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A RESPONSIBLE CARE® COMPANY

19 March 2018

Ian Wilson  
Gas Industry Company Limited

By e-mail: [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz)

Dear Ian,

### **SUBMISSION TO GAS INDUSTRY COMPANY ON THE GTAC PRELIMINARY ASSESSMENT PAPER**

Methanex welcomes the opportunity to make a submission in response to GIC's Preliminary Assessment on the Gas Transmission Access Code ("GTAC") proposed by First Gas Limited ("FGL"). Methanex recognises that it has been a significant undertaking by GIC to thoroughly review all aspects of the GTAC and its implications on the status quo under existing transmission codes.

We agree with GIC's overall finding that the GTAC is not materially better than the current terms and conditions of access to and use of gas transmission pipelines.

However, in a number of key areas we disagree with GIC's assessments and have focussed our submission on addressing those matters where our views differ from GIC, or that we consider have not been given sufficient attention by GIC.

From Methanex' perspective, and in respect to being exclusively a MPOC party, our view is that as far as comparison with MPOC is concerned, GTAC is not materially better in any significant respect and is materially worse across a range of issues not considered as such by GIC.

## INTRODUCTORY REMARKS

1. The issue of code alignment has been discussed over many years in various GIC forums. Methanex has previously expressed its concern in those forums that aligning the codes, to resolve issues that in most cases are associated with the VTC and transmission services downstream of the Maui Pipeline, might come at a cost to MPOC parties. We consider that this scenario is playing out with development of the GTAC.
2. Methanex believes that FGL has not made a strong case to move substantially from the status quo and, in particular, has not made a sufficient case for replacing the MPOC. We consider that there are too many shortcomings with GTAC to have a reasonable expectation of it reaching a point of development where it can be considered materially better than status quo within a reasonable timeframe. We consider it would be more constructive for FGL to focus on those particular areas where there are genuine and significant failings in the existing codes and not to “reinvent the wheel” in other areas.
3. Although we have come to the conclusion that making incremental changes to the status quo, where needed, is preferable to pursuing the GTAC further, for the purposes of GICs Final Assessment we have addressed the merits and failings of GTAC if it were to be implemented.
  - Methanex agrees with GICs overall assessment that the GTAC does not achieve the standard required for it to be approved.
  - Methanex reiterates its view that the GTAC represents a material deterioration in the rights of MPOC parties as well as a reduction in the level of FGL obligations to those parties.
  - We support GICs findings that interconnection arrangements are insufficiently addressed and that the liability provisions create significant uncertainties including in respect to the allocation of risk.
  - We agree with GIC that the approach taken in GTAC of imposing disproportionate incentive charges on non-congested parts of the network will result in inefficient cost-avoiding behaviour. Our concern however is more general in regard to incentive mechanisms and flexibility arrangements in GTAC.
  - We believe that FGL has taken an inconsistent approach by imposing excessive and discriminatory charges in the case of Hourly Overrun while at the same time providing discretionary and cost-less swing flexibility by way of Agreed Hourly Profiles and tailored Specific HDQ/DDQ allowances.
  - Methanex agrees with GIC that there are issues with Park and Loan service proposed in GTAC. However, GIC has highlighted only one particular aspect of the flexibility arrangements set out in GTAC, that is, whether or not Park and Loan is considered to be regulated revenue.

We consider that this has drawn attention away from the broader issues associated with the provision of flexibility arrangements and line pack/pressure management under GTAC, and how it compares unfavourably with status quo. We provide more detail of our concerns later in our submission. In making its Final Assessment we strongly urge GIC to broaden the scope of issues that need to be addressed in respect to line pack/pressure management and the provision of cost-less flexibility arrangements.

## Interconnection Agreements

4. GIC has made several statements in the Preliminary Assessment criticising the approach FGL has taken with regard to interconnection arrangements. It is clear that the GTAC will not be able to be assessed as being materially better to current terms and condition of access until interconnection arrangements are appropriately addressed.
5. Methanex considers the following components are necessary to ensure that interconnection arrangements are adequately integrated into a comprehensive access code:
  - Shippers need to have certainty as to the rights and obligations of Interconnected Parties, and importantly the demarcation of responsibilities between them.
  - Each Interconnected Party needs to have certainty as to the rights and obligations of other Interconnected Parties. In particular Interconnected Parties at Delivery Points need clarity and consistency regarding the rights and obligations of Interconnected Parties at Receipt Points (and vice versa). This is not possible under FGLs current design model, which proposes separate sets of terms and conditions for Delivery Points and Receipt Points.
  - It is not a necessity to incorporate interconnection arrangements into the GTAC, so long as there is:
    - An appropriate codification of interconnection arrangements that addresses both Receipt Points and Delivery Points under one code to satisfy the contractual nexus between and among the various interconnected parties.
    - A linking document or linking provisions within the GTAC and interconnection code that assures the contractual nexus between Shippers and Interconnected Parties. A significant benefit to completely integrating the interconnection arrangements into GTAC is it obviates the need for separate linking documents or linking provisions.

## Grandfathering of pre-existing supplementary agreements

6. Methanex wishes to highlight a further concern it has regarding the carry-over of Existing Supplementary Agreements<sup>1</sup> into GTAC and the implications for MPOC users in particular.
  - a. Lack of transparency due to the non-disclosure of those agreements has made it impossible to determine the level of impact they have on the rights of MPOC parties during the GTAC consultation process.
  - b. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC.<sup>2</sup> GIC comments that GTAC is an improvement over existing codes by reducing information asymmetries and in so doing reducing barriers to competition.<sup>3</sup> We contend that in this respect there is a substantial reduction in the level of transparency that is currently enjoyed by MPOC users.
  - c. The prospect of “unearned” rights and privileges on the Maui Pipeline accruing to the parties to pre-existing agreements relating to the VTC, particularly where those rights are not afforded to existing MPOC parties. The carry-over of pre-existing agreements

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<sup>1</sup> As defined in GTAC

<sup>2</sup> Existing Supplementary Agreements are distinguished from Supplementary Agreements in GTAC and are not covered by the disclosure provisions of Section 7.6, 7.11 or 7.15.

<sup>3</sup> Preliminary Assessment (“PA”) Page 22

from the VTC into GTAC is particularly confronting when MPOC users themselves are faced with the unilateral termination of a previously enduring agreement, resulting from the amendment made to MPOC following the 2017 Transition Change Request (TCR).

We consider this to be a more significant “grandfathering “ issue than the capacity sterilisation aspect of annual capacity reservation and note that GIC made a point of assessing the removal of grandfathering as being a material advantage in GTAC compared to VTC. We believe there is a clear inconsistency.

