



16 April 2018

Ian Wilson  
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Dear Ian,

**CROSS SUBMISSION:  
GIC PRELIMINARY ASSESSMENT OF PROPOSED GAS TRANSMISSION ACCESS CODE (“GTAC”)**

Methanex welcomes the opportunity to provide a cross-submission in response to submissions made on GICs Preliminary Assessment of GTAC.

We have divided our cross-submission into three parts:

1. Response to FGL submission on the Preliminary Assessment Paper
2. Response to other stakeholder submissions
3. Response to particular questions set out in GICs Cross-Submission Template

**1. RESPONSES TO FGL SUBMISSION**

Firstly, we acknowledge that FGL has indicated in its submission that it is prepared to make concessions in some of the areas highlighted by GIC. In particular, FGL has been forthcoming with its willingness to address interconnection arrangements and the liability provisions. However, in other cases the concessions it has made are, in Methanex’ view, mostly peripheral. A number of Methanex concerns have not been resolved, including gas quality, line pack/pressure management, FGL balancing obligations, peaking incentives and flexibility arrangements.

We have already canvassed those concerns broadly in our previous submissions. However, we wish to make some further remarks in respect to FGLs submission.

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## 1.1 Supplementary Agreements

In response to GICs concerns regarding Supplementary Agreements, FGL has responded in justifying the current drafting of Section 7.1 by stating that Shippers are “required to demonstrate that the criteria are applied. This is important to First Gas as the onus of proof clearly rests with the requesting shipper to provide compelling evidence that the criteria are fulfilled.”<sup>1</sup>

We don’t believe this response addresses the underlying concerns. The requirement for “checks and balances”<sup>2</sup> is not met in GTAC in two fundamental respects:

1. Apart from Section 7.1(a) there is no mention of the interests of other users being taken into account as part of the decision criteria.
2. In all respects it is FGL that is the sole arbiter of whether the evidence provided by an applicant satisfies the criteria. There is no GIC oversight nor is there any broader industry consultation.

## 1.2 Hourly Overrun Charges

FGL has stated that Hourly Overruns should be targeted at those parties that can control their impact on the system.<sup>3</sup>

While we agree with this statement, we disagree that FGL has reflected that concept in its approach to Hourly Overrun. We believe peaking behaviour should be fairly and consistently addressed and a price should be attached to unpredictable and volatile flows, where they can be reasonably measured. We believe this is achieved under MPOC and is not achieved under GTAC.

Hourly Overrun Charges could be applied to all Delivery and Receipt Points (as is the case with MPOC peaking limits/charges). If a broadly applied and consistent Daily Overrun/Underrun incentive is considered appropriate in GTAC we fail to see why a broadly applied and consistent Hourly Overrun incentive is not.

FGL makes the comment that “DDPs have just one end-user, which controls the offtake of gas and therefore is able to reduce the effects of peaking”.<sup>4</sup> Methanex accepts that proposition, but we don’t accept the proposition that parties on non-DDPs (or those on DDPs who pass under FGLs arbitrary 200GJ limit) have no obligation or incentive to reduce the adverse effects of, or pay for, their peaking behaviour.

FGL should have an obligation to seek out available information to implement Hourly Overrun in a fair and reasonable manner. Its argument that simply because a party’s throughput can be easily measured it should be singled out does not bear weight.

Methanex’ view is that allocating the cost to causer should be paramount except in those circumstances where it can be clearly demonstrated that the costs of achieving that objective outweigh the benefits. FGLs approach to Hourly Overrun does not reasonably meet this criteria.

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<sup>1</sup> FGL submission, page 31

<sup>2</sup> Preliminary Assessment of GTAC, page 100

<sup>3</sup> FGL submission, page 31

<sup>4</sup> FGL submission, page 32

### 1.3 Hourly Overtime Charge rebating

FGL considers that broadly rebating hourly overruns achieves the same result as delivered under MPOC and VTC.<sup>5</sup>

We disagree. The rebating treatment in GTAC would only be similar to MPOC if all parties were potentially liable to peaking charges, as is the case under MPOC.

For an argument in favour of broadly rebating a charge to be valid, the underlying incentive must in the first place have been broadly applied. The beneficiaries in the rebate process should only be those parties who are potentially exposed to the penalty and as a consequence have an incentive to take steps to avoid that exposure (such as is the case with Daily Overtime/Underrun which is broadly applied). This is clearly not the situation with Hourly Overtime Charges in GTAC where a large proportion of the beneficiaries of the rebate will have no 'skin in the game'.

