficiency, barriers to entry]</i></p> <p>The introduction of new access products e.g. agreed-hourly profiles provides more flexibility for some large users with variable loads. Optionality that balances the interests of different pipeline stakeholders is positive in our view. <i>[efficiency]</i></p>	<p>needs the degree of granularity provided for in the GTAC.</p> <p>The strict requirements for accuracy under the GTAC will increase costs for shippers and ultimately consumers; this is particularly true for mass market customers with loads difficult to predict and demand profiles that differ from season-to-season. This is inconsistent with a system designed with a degree of tolerance in-built, and materially worse compared with the status quo in our view. <i>[efficiency, fairness]</i></p> <p>In our previous submissions, we have suggested alternatives, including the introduction of moderate tolerances (as is provided for under current regime) and/or only incurring charges when a zone in total is in over/underrun. Please refer to those submissions for more information.</p>
<p>Congestion management</p>	<p>Requiring First Gas to predict and manage congestion in the system, with multiple options provided to do so e.g. investment in transmission capacity; interruptible contracts, and priority rights is a material improvement that promotes optimal management of the capacity of the transmission system. <i>[efficiency, reliability]</i></p>	

	<p>A workable priority rights product is valuable. We note this hinges on development of fit for purpose auction terms, which sit outside the GTAC, so this is a qualifier on our view. <i>[efficiency, reliability]</i></p>	
<p>Fees and prices</p>	<p>Appropriately incentivising parties to accurately nominate their required capacity, and to maintain a balanced position, is positive because it prevents capacity sterilisation and encourages efficient use of the tolerance the pipeline affords. While in principle this is materially better, we have concerns that the incentives in the GTAC are too strict, which offsets this benefit. <i>[efficiency]</i></p>	<p>We continue to be uncertain what the total cost implications of the new GTAC will be, and how these costs will be distributed across various customer types, which is a critical concern for us.</p> <p>First, under the existing arrangements we know how much we pay to peak with gas, and when we will be liable for peaking charges. Currently under the GTAC we understand how much we would pay for peaking charges but not the trigger for when we will pay – i.e. we do not know the specific hourly quantity to daily quantity (HQ/DQ) ratio that will apply at the Huntly Dedicated Delivery Point; nor are we guaranteed successful negotiation of non-standard access rights under a supplementary agreement for Huntly. <i>[efficiency, fairness]</i></p> <p>Hourly overrun fees in the GTAC are materially higher than those under the Maui Pipeline Operating Code (MPOC) on a \$/GJ basis. In the absence of securing more favourable HQ/DQ ratios than</p>

		<p>under the MPOC, the GTAC will incentivise less gas use and more coal use at Huntly and increase carbon emissions. First Gas has provided no certainty in this regard under the LoU other than to negotiate in good faith. The GTAC is materially worse than the MPOC in this regard.</p> <p>Secondly, we have concerns due to the degrees of discretion afforded to First Gas e.g. to adjust multipliers of tolerance; over and underrun fees, which adds another layer of uncertainty in respect of the GTAC. <i>[fairness]</i></p> <p>Thirdly, Genesis is concerned that the new rebate proposal has materially changed the allocation of costs, potentially redistributing costs favouring larger more predictable loads than under the current annual pricing system. As proposed, there is no consideration for whether the potential for redistribution of wealth is a fair allocation of costs on users that lack the ability to respond to demand/price signals. There is also a possibility that as these costs are no longer part of First Gas' revenue streams, there may be less incentive to set charges at an appropriate level. <i>[fairness]</i></p> <p>Our previous submissions – particularly on the Second</p>
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		Revised Draft GTAC – explore in detail our position on these issues, including why we value flexibility, and the costs of uncertainty. Please refer to this for more information and our suggested alternatives.
Balancing	Balancing across the whole of the system is an improvement, and we support the development of a park and loan product. We have explained in previous submissions that our preference is for flexibility in the management of day-to-day gas volumes because of the value that this offers our business and its customers. <i>[efficiency]</i>	We are concerned that industry has not received indication of the balancing tolerance, which is a further cause for uncertainty. <i>[efficiency]</i>
Code changes		In previous submissions, we have commented that we consider a robust code change process is crucial to allow the GTAC to evolve as needed. With there being no code signatory voting provided for under the GTAC, we believe this to be insufficiently robust as it fails to best account for the interests of all transmission stakeholders proportionate to the commercial risk they carry; or offer an appropriate check on the power on any one party. This is materially worse than the process under the current Vector Transmission Code at least. <i>[fairness, efficiency]</i>

The best path forward

Thank you again for the opportunity to provide comments at this stage. Overall, due to the number of items that currently appear materially worse or have an uncertain impact, we cannot conclude that the GTAC is materially better than the status quo at this time.

While we again acknowledge First Gas' willingness to engage on our concerns via the LoU, this provides certainty of intentions only, not outcomes. Until this uncertainty (e.g. confirmation of a specific HQ/DQ ratio for Huntly) can be resolved, we must assume that the costs of operating our business could be materially worse under the GTAC.

We remain committed to developing the GTAC and engaging as is necessary to finalise the new arrangements. We are optimistic this can be achieved via further constructive engagement between First Gas and industry stakeholders.

If you would like to discuss any of these matters further, please contact me by email: margie.mccrone@genesisenergy.co.nz or by phone: 09 951 9272.

Yours sincerely



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Regulatory Advisor