- d. Lack of transparency due to the non-disclosure of those agreements has made it impossible to determine the level of impact they have on the rights of MPOC users during the GTAC consultation process.
- e. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC.<sup>4</sup> 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.

### **Ahuroa Storage**

7. Methanex is concerned that there is the prospect for management of pipeline conditions to increase utilisation of Ahuroa storage (including in regard to the provision of balancing services). Our chief concern in this regard is that FGL, as a related party to the owner of gas storage, has a commercial incentive to facilitate increased usage of Ahuroa storage by operating the pipeline in a certain manner. This is manifestly easier for FGL to do under GTAC because of increased discretion FGL has as to how it manages pressure and line pack.
8. FGLs contention that it does not intend to have title to any gas moved into and out of Ahuroa does not resolve Methanex’ concerns and it is not particularly relevant. It is the provision and pricing of the injection/withdrawal throughput service where economic incentives may have undesirable outcomes for pipeline users.

### **Q1: Do you have any comment on our approach to the analysis?**

9. GIC has devoted some attention to Methanex’ past submissions on the subject of the “materially better” criteria. We believe that GIC has misinterpreted statements that have been made by Methanex. It is not the case that Methanex’ position is that “all parts of the GTAC must be materially better”.<sup>5</sup> To clarify our position, we believe that:
  - a) GTAC should be materially better than each existing code in at least some material respects;
  - b) GTAC should not be worse than either existing code in any material respect; and
  - c) neither code is unworkable in its current form, and that the MPOC, in particular, is fundamentally sound.

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<sup>4</sup> Existing Supplementary Agreements are distinguished from Supplementary Agreements in GTAC and are not covered by the disclosure provisions of Section 7.6, 7.11 or 7.15.

<sup>5</sup> PA, page 6

10. We disagree with GIC's interpretation that it does not need to establish the GTAC as materially better than each existing code.<sup>6</sup> We consider the principle of fairness and equity requires GIC to make that distinction in its assessment. We also consider the wording of Section 22.16(b) of MPOC supports that principle when it refers specifically to "*materially better than the current terms and conditions for access to and use of gas transmission pipelines*".
11. Although GIC has avoided the use of a points-based assessment it has nevertheless used a grading system by applying "significant", "moderate" and "modest" ratings. Methanex does not consider it helpful to have any grading system (other than material/not material). In particular, we find it difficult to evaluate whether a "modestly worse" outcome means that GIC considers the issue of sufficient enough concern to require attention.

## **Q2: Do you agree with our assessment of the GTAC gas transmission products?**

12. In reference to comments made by GIC<sup>7</sup> to Methanex' previous submission, we stand by our position that the existing nomination and balancing regime under MPOC is safe, reliable and efficient and to justify its replacement FGL must demonstrate that an alternative regime improves upon those principles. We do not believe that the GTAC satisfies this requirement. GIC acknowledged Methanex' concern in its Preliminary Assessment but went on to conclude that GTAC preserves these core concepts while allowing "*alternatives that may be more attractive to other pipeline users*". The core concepts of having OBAs and point-to-point nominations applying universally on the Maui Pipeline most certainly have not been preserved.

13. We do not agree that it is an objective fact that optionality is a better outcome to standardisation and universality. Optionality with the prospect of parties opting in and out unpredictably and the prospect of multiple allocation methods applying at the same time, creates uncertainty and complicates nominations and balancing on the Maui Pipeline.

Methanex is particularly concerned that there should not be any uncertainty of arrangements at Receipt Points, which we consider should universally operate under OBA rules, as is currently the case under MPOC. We consider this to be critical given the close coordination needed regarding gas injections, which injecting Interconnected Parties (and not Shippers) are best placed to manage. By extension we see no reason why Delivery Points on the Maui Pipeline should not also operate under OBAs as a rule.

14. Notwithstanding our general view of the merit of existing allocation arrangements on the Maui Pipeline, Methanex is further concerned that the allocation arrangements set out in GTAC are poorly specified with uncertain and inconsistent treatment of rights and obligations. Although OBA arrangements should be the logical option for Methanex to adopt for its gas transmission requirements, the incomplete and inconsistent drafting of OBA Party rights and responsibilities in the GTAC mean we would be reluctant to elect to be an OBA Party under GTAC.
15. Methanex considers that having removed the proven allocation arrangements set out in MPOC, FGL has not adequately specified the optional mechanisms it has proposed in the GTAC.

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<sup>6</sup> PA, Page 7

<sup>7</sup> PA, Page 19

16. Further, Methanex believes that retaining the nomination, balancing and allocation arrangements that exist on the Maui Pipeline is not incompatible with providing for more tailored arrangements on other parts of the system if that is what particular stakeholders preferred.

### Agreed Hourly Profiles

17. We agree with GICs conclusion that the Agreed Hourly Profile provision requires further design work before it can be considered fair and reasonable. We also recommend that GIC provides further description of the particular areas that it believes requires attention. From Methanex' perspective those issues are:
- Overly permissive use, beyond that reasonably required to address unusual operational issues faced by injecting parties or end-users Its application contrasts strikingly with the Operational Profile mechanism set out in MPOC.
  - As with other flexibility arrangements, Methanex believe the wide availability of Agreed Hourly Profiles will increase volatility of pipeline pressures and unpredictability of pipeline conditions.
  - It is unpriced, as a free swing option, where there is no obligation on parties with an Agreed Hourly Profile to actually comply with the requested profile, or any sanction imposed where they elect not to comply with it.
  - The intention to allow Agreed Hourly Profiles to extend for up to seven days. exacerbates Methanex concerns that it will be misused and adversely affect other users access rights.
  - It is inconsistently applied, available to Shippers but not to OBA Parties.

### Q3: Do you agree with our assessment of the GTAC pricing arrangements?

18. We agree with GICs finding that incentive charges are set too high in GTAC and will lead to inefficient cost-avoidance behaviour. However we disagree with the implication of GICs assessment that the main purpose for Overrun/Underrun charges is to address congestion.
19. In its assessment, GIC considers the GTAC to be an improvement in regard to Pricing in part because *“the pricing structure in the GTAC does not have a strong signal to discourage peaky usage – unless capacity is likely to be scarce”*.<sup>8</sup>

We disagree that peaky usage should be discouraged only in connection with congestion. The fundamental risk caused by peaky usage at least as far as the gas transmission system in New Zealand is concerned is the unpredictability of gas throughput and limited line pack capacity, with the stresses that places on maintaining stable line pack/pressure.