We understand from FGLs submission that is reconsidering the incentive rebate model.<sup>6</sup> To be clear, Methanex' chief concern is with the narrow scope of the Hourly Overtime Charge mechanism. Any decision on the removal of the incentive rebate mechanism in GTAC does not resolve the fundamental inequities in the approach to imposing peaking incentives and penalties under GTAC.

### 1.4 Target Taranaki Pressure

In response to GICs assessment of changes to TTP management obligations, FGLs view is that "GTAC drafting better recognises the reality"<sup>7</sup>

We disagree, our view of the reality under MPOC is:

- (a) Excursions are frequent but short lived;
- (b) The strong mean-reverting trend is clear evidence in our view that the responsibilities placed on parties (including FGL) under MPOC work and are appropriate, including operation of Section 3 as well as the explicit TTP obligations;
- (c) The fact that excursions occur is less important than the responses that are taken to return pressure to a desirable mean position in short order;
- (d) GTAC significantly weakens those responsibilities and incentives. It also provides a means for FGL to "move the goalposts" through the operation of Section 8.5 to artificially reduce the prospect of excursions (and the requirement for it to make corrective responses) without implying any improvement to underlying pipeline stability.<sup>8</sup>

FGL has also made the comment that it has "no intention to change the actual management of TTP"<sup>9</sup>

Methanex has previously expressed its concerns that any reliance should be placed on the expression of intentions<sup>10</sup> as a substitute for actual codified commitments. In this case, Methanex considers that weakening of TTP settings unambiguously reduces FGLs obligations and responsibilities when compared with MPOC, whatever its intentions might be at any particular time.

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<sup>5</sup> FGL submission, pages 6 and 31-32

<sup>6</sup> FGL submission, comments made in pages 34-35

<sup>7</sup> FGL submission, pages 6. Similar comments made on pages 33 and 44

<sup>8</sup> As illustration, Section 8.5(b)(ii) is circular. FGL can reduce the "risk of breaching an Acceptable Line Pack Limit" by simply changing the limit.

<sup>9</sup> FGL submission page 6

<sup>10</sup> Methanex submission, Section 44, page 12

## 1.5 Ahuroa

We disagree with FGLs interpretation of GIC commentary regarding the Issue of Ahuroa storage. We note that GIC has sought submitters views on the matter.<sup>11</sup> So while its impact on GIC assessment is yet to be finally determined, it is clearly a relevant issue.

We also want to pick up on the comment made by FGL that *“Even if such incentives did exist, there are a number of safeguards in place to ensure that First Gas acts in the best interests of the industry as the provider of regulated transmission services.”*<sup>12</sup>

In Methanex’ view, Section 2.2 of GTAC is clear in stating that FGL will operate the transmission system in the manner it chooses unless specifically provided for in the GTAC. We presume FGLs statement is in reference to Section 2.8 of GTAC (the only place where the best interest of users is stated in GTAC). If this is the case it is misleading, as Section 2.8 simply states that FGL has no obligation to provide certain transmission services, it does not prevent FGL adding or removing any transmission services if it chooses to do so.

## 2. RESPONSES TO OTHER SUBMISSIONS

In regard to the submissions made by other stakeholders, we found the Major Gas Users Group’s submission to be particularly instructive. MGUG makes references to comparing the merits of GTAC specifically against MPOC. We agree with MGUGs words that in regard to GICs assessment *“the question of whether the GTAC is materially better than either the VTC or MPOC is left unanswered”*.<sup>13</sup>

Methanex’ view is that GIC is required to assess GTAC against the true counterfactual of two separate codes and not against an artificial amalgam of the codes (ie the notional “VTC/MPOC regime”).

In its response to Question 12 MGUG suggested that a quite different outcome might be expected if each of the existing codes was assessed individually against the SCOP objectives. The table it provided in its response illustrates the bias we have been concerned with. However, we would take MGUGs assessment a step further in this regard, because we consider that the “efficient operation of the transmission system and use of pipeline capacity” is also materially worse under GTAC than it is under MPOC.

