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Submissions
Gas Industry Company Limited
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Re: Gas Transmission Access Single Code Options Paper – Part 2

Nova Energy agree with First Gas' objectives set out in the options paper. Mapping the alternative transmission access arrangements against those objectives is not easy however. Nova hasn't landed on a single preferred option, but has considered aspects of each option and comments on each against the questions in the paper.

Nova is prepared to engage in parts of the code development process as appropriate.

Yours sincerely



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Nova Energy submission

Appendix

Responses to the Options Paper

Q	Question	Response
Objectives for the Gas Transmission Access Code		
1.	Do you agree with the objectives proposed in this paper? Are there any other objectives or outcomes that we should be aiming for that are missing?	<p>Nova agrees with the stated objectives, but would to see greater emphasis on reliability of supply. This is essentially a subset of enabling the use of gas, in the sense that consumers need to have complete confidence in supply if they are to invest in using gas. At a wholesale level this means operating a disciplined market, good coordination, and reliable critical contingency arrangements.</p> <p>In addition, Nova would like to see the risk elements explicitly considered. To an extent these are intrinsic to the stated objectives, but it is important that producers, shippers and customers are not exposed to excessive uncertainty, such as imbalances, product quality, or undue liabilities.</p>
2.	Which objectives do you see as most important?	<ol style="list-style-type: none"> 1. Enable the use of gas. This is the fundamental purpose of the pipelines, and every other element must be subservient to this intent. 2. Ensure flexibility. This is the key adjunct to 1. above. Flexibility can enhance the use of gas. 3. Keep it simple. As long as simplicity is secondary to 1. & 2. above, then it helps enable participation in the gas market and reduces the likelihood of people misunderstanding the processes required. 4. Minimise the cost of transporting gas. While the cost of transporting gas makes up a significant component of the total delivered cost, the actual commercial processes involved with shipping arrangements are much less so. The focus should therefore be on optimising the use of the pipeline assets rather than minimising costs. 5. Increase transparency. We would like the system to enable effective real time responses to market conditions as they occur.
3.	Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?	Yes, although we are conscious that details such as what is included in the Code versus Standard Operating Procedures etc. can have a significant impact in the final analysis.
Scope of the Gas Transmission Access Code		
4.	Do you agree that the five other legal or	Yes, Nova agrees that they are relevant.

Q	Question	Response
	subsidiary instruments presented above are all relevant to establishing the boundaries of the new code? Are there any other legal or subsidiary instruments that are missing?	
5.	Do you agree with the way that we have described what should sit inside the code, and what should fall outside? Are there particular elements of the arrangements that we have described as sitting outside the code that you consider should be covered by the code (or vice versa)?	Yes
6.	Are there any other elements to the scope of the code that we should consider?	The work undertaken by the 'Panel of Expert Advisors' between 2012 and 2014 should still be used to inform the design process. While that work was undertaken in the context of a more constrained environment, it did help guide options in respect of areas such as congestion management.
Overview of options for the access regime		
7.	Are there other code options that you believe should be considered in the process of developing a new code in addition to those described above?	<p>The First Gas transmission network is characterised by a 'Production Zone' from Kapuni to Mokau that is essentially unconstrained and has the bulk of the capacity to 'borrow or store' gas. It also includes the reconciliation point for gas trades on EMS Tradepoint. As such, it would be appropriate to apply flows on the day with a simple postage stamp charging mechanism within the zone. That would simplify any trading of gas within the zone.</p> <p>Outside of the Production Zone any one of the other options could still apply.</p>
8.	Are there particular lessons from international experience that you consider First Gas should seek to learn from when designing and implementing the new access code?	<p>We would be wary of trying to apply regimes designed for overseas market. While New Zealand's objectives may not be unique, other markets also have constraints and unique attributes that have driven the design of their particular rules.</p> <p>New Zealand has a relatively small system with no interconnection with other markets and that may allow significant simplification compared to wider interconnected networks.</p>
9.	How much focus do you think should be placed on ensuring that transmission	Access arrangements should not be allowed to hinder development of the wholesale gas market, but nor should it be required invest significantly in enhancing the market. That is the role

Q	Question	Response
	access arrangements facilitate further development of the wholesale gas market? Are there particular features of a new access code (in addition to short term availability of capacity) that are important?	of other parties.
Option 1: Menu of capacity products		
10.	Do you have a view on whether the priority right product should be designed as an option (subject to nominations) or a fixed property right?	The priority right product should be designed as options and still be subject to nominations and be available to shippers and customers to hold.
11.	Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?	<p>Yes, priority rights are of significance where there is a risk of congestion impacting on existing users, or where a new user needs some security of tenure before committing to invest capital to a new venture. They also serve to provide a signal to all users of the gas network when there is a perception that a transmission constraint might occur under some circumstances. As an option, a priority right will always have some economic value.</p> <p>The value of a priority right may not be high for long periods of time or for those parts of the transmission system that are unlikely to become congested, but it still provides a tool for allocating capacity and costs in the event of a critical contingency.</p>
12.	Do you have any views on the broad features of the priority right product, such as the length on the contract, the frequency of booking rounds, etc.?	<p>The details of this would obviously need to be worked through, but we offer the following thoughts:</p> <p>A priority right product could be anything from a long term provision negotiated with the pipeline owner to satisfy a fixed capital investment, or a short term mechanism to allocate rights during a period with a compressor outage.</p> <p>Such priority rights should be available for a variety of terms, or in some cases have renewal rights so that parties can be confident in making significant long term investments.</p> <p>Extended, or renewable rights could work if the holding cost of the priority right was charged at x% of the weighted average price of traded capacity. As such the priority rights holder could retain security of supply, but would still be sensitive to the effects of congestion and costs on the</p>