It is for this reason that 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.

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<sup>8</sup> PA, Page 30

On the one hand the GTAC imposes significant Overrun/Underrun penalties (Daily and Hourly) and the prospect of limited ERM tolerances being provided, while at the same time providing cost-less access (for some) to AHP and “tailored” Specific HDQ/DDQ allowances. We note that Park and Loan is intended to be priced, but on poorly defined terms. This issue is compounded upon by the changes made to FGLs line pack/pressure management responsibilities in GTAC (including relaxation of TTP obligations and line pack management rules under Section 8.5 and 8.6).

### Hourly Overrun Charges

20. GIC made the statement that *“Overall, we agree that hourly overrun charges could drive inefficient behaviour if HQ/DQ ratios and AHP do not operate as intended, but see the daily incentive charges as a larger source of concern.”*<sup>9</sup> We disagree with the last part of this statement.
21. GIC concluded the disproportionate level of Daily Overrun/Underrun charges would generate inefficient cost-avoidance behaviour, but this can be simply resolved by revising the fee structure in GTAC and providing tolerances. The issues with Hourly Overrun and peaking arrangements generally are more pervasive in GTAC and less easily resolved. They have significant negative impacts on efficiency, reliability and fairness compared with status quo and in Methanex’ view, GIC did not give sufficient attention to these matters in the Preliminary Assessment.

### Q4: Do you agree with our assessment of the GTAC energy quantity determination?

22. We disagree with GICs finding that *“all metering is subject to same technical standards”* in GTAC.<sup>10</sup> There is no such undertaking in GTAC, it refers only to Metering Requirements as a yet-to-be published document, not as a single standard. Without GIC being able to review the content of those Metering Requirements it is conjectural for it to assume a single standard applies across the all metering points or that there will be improvement in terms of efficiency, reliability or fairness. We believe that metering arrangements proposed under GTAC are objectively worse than arrangements under MPOC, (absence of metering requirements in the finalised GTAC, changes to treatment of unscheduled meter testing, uncertainty regarding obligations of third-party meter owners). Further, we don’t consider GIC can make a positive assessment under any criteria in this area without first having had the opportunity to review the Metering Requirements documentation.

### Q5: Do you agree with our assessment of the GTAC energy allocation arrangements?

23. We have covered our concern regarding the removal of the universal use of OBAs and point to point nomination in GTAC as part of our response to Question 2.
24. In making its assessment of the Efficiency criteria, GIC notes that *“Interconnected Parties would be a party to either an OBA or GTA and nominations and approvals would be a feature of these contracts”*. We wish to make the point that one the benefits of codification and standardisation is to avoid the need for a constellation of bilateral side agreements that will

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<sup>9</sup> PA, Page 31

<sup>10</sup> PA, Page 38

each need to be separately negotiated and may be inconsistent with each other. Such an outcome is clearly less efficient and with less certain outcomes than codifying those arrangements.

25. In Methanex' previous submission we devoted considerable attention to the allocation of obligations between Shippers and Interconnected Parties and expressed our view that Interconnected Parties are generally in a better position to manage physical flows, including balancing and curtailment, than Shippers. We partially accept GICs assessment that at shared Delivery Points it may not always be the case that Interconnected Parties are in the best position to address allocation, balancing and curtailment. However, Methanex' concerns relate exclusively to the Maui Pipeline where we believe our view holds, and the particular concern we have regarding the responsibilities for managing physical gas flows at Receipt Points, which we consider the GTAC generally addresses poorly.
26. We are also concerned by the statement made by GIC that *"Shippers and Interconnected Parties at Dedicated DPs need to act in close co-operation, so it is probably not material who receives the first notification of curtailment."*<sup>11</sup>

Coordination between Shipper and Interconnected Party is critical and already occurs in a reliable and efficient manner as a consequence of clear and concise nomination and allocation processes set out in MPOC, with each party having a clear demarcation of responsibilities. Our view is the optionality, lack of specification and inconsistencies in GTAC are significantly detrimental to achieving the same level of coordination. The inefficient and incomplete solution to this gap under GTAC would presumably be to have a large number of disconnected side agreements among Shippers and Interconnected Parties to assign or re-allocate responsibilities where they are not appropriately addressed in GTAC.

The issue of the party that is first notified to curtail under GTAC is also critical. It will not be efficient, timely, safe or reliable for parties to have to separately work out between themselves how to act in response to curtailment actions, and then address the allocation of risk for non-compliance with FGL directions.

27. Methanex made the point in its previous submission that FGLs drafting in respect to allocation arrangements was flawed, particularly in regard to its logic concerning making Shippers responsible for determining allocation arrangements and the interplay between Shippers, Interconnected Party and End-Users at each particular Delivery Point (Sections 6.14, 6.18 and 6.19, and Schedule 4). Methanex' concern was partially acknowledged by GIC<sup>12</sup> in the section relating to Allocation (para 4 of page 42), but it did not appear as a factor in the summary section (Table 9).

#### **Q6: Do you agree with our assessment of the GTAC balancing arrangements?**

28. In general terms, we don't believe that GIC has sufficiently assessed changes made in 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).

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<sup>11</sup> PA, Page 55

<sup>12</sup> PA, Page 42

29. Methanex was disappointed that GIC did not take greater note of our concerns that under GTAC FGL will have a reduced role in undertaking balancing actions itself compared with MPOC. We consider the approach taken in GTAC when line pack limits are approached, where FGL is less pro-active and more reliant on the action of Shippers, is more likely to result in adverse pipeline conditions than is the case under MPOC. We wish to make the point that there is a clear difference between the allocation of cost and risk arising from imbalance/mismatch, and the allocation of physical pipeline management responsibilities. Our view remains that Shippers are generally less able to manage the physical state of the pipeline than either Interconnected Parties or FGL.
30. GIC has dismissed Section 3.1 of MPOC on the basis that it does not define a specific obligation. Methanex considers Section 3 sets out important principles of behaviour with defined objectives by which the standard of Reasonable and Prudent Operator can be measured against. We believe Section 3.1 provides an implicit obligation on FGL, consistent with an RPO, that is missing from GTAC.
31. Section 3 (Balancing Actions) in MPOC was inserted as an amendment to the original code in response to widespread concerns regarding the gas balancing responsibilities of the then Transmission Services Provider. Section 3.1 is generally similar to Chapter III, Article 6 of the EU's Network Code on Gas Balancing of Transmission Networks<sup>13</sup>, but, whereas the words "shall undertake balancing actions" are used in the EU Code, the words "may undertake Balancing Actions" were inserted in MPOC. In Methanex' view the TSP at the time was able to adopt wording that was weaker than should have been the case. We consider it unfortunate that this flaw in Section 3.1 of MPOC should now be used to justify the further weakening of FGLs balancing obligations.
32. Going further, we also raised the concern that in defining Acceptable Line Pack Limits, GTAC sets no objective standards (safe, efficient, reliable) to determine what those limits should be.<sup>14</sup>

**Q7: Do you agree with our assessment of the GTAC curtailment arrangements?**

33. We have significant reservations regarding GICs analysis of the Curtailment provisions in GTAC and we do not agree with its generally positive assessment.
34. GIC has made repeated references to the use of complex algorithms used in curtailment under MPOC and that this will be avoided under GTAC. This finding has been influential in GICs assessment that curtailment provisions in GTAC are more efficient than under MPOC.