## 3. REPSONSES TO CROSS-SUBMISSION TEMPLATE

<b>SQ 6 and SQ 10</b>	<p>We disagree. Section 2.6 states that <i>“First Gas will deal with all Shippers on an arms’ length basis and not prefer or give any priority to any Shipper <u>except as expressly provided for in this Code.”</u></i></p> <p>We believe the exception in Section 2.6 applies in respect to Section 8.5(b), particularly in terms of the allocation of AHP and Specific HDQ/DDQ. As the setting of tolerances is made subject to AHP and Specific HDQ/DDQ in Section 8.5(b), those tolerances are in effect also excluded from Section 2.6.</p>
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<sup>11</sup> Preliminary Assessment Paper, page 94

<sup>12</sup> FGL submission, page 27

<sup>13</sup> MGUG submission, page 4

<p><b>SQ 12</b></p>	<p>In the presentation slides provided by GIC at the workshop held on 27<sup>th</sup> March<sup>14</sup>, it referred to Methanex' concern that Existing Supplementary Agreements (and Existing Interconnection Agreements) are not disclosed currently and will remain confidential under GTAC.</p> <p>This is indeed a concern to Methanex, but our principle reservation is the grandfathering aspects of carrying over pre-existing VTC agreements into GTAC and the prospect that parties to those agreements will gain new rights and privileges associated with use of the Maui Pipeline to the detriment of existing MPOC parties. (see Item 6 of our PAP Submission).</p>
<p><b>SQ 16</b></p>	<p>See our comments in Section 1.1</p>
<p><b>SQ 17</b></p>	<p>See our comments in Section 1.4</p>
<p><b>SQ 18</b></p>	<p>We wish to provide clarification to comments that GIC has made in its initial responses regarding Methanex' views on Section 12 of GTAC.</p> <p><b>GTAC, Section 12.8</b></p> <p>In its Memorandum of 28<sup>th</sup> March, GIC has referred to MPOC Section 17.16 as being of concern to Methanex.<sup>15</sup></p> <p>Our concern was actually in regard to <u>Section 17.6, not Section 17.16</u> of MPOC (see Item 40(b) of our PAP submission). The issue we raised was in connection with Section 12.8 of GTAC which states that <i>“Nothing in this section 12 requires First Gas to monitor the quality of gas injected into the Transmission System.”</i> We disagree with GICs view that it does not consider FGLs obligations to be reduced in this regard.<sup>16</sup></p> <p>To further clarify, Section 17.6 of MPOC states: <i>“As soon as reasonably practicable upon detecting or, in its reasonable opinion, suspecting that Non-Specification Gas is flowing, or is likely to flow, through a Welded Point, TSP shall notify all Welded Parties and Shippers of the same.”</i></p> <p>Our view is that in order for FGL, as a Reasonable and Prudent Operator, to comply with its obligations under Section 17.6 of MPOC it is required to monitor the composition of gas flows. So, through the operation of Section 12.8 of GTAC, FGL objectively has a diminished obligation when compared with MPOC.</p> <p><b>GTAC, Section 12.11</b></p> <p>Section 12.11 states that <i>“Unless it is shown that First Gas caused Gas to become Non-Specification Gas, First Gas shall have no liability to any Shipper for any Loss incurred by that Shipper arising out of or in relation to that Shipper taking Non-Specification Gas at a Delivery Point.”</i></p> <p>In respect to Methanex concerns on this matter, GIC has stated that:</p>

<sup>14</sup> GICs Presentation to Stakeholder Workshop, 27 March 2018, Slide 6

<sup>15</sup> 28<sup>th</sup> March memo, page 31

<sup>16</sup> See separate reference to the issue with Section 12.8 on page 33 of the 28<sup>th</sup> March memo

*"GTAC s2.11 requires First Gas to act as a Reasonable and Prudent Operator when exercising any of its rights, powers, obligations and duties under the GTAC. That obligation overlays First Gas's obligations in relation to the gas quality. Accordingly, we think that Methanex's concern is addressed."*

We disagree. Unless FGL has caused gas to become non-specification gas, it is explicitly excluded under Section 12.11 from any liability, despite the operation of Section 2.11 that would otherwise trigger a liability under Section 16.1. So, if FGL fails to comply with Section 12.2 (and notwithstanding the associated exclusion of liability in 12.6), 12.3 and 12.4, and in doing so breaches its RPO obligation, it will nevertheless have no liability for such breach as a consequence of Section 12.11.

Yours sincerely



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