Given that MPOC specifies straight-forward pro rata curtailments (see Section 8) we question the veracity of this statement. We also question its relevance, as there is no guarantee that curtailment under GTAC with its multiple allocation methods and alternately requiring Shippers and Interconnected Parties to comply, will make curtailments less computationally complex than MPOC.

35. We also consider that computational complexity is a routine matter for modern computers so question whether this is a serious issue in any event. Methanex considers that practical and

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<sup>13</sup> See Commission Regulation (EU) No 312/2014, Official Journal of the European Union ( available at <http://eur-lex.europa.eu>)

<sup>14</sup> GTAC, Section 8.5

operational complexity is a greater concern in respect to Curtailment and believes the GTAC is materially less efficient or reliable in this regard than is the case under MPOC.

- (a) Allocation of responsibilities to either Shippers or Interconnected Parties, at FGL discretion, increases uncertainty and prospect that a Shipper will be required to comply when it is unable to do so;
  - (b) Insufficient detail regarding how Receipt Point curtailments will be effected.
  - (c) Inconsistency of terms between rights and obligations of Shippers and Interconnected Parties, illustrated by Section 9.5 and 9.6 not applying equally to Interconnected Parties.
  - (d) The removal of Interconnected Party curtailment rights as set out in Section 15.2 of MPOC.
36. Methanex recognises that there may be issues with OATIS that warrant development of a replacement IT system that is more adaptable and cost-effective, but the concerns regarding the inflexibility of OATIS should not be confused with practical arrangements under each of the codes. We do not consider it a valid argument to conflate the shortcomings of an IT system as being shortcomings of the code itself.

### **Section 15.2 and Extra ID Cycles**

37. In the Preliminary Assessment GIC did not provide comments on the implications of the removal of Section 15.2 of MPOC and its replacement with the option of adding additional ID cycles for Shippers to request when required.
- (a) Shippers are not well placed to identify or react to emerging physical constraints, particularly regarding curtailments by injecting parties and large end users on the Maui Pipeline;
  - (b) In some cases multiple Shippers may be involved at an affected Interconnection Point, complicating the coordination of the required re-nominations;
  - (c) FGLs ability to reject an ID cycle request creates added uncertainty; and
  - (d) The time lag between requesting, considering and approving/rejecting a request for an ID cycle will significantly reduce its practical effectiveness.

### **Q8: Do you agree with our assessment of the GTAC congestion management arrangements?**

38. Congestion issues are not a factor on the Maui Pipeline and consequently Methanex does not consider itself qualified to comment on aspects of congestion management.

### **Q9: Do you agree with our assessment of the GTAC gas quality and odourisation arrangements?**

39. Methanex strongly disagrees with GICs neutral assessment regarding gas quality provisions in GTAC.

40. We do not consider that GIC has given sufficient attention to the deterioration in gas quality assurances in GTAC when compared to MPOC:
- (a) Clear obligations placed on injecting parties in respect to compliance and monitoring in MPOC have been replaced by weaker obligations in GTAC; (MPOC 17.2(b) vs GTAC Section 12.2(b))
  - (b) GTAC specifically removes any obligation by FGL to monitor the quality of gas flows (Section 12.8). MPOC establishes clearly implied obligations from the general operation of the RPO standard and explicit obligations in respect to Section 17.6.
  - (c) MPOC places specific obligation on the party responsible for injecting non-specification gas to mitigate (Section 17.7), missing in GTAC.
  - (d) MPOC places specific obligations on FGL to mitigate the effects of non-specification gas generally (Section 17.7). This is missing in GTAC, as Section 12.4 only requires FGL to make notifications to Shippers and Section 12.3 requires FGL only to mitigate its own Loss.
  - (e) The rights of Shippers to request confirmation of compliance with quality assurance is not procured by FGL in GTAC (Section 12.6), and requests in any event are limited to a 9 Month interval (Section 12.7).
  - (f) Under Section 12.11 of GTAC, FGL expressly excludes itself from any liability, except in the (unlikely) event it causes gas to become non-specification after it enters its pipeline. This means it has no liability when it contributes to a Shipper's Loss, including by not performing the limited obligations it does have in GTAC under Section 12 and as a Reasonable and Prudent Operator .
  - (g) Interconnected Parties have no rights or protections at all under Section 12.

41. We have a particular issue with the merits of the following GIC assessment (page 67):

*"We accept that the GTAC (and VTC) wording is **more passive** than the MPOC; essentially requiring that "facilities, systems, procedures and monitoring" are in place but not explicitly requiring the Interconnected Party to monitor the gas. But we think that the **intention is clear**, and the head obligation in the GTAC, and MPOC is the same as that of the VTC (GTAC s12.2(a), MPOC s17.2(a) and VTC s12.2(a)). In each case, it is for the interconnected party to ensure that only specification gas is injected into the pipeline.*

*As under the VTC, the GTAC provides that First Gas is not required to monitor the quality of gas injected into the transmission system (GTAC s12.8 and VTC s12.6). **Methanex points out that there is no analogue to this in the MPOC. We agree, but neither do not find any explicit obligation in the MPOC for such monitoring.***

*Accordingly, we find no significant change to the allocation of risk under the GTAC, MPOC and VTC."*

42. We believe GIC is misrepresenting "passive" wording in GTAC for what is, a substantive reduction in FGLs obligations to protect its customers from the prospect of receiving non-

specification gas. In particular, we dispute that the provisions of Sections 12.8 and 12.11 are passive in absolving FGL of responsibilities and liabilities.

43. We agree with GIC that the principal obligation for ensuring non-specification gas is not injected into the transmission system rests with Interconnected Parties. Our issue is that the injecting party's obligations are not well set out under GTAC. We also consider that FGLs obligation to procure such compliance and to act as an RPO to minimise losses to other pipeline users is missing.
44. We are also concerned that GIC would consider or interpret "intentions" in its assessment of GTAC. Intentions have little bearing in determining contractual responsibility, the principal purpose of a code is to establish clear rules that avoid the need for parties to interpret or trust each other's intentions.

In MPOC, the obligations of injecting parties is more comprehensive and certain, and FGL has some obligation in MPOC to involve itself in protecting customers from non-specification gas (by way of illustration, see Section 17.7(a) and Section 15.1((b)(i)) which are both absent in GTAC).

45. We also wish to make an important point regarding section 12.8 and the absence of an analog in MPOC, which GIC has downplayed. There is a material difference between having an explicit exclusion of any responsibility, as is the case with Section 12.8, and having no specific reference as in the case of MPOC. In MPOC, the parties can infer a certain level of responsibility from the operation of other clauses and, importantly, interpretation of the Reasonable and Prudent Operator standard of behaviour that applies across the code.

#### **Q10: Do you agree with our assessment of the GTAC governance arrangements?**

##### **46. Liability**

In respect to Liability provisions, Methanex agrees with GICs general concerns that the Liability provisions in GTAC result in less certain outcomes than is the case under existing codes and potentially result in a party incurring losses being unable to enforce claims against the causer .

The removal of the back-to-back indemnity in respect to damages incurred by the delivery of non-specification gas is a particular area of concern which has also been acknowledged by GIC.

##### **47. Code Change process**

GIC has acknowledged the issue regarding an unreasonably short timeframe allowed in GTAC for parties (other than FGL) to lodge change requests as a consequence of the operation of the operation of Section 17.9 and the consultation process provided for in Sections 17.4-17.8. We agree with GICs general assessment that this has a substantially negative effect on the fairness criteria (but note that GIC was not consistent in this regard in its top-down analysis).

##### **48. Termination in 2022**

Methanex does not consider that GIC has raised sufficient concern regarding the fixed, short-term nature of GTAC. We consider this a very serious undermining aspect of GTAC, particularly when compared to the enduring nature of MPOC which is consistent with the

long-term provision of shared infrastructure. Although the VTC is an annual arrangement, that particular aspect is recognised as a significant flaw.

For GTAC, once it terminates, there is no continuity of service or access whatsoever, and no contemplation of renewal or extension. We disagree with GICs view that the length of the term of access provides no increased certainty regarding the form of the gas transmission access arrangements.<sup>15</sup> This is true in a very limited sense in that a code change could significantly modify terms and conditions or even extend to complete replacement of the code. The fundamental difference however is that under a code change process:

- (a) Any material change or code replacement would be subject to comprehensive consultation and GIC approval; and
- (b) in the interim, the existing terms and conditions would be required to be maintained. This is not case with the sunset date as proposed in GTAC.

Methanex considers that inserting an expiry date of September 2022 is a convenience for FGL and gives it significant leverage at the time of regulatory reset to substantially vary terms and conditions by replacing the code without needing to adhere to the code change process agreed in GTAC.

#### **49. Confidentiality**

We consider that GIC has insufficiently addressed changes made to confidentiality arrangements:

- Interconnected Parties (including when they elect to be OBA Parties) have no confidentiality protections at all.
- FGL has sought to impose public disclosure requirements in respect to producer and end-user outages which may have significant commercial and legal consequences for those parties which FGL has given no consideration to. Further, FGL has required more disclosure from those parties than it is prepared to provide itself in respect to its own maintenance outages.
- Where a Party considers its information should be kept confidential, the final determination is made by FGL at its absolute discretion.<sup>16</sup> This of particular concern when a Party is required to disclose sensitive information to FGL in order to exercise any of its rights and obligations under GTAC.
- In GTAC FGL is not required to provide specific confidentiality undertakings or provide a process of auditing its confidentiality procedures, which are both requirements that are set out in MPOC.

Methanex considers that GIC has significantly understated the consequences of changes to the Confidentiality arrangements in GTAC compared with MPOC in assessing it as only modestly less fair when compared with status quo.

#### **50. Assignment**

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<sup>15</sup> PA, Page 75

<sup>16</sup> GTAC, Section 20.3(i)

Methanex does not agree with GICs neutral assessment regarding the Assignment provision in GTAC. It may be an unlikely circumstance for FGL to assign its rights and obligations in parts or to separate entities, but it is not prohibited from doing so in GTAC. We note that MPOC does prohibit this and we don't consider that this omission should be minimised by GIC.

### **Q11: Do you agree with our top-down analysis?**

51. To a large extent GICs top-down analysis reiterates the findings in its bottom-up analysis, although there are some inconsistencies which we set out in the following paragraphs. GIC also makes a generally positive assessment in its top-down analysis which Methanex considers does not fairly reflect the significant issues that need to be addressed in the GTAC.

We have summarised our following comments across the five criteria.

**52. Products:**

Although it doesn't directly affect MPOC users, Methanex agrees that the replacement of an annual capacity reservation concept in GTAC is objectively an improvement. However, we also believe this particular issue can be addressed by incremental changes to VTC without wholesale replacement of both existing codes. We also wish to contrast the concern GIC has expressed in respect to the grandfathering aspects of annual capacity reservation with the absence of concern regarding the grandfathering effects of the carry-over of pre-existing agreements from the VTC.

**53. Pricing:**

We agree with GICs conclusion on the disproportionate level of Daily Overrun/Underrun and Hourly Overrun charges. But we disagree that most of the concern should be focussed on Daily Overrun/Underrun and not equally on the flaws regarding the Hour Overrun Charge and the peaking regime in GTAC generally.

**54. Energy Quantities:**

We repeat our concern, raised in our response to Question 4, with GICs conclusion that a single set of technical standards will apply as a matter of course and will reduce costs. That conclusion can't be made without having a Metering Requirements document to review. We do not consider that any positive ranking is justified (as GIC has done in respect to efficiency and reliability).

**55. Allocation:**

GIC has outlined concerns with the drafting of OBA terms in GTAC that make it unattractive, but rating it as only a modestly worse outcome. We consider allocation arrangements to be significantly worse than status quo. We also consider that GICs view that optionality is a positive outcome as a matter of course is presumptive and has strongly influenced it in making its positive assessment. Our view is that the manifest inconsistencies and uncertainties in the drafting of allocation arrangements in GTAC and the fact that the existing allocation arrangements under MPOC have proven successful outweigh the speculative and indeterminate benefits from having optionality, at least on the Maui Pipeline. Overall, we consider that the essentially neutral assessment (modestly worse and modestly better in parts) made by GIC is not justified.

- 56. Balancing:**  
In assessing Balancing, GIC has not sufficiently addressed aspects of line pack/pressure management and the overall reduction in FGLs balancing responsibilities which Methanex considers to be negative outcomes.
- 57. Curtailment:**  
We disagree with GICs assessment regarding the relative complexity of curtailment under MPOC. We do not believe this is a proven or well-supported issue associated with code design, nor do we consider that as a matter of fact curtailment will be less complex in GTAC (in practicalities as well as computationally) than it is under MPOC.
- 58. Congestion management:**  
As this is an issue that does not affect (and is not reasonably expected to) the operation of the Maui Pipeline, Methanex does not consider itself qualified to express an opinion.
- 59. Gas Quality:**  
We strongly disagree with a neutral assessment regarding Gas Quality provisions which Methanex considers to be materially worse in GTAC. We have set out our concerns in detail in our responses to Question 9.
- 60. Liabilities:**  
We agree broadly with GICs assessment in respect to Liability provisions (worse across all key criteria).
- 61. Code Changes:**  
GICs top-down analysis of Code Change provisions is inconsistent with its bottom-up analysis in that it has not address the negative consequences arising from the unreasonably timeframe limitations for lodging change requests by non-FGL requestors. This should have appeared in its assessment against the Fairness criteria.
- 62. Term and Termination**  
We agree with GICs assessment that having a short duration to GTAC is worse than MPOC, though we differ from GICs “modestly worse” assessment in that we regard it as a significant issue. Methanex does not believe there should be any termination date on a code that provides access to shared monopoly infrastructure. It seems that the selection of termination date is simply a convenience for FGL to align with its regulatory reset date. The issue is further compounded by not only having a short sunset date but also having no mechanism to address continuation of transmission services after the termination occurs.
- 63. Confidentiality:**  
Methanex considers the confidentially provisions in GTAC to be materially worse than status quo and we have made detailed remarks on this matter in our response to Question 10. We disagree with GICs remark under the Fairness criteria that it is “generally equivalent to MPOC”.<sup>17</sup>
- 64. Assignment:**  
We disagree with GIC that there is no noticeable change across all criteria in the Assignment provisions. MPOC contains certain requirements that FGL interests are assigned in whole not in part and to a single assignee. This is to protect the interests of Shipper and Interconnected Parties from fragmentation of FGL obligations. This condition has been removed from GTAC

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<sup>17</sup> PA, Page 86

which we consider to be a material deterioration in the rights of Shippers and Interconnected Parties, across all criteria.

## **Q12: Do you agree with our overall assessment?**

65. We support GICs general finding that GTAC is not a material (sufficient) improvement over status quo. But we have concerns that GIC has downplayed a range of significant issues in its assessment that might be given insufficient attention in any further discussion between FGL and stakeholders on improving GTAC. GIC has mentioned in discussions that it considers it important that FGL addresses all material concerns, not just the four particular issues highlighted, but we don't believe this has come out strongly enough in the Preliminary Assessment.
66. We believe that, setting aside the well-canvassed issues with interconnection arrangements and liability provisions, there are a significant number of further negative outcomes under GTAC, particularly for MPOC parties. The issues that are of most concern include:
- (a) Practical application of the proposed allocation arrangements
  - (b) Issues with changes to line pack and pressure management practices
  - (c) FGL balancing obligations
  - (d) Discriminatory aspects of Hourly Overrun, Agreed Hourly Profiles and Specific HDQ/DDQ
  - (e) Availability of unpriced flexibility arrangements
  - (f) Gas Quality obligations
  - (g) Practical aspects of Curtailment arrangements, elimination of MPOC, Section 15.2
  - (h) Pre-existing (and non-disclosed) VTC agreements carried over into GTAC
67. We believe that GICs assessment methodology does not give sufficient weight to the negative and uncertain impacts for MPOC parties. Many of the elements of the GTAC assessed as being neutral or better are based on comparison with VTC arrangements, where in some cases those same elements represent a deterioration for MPOC users. We urge GIC in its final assessment to ensure that features of GTAC that are worse than MPOC are not downplayed or set off against improvements assessed elsewhere, particularly in comparison to the VTC.
68. Given the state of the GTAC as currently proposed and the scale of the issues that need to be addressed to make it materially better, we are unconvinced that development of an all new code by FGL is the correct course of action. Consideration should now be given to whether in the interests of all stakeholders, incremental development/alignment of the existing codes, focussing on the particular aspects of each code that warrant change, is a better course of action going forward.

### **Interconnection Agreements**

69. We consider that the issue of interconnection arrangements has been canvassed comprehensively by GIC. We agree with GICs general finding that FGL's treatment of interconnection arrangement is a substantially negative factor.

## **Park and Loan**

70. Methanex is not opposed to the concept of a Park and Loan service but we consider, as drafted in GTAC, it is part of the wider issue of line pack/pressure management arrangements and the provision of flexibility that we consider to be materially worse than status quo.
71. We believe the uncertainty regarding whether or not Park and Loan is regulated or unregulated revenue is something of a distraction. Methanex would be concerned if FGL were to treat Park and Loan services as unregulated revenue, but it is not clear to us that FGL (a) intends to do so, or indeed considers it feasible to consider it as unregulated revenue and (b) whether in any event the Commerce Commission would allow FGL to treat Park and Loan revenue as being outside the revenue cap.
72. In Methanex' view the issue of uncertainty with the drafting of GTAC regarding Park and Loan revenue is a matter of whether it is considered to be explicitly within the regulated revenue cap, with associated forecasting and annual adjustment for under/over-recovery, or is it treated in the same manner as PRs and incentive charges and immediately rebated back to participants.
73. More to the point, in GIC highlighting this particular issue emphasis has been taken away from more significant concerns associated with line pack management and flexibility arrangements generally. In Methanex' opinion the provisions in GTAC addressing pipeline flexibility and line pack management represent a significant deterioration to the status quo in respect to safety, reliability, efficiency and fairness.
  - (a) Relaxation of TTP obligations, discretion in setting appropriate pressure limits;
  - (b) Line pack management provisions that depart from the mean-reverting objective in MPOC;
  - (c) FGL under GTAC is less pro-active in undertaking balancing actions, more likely to withhold its own balancing actions until after the line pack/pressure has breached a limit.
  - (d) Unpriced flexibility arrangements (AHP, Specific HDQ/DDQ) that encourage peaking; and
  - (e) Hourly Overrun Charges and peaking arrangements that are generally discriminatory and inequitable

## **Ahuroa Storage**

74. The decision by FGLs parent company to acquire Ahuroa gas storage late in the process of GTAC development/consultation is a significant complication given the related party issues (FGL and GSNZ are both subsidiaries of the same ultimate parent company) and the potential for significant conflict of interest between the regulated and unregulated businesses.
75. The other matter of concern to Methanex is linked to the increased use of line pack and pressure range limits contemplated under GTAC. We believe this will increase the propensity for pipeline pressures to be closer to the limits more of the time than is the case under the mean-reverting approach adopted under MPOC. This will increase the likelihood of balancing actions being required to taken by FGL.

While Methanex considers that FGL should be more pro-active in balancing the pipeline than provided for under GTAC (ie that is intervening earlier), the availability of balancing services

from Ahuroa creates a clear potential for conflicts of interest to be present. We also wish to clarify that FGLs position of not taking title of gas in this regard is irrelevant, it is GSNZs ability to set pricing for withdrawal/injection of gas at Ahuroa, in conjunction with FGLs role in managing the operation of the pipeline, that provides the potential for such conflict to arise.

### **Q13: Do you agree that with our analysis of ICAs?**

76. We wish to add some emphasis to GIC findings on interconnection arrangements which we generally agree with. The issue with codification of interconnection arrangements goes beyond ensuring a “meshing” of Shipper and Interconnecting Parties rights and obligations, but also needs to mesh Interconnected Parties rights and obligations with and among each other (and particularly between injecting parties and offtaking parties). In this regard, FGLs decision to have entirely separate ICA templates for Delivery Points and Receipt Points, combined with insufficiently addressing rights and obligations at Receipt Points in the GTAC further compounds matters.

### **Q14: Do you agree with our analysis of Supplementary Agreements?**

77. Methanex agrees with GICs finding regarding Supplementary Agreements in GTAC, that setting out the criteria for those arrangements is insufficient and that further checks and balances are needed to ensure that there is sufficient justification for each such agreement. Methanex considers that there needs to be a sufficient level of industry consultation (and we would also recommend GIC oversight) to ensure that the justification of those agreements is tested against the interests of existing users. That is, that Supplementary Agreements should bring tangible benefits to all users rather than solely benefitting FGL and the particular counter-party to the Supplementary Agreement.
78. We have further concerns relating to Existing Supplementary Agreements set out in GTAC that GIC has not addressed in its assessment. We have commented on this issue in more detail in our Introductory Remarks.

### **Q15: Do you agree with our analysis of nominations?**

79. We have provided commentary regarding our concerns with the GTAC nominations regime in our responses to Question 5. In response to Question 15 and GICs analysis in Section A.3 we have the following comments:
80. We disagree that de-linking nominations receipt and delivery nominations is an improvement. In particular it will make it more difficult to coordinate gas injected and delivered on the Maui pipeline. We don't agree that the existing nominations regime on the Maui Pipeline needs to be abandoned in order to provide improved tools for downstream balancing
81. In addressing the mass-market, we recognise that there are valid concerns regarding limited accuracy associated with downstream nominations and GIC proposes an interesting alternative in the use of TSP forecasting. However, our concerns are that reasonable commercial efforts are made to impose the cost of inaccuracy (be it daily imbalances or peaking) on the causer and not have those costs socialised upstream. This is clearly an issue in respect of peaking incentives under GTAC with the Hourly Overrun Charges applying only at Dedicated Delivery Points.

### **Q16: Do you agree with our analysis of daily overrun and underrun charges?**

82. We agree with GICs conclusion that daily overrun/underrun charges proposed under GTAC are disproportionate when addressing imbalances on non-congested parts of the network and encourage inefficient cost-avoidance behaviour. Having said that we consider that GIC has not given sufficient consideration to the issue of having an appropriate set of incentives to minimise instability and unpredictability of line pack and pressure conditions that arises from daily physical imbalances in the flow of gas into and out of the pipeline system, as opposed to addressing pure congestion.
83. We consider that the approach in GTAC to addressing the issue of pipeline stability is inconsistent. On the one hand it seeks to impose a disproportionately high incentive charges to encourage accurate nominations and stable gas flows while at the same encouraging the use of line pack/pressure (freely, except in the case of Park and Loan) in a manner likely to increase volatility when compared with operating conditions under MPOC. This is then compounded by FGL being less likely to undertake balancing actions itself until the pipeline has or is likely to breach whatever limits have been set.

### **Q17: Do you agree with our analysis of hourly quantities?**

84. Methanex has made a number of comments in respect to Agreed Hourly Profiles, Hourly Overrun and related issues including in our responses to Question 2 and Question 3.
85. In addressing the matter of Agreed Hourly Profiles, GIC has acknowledged Methanex concerns in regard to the inadequacies in its design. Unfortunately GIC has also merged the issues associated with AHPs with Hourly Overrun. This has been unhelpful as it has resulted in the specific issues Methanex has with the application of Hourly Overrun Charges and the provision of tailored Specific HDQ/DDQ being given less attention than we believe is warranted.
86. As a further concern, GIC makes the comment that in its view the discriminatory provision of Hourly Overrun *“reflects the practical difficulties in identifying causer of overruns at a shared DP”*.

We disagree with this view both on practical and principle grounds. Firstly, there is no responsibility placed on FGL in GTAC to make reasonable efforts to identify and apply the incentive charge to end users (or procure that their shippers/retailers identify them) that exceed peaking limits where time of use metering is available, or to incentivise improved forecasting techniques generally where TOU metering is not available. Secondly, as this case with allocating responsibility for daily imbalances on mass-market load, which was given significant attention in GICs assessment, it is inequitable to transfer the costs and risks of peaking behaviour upstream in the opposite direction to the causer.

Essentially the costs of hourly peaking in GTAC will be borne by those few parties at Dedicated Delivery Points that FGL finds it easy to target, and which will include the socialised costs of other users who have no sanction and no incentive to manage their loads, take reasonable steps to pass costs to causer, or improve their forecasting techniques. Under the rebate mechanism proposed in GTAC (and acknowledged by GIC), those users not subject to any sanction for peaking are then, perversely, further rewarded by receiving a share of the Hourly Overrun proceeds in their rebates.

87. We support GICs conclusion that AHPs require further design work. However, we consider that the problems extend more broadly with significant redesign needed on the general approach to line pack/pressure management, peaking incentives and the provision of flexibility arrangements

#### **Q18: Do you agree with our analysis of liabilities?**

88. Methanex agrees with GIC conclusions on the liability provisions set out in GTAC. Liability arrangements between and among interconnected parties and shippers is not adequately addressed.
89. GIC noted the strong views of a number of submitters including Methanex that the provisions on liability provided in GTAC represented a material deterioration from status quo. To a large extent we believe FGL has tried to “reinvent the wheel” in its approach to liability, and the subrogation provisions in particular. We also consider it of particular concern that FGL has eliminated the concise and certain back-to-back indemnity arrangement provided in MPOC in regard to non-specification gas as well as essentially absolving itself on any responsibilities or liability) to protect users from the prospect and consequences of allowing such gas to pass through its pipeline.

#### **Q19: Given that the current, tighter, drafting in the MPOC still results in excursions outside of the 42-48 bar gauge range, what is your view of the revised drafting under the GTAC?**

90. Methanex considers GICs analysis of the recent history of Maui Pipeline pressure to be particularly instructive and we support its conclusion that FGL has not justified relaxation of the TTP obligation and line pack management standards.
91. The data presented in Figure 9 shows that there is a clear mean reverting trend to Maui Pipeline pressure, that is, excursions when they occur are brief and pipeline pressure reverts quickly to a mean trend around 45 bar. 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.
92. We believe that under GTAC pipeline pressures will tend towards the limits more of the time with an increased probability of excursions from whatever limit FGL chooses. This is because some of the features offered under GTAC encourage increased gas swing and the full use of line pack/pressure limits (provided permissively and at no cost) as opposed to maintaining a more conservative (safe, efficient, reliable) pipeline regime as set out in MPOC.

#### **Q20: Do you agree that comparing the ERM charges with bid/ask spreads is a sound method for testing the appropriateness of the quantum of those ERM charges? If not, what would be a more appropriate comparator?**

Methanex has not been able to determine the appropriateness or otherwise of GICs analysis. However, our observation regarding the setting of ERM charges is that the best approach would be

to set at modest level initially and then observe behaviour. The charges can then be incrementally increased to the extent that:

- (a) the initial setting is not having the desired outcome on behaviour; and
- (b) importantly, the incremental changes must demonstrate improved behaviour. There is no particular benefit in continually increasing charges if it has no significant impact on behaviour. If that is the case then alternative approaches need to be investigated instead.

### Q21: Do you agree with our analysis of the incentive charge rebates?

- 93. In the event that GTAC, or an improved version of GTAC proceeds, Methanex believes that immediate recycling of incentive fees is relatively efficient and fair.
- 94. On the rebate mechanism itself we believe that immediate recycling has the advantage of having the timing of rebate/adjustment close to the time the penalty is incurred. This increases the prospect that the causer bears the cost and non-causers are beneficiaries. The drawback with annual rebating or including the charges within the revenue cap (with associated forecasting and adjustment burdens) is that the causer/non-causer relationship becomes less clear over time and there is increased potential to blur the lines between general tariff revenue and incentive revenue, resulting in the prospect of cross-subsidisation occurring in the process of wash-up and tariff reset. We also believe there is likely to be more significant direct costs associated with forecasting and wash-up processes, as well as the indirect costs associated with forecasting error, all of which will be socialised.

### Q22: Do you agree with our analysis of First Gas' discretion?

- 95. To some degree the areas where GIC has assessed the level of FGL discretion relate to issues that have been canvassed in more general terms elsewhere. We don't agree with GICs overall conclusion that FGL has not materially increased its discretionary powers in GTAC.
- 96. We consider GICs assessment of FGL discretion is flawed in the following areas:

**Item 7 - Metering Requirements:** This measure most certainly gives FGL considerably more discretion in GTAC than status quo. GIC has acknowledged as much in its commentary but did not address this matter at all in its overall assessment. We do not consider GIC can draw the conclusion that there will be *"an appropriate level of control on the development of those requirements"*<sup>18</sup> if they are not subject to GIC assessment/approval.

**Item 14 - Discretion to set Specific HDQ/DDQ** – 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 FGLs discretion, between the proper operation of the pipeline system against the commercial requirements of particular end users to be entirely inappropriate.

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<sup>18</sup> PA, Page 128

**Item 17 :** The discretion FGL allows itself in regard to providing capacity is greater than it is under MPOC with no specific RPO measure or reasonable endeavours obligation. We interpret “in the manner it may determine” as equivalent to “absolute discretion”. Combined with the other provision in GTAC relating to line pack/pressure management responsibilities and the provision of flexibility tools this level of discretion reinforces our general concerns about the implication on pipeline operations under GTAC.

**Item 39 - Discretion in setting line pack limits:** We do not oppose FGL having discretion on the day-to-day operation of the pipeline including particular line pack/pressure conditions, provided its discretion is sufficiently described and appropriately bounded. But this is not case in GTAC.

## **Q23: Do you agree with our analysis of public information disclosure?**

Methanex has not identified any specific issues with the list of published information set out in Schedule Two or GICs assessments but we have some concerns regarding Section 20.7.

- 20.7(a): Schedule Two is not an exclusive list which adds uncertainty.
- 20.7(b): FGL can determine for itself to remove information from the list without consultation
- 20.7(c): FGL can amend the list without any consultation

We are also concerned by the implications of the issues we have previously raised regarding the Confidentiality provisions in GTAC and the discretion FGL has to disclose information that a party, acting reasonably, considers should be kept confidential.

## **SUPPLEMENTARY QUESTIONS**

This section of our submission addresses the questions that FGL has invited stakeholders to respond to in its letter dated 8 March 2018.

- 1. How far away from material better do you think we are?**
- 2. How long do you think it will take to re-engage and achieve materially better?**

We have chosen to combine these two questions in one response:

- GTAC is clearly a significant distance from being acceptable to stakeholders or to GIC, not counting the need to address interconnection arrangements comprehensively. Methanex considers that GTAC is materially worse than MPOC across a wide range of issues so we believe it will be challenging to reach a point where it is acceptable without considerable compromises being made.
- If FGL wishes to achieve an effective date for a new code of 1 October 2019, and allowing nine months for IT development, then that provides around six months for consultation, development and approval of an improved GTAC and a new interconnection code. We believe that timeframe is challenging and would require a significant shift from FGL in some of its previously held positions.

**3. Do you have any preferences on how the process should run from here on?**

Our recommendation is that the GTAC is not pursued further and instead FGL addresses changes that are necessary on an incremental basis. We don't believe there is an underlying urgency to make sweeping changes to existing arrangements, in particular to MPOC. Having said that, we are willing to re-engage on addressing GTAC issues and development of an interconnection code, if FGL makes the decision to proceed down that path.

Yours sincerely

Phil Watson  
Methanex New Zealand Limited