Q	Question	Response
		<p>affected part of the transmission system.</p> <p>In the normal course of events, priority rights could extend for 3 years, with 1/12 of the capacity renewed by tender on a quarterly basis. It would also be useful if a secondary market was established to cater for changes in market shares over time.</p> <p>A key feature of any form of capacity rights is that that parties shipping gas in excess of their rights need to face significant penalties if they breach their allocation to gas, i.e. if the penalty is negligible, parties will not be incentivised to secure rights to capacity. In the event of any constraint on capacity, rights holders could face significant economic costs if gas they had rights to was instead taken by unauthorised shippers. For instance, a shipper would need to hold capacity rights to meet any residential demand because it is most unlikely to be able to reduce that demand in the event of a supply curtailment.</p>
13.	Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?	<p>Nominations provide an indication of how much priority capacity will be used and what that leaves for non-priority (interruptible) gas shipments. They can also be used for determining shipping charges.</p> <p>If priority rights extend for three years or so, nominations could be set each month in advance, with amendments on a daily basis from 12:00 midday the previous day through 22:00 on the day. Access to change nominations should be continuous within the designated time of day.</p>
14.	Do you have any preferences on the allocation methodology at receipt points and delivery points (OBAs, rules based approaches, or a combination of different approaches)?	<p>The allocations should be based on metered quantities on a zonal basis. While managing the balance is important, the actual volume at different gates is less so given the available capacity.</p> <p>While the Operational Balancing Agreement may be workable across the limited number of receipt and delivery points on the Maui pipeline, it could prove to be less efficient if applied to all delivery points across the wider pipeline system unless a zonal approach was taken.</p>
15.	Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?	<p>A valuable feature of this regime is the signal that it provides for certainty of capacity rights, and the benefit that those rights also have for parties that wish to be secure in making long term investments.</p>

Q	Question	Response
Option 2: Daily nominated capacity		
16.	Do you have any views on how scarcity should be signalled if a daily nominated capacity option was developed?	<p>Historical congestion information will help guide the future.</p> <p>For a Shipper, determining the optimal level of daily capacity to book is a function of expected demand, demand volatility and uncertainty, and the relative costs of capacity charges, overrun fees, and balancing costs. As such, and depending on design, the sum of total capacity booked may not provide the best estimate of the amount of gas to be shipped on any day.</p> <p>Scarce capacity is therefore probably best indicated by forecasting volumes shipped from the basis of past data overlaid with specific forecasts from major users.</p> <p>If consumption schedules are provided, modelling could show what demand conditions could result in congestion occurring. At that point the market is notified and an auction for the available capacity could be held.</p>
17.	Are there any elements of the daily nominated capacity option that you consider should differ from capacity nominated as part of a menu of capacity products (option 1), such as the frequency and timing of nomination cycles, and the role of nominations?	<p>As per Question 13, Nova believes that nominations should be able modified or amended at any time on a day and not be constrained to discrete times on a day.</p>
18.	Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?	<p>The Daily nominated capacity option does not seem to offer any particular advantages over the full nominations in advance or Flow to demand service.</p> <p>The key issue for this option and Flow to demand is to ensure that shipping costs are fairly allocated across all users of capacity, i.e. users that use gas only during the peak winter demand should pay much the same amount for that capacity employed as a user with a flat usage profile across the year.</p> <p>Daily nominations are also not particularly helpful in assisting pipeline users in managing during periods of congestion. Users that cannot obtain certainty over a period longer than a day ahead may instead make alternative arrangements at a higher cost that may not in fact be required and result in an inefficient outcome.</p>

Q	Question	Response
Option 3: Flow to demand service		
19.	What information do you think it would be realistic for shippers to provide as forecasts for managing the transmission system under a flow to demand service option?	Under the flow to demand option forecast demand is clearly critical in situations where there are potential capacity constraints. User forecasts are unlikely to be adequate unless there is a sufficiently strong incentive to develop, maintain and provide these. If such systems replace the Nominations required in the Menu of capacity products option, then there would seem to be little advantage for shippers.
20.	What information would you require from First Gas to provide you with confidence in security of supply both in the short and long term under this approach?	<p>As long as First Gas can demonstrate that there is sufficient capacity available under normal circumstances, then shippers can be expected to have confidence in the security of supply. An annual review of expected capacity utilisation would be a useful way of communicating that. The review could also include a survey of gas retailers to ascertain in advance if there are any anticipated significant changes in demand that should be factored in to projections.</p> <p>Difficulties may arise, however, if and when constraints occur because of exceptional circumstances, and some consumers are required to reduce consumption.</p>
21.	How dynamic do you think pricing should be under a flow to demand service approach?	<p>Pricing could be dynamic and linked by a formula related to capacity utilisation on a day. The formula could even be non-linear, increasing more rapidly as the pipeline approaches its limits, thus ensuring some flexibility even at the extremes. This would give a clear economic signal to the value of the resource employed and encourage efficient utilisation of the capacity.</p> <p>The difficulty of this for gas shippers and retailers is that it is difficult for them to project their costs and structure customers' charges in a cost reflective manner, i.e. the variable charges would only likely flow through to a very small percentage of major gas users. A far easier model to work with would be a fixed daily charge set in advance based on seasonal and weekly demand patterns, i.e. high charges on winter peak days and low charges during the summer holidays.</p> <p>Another alternative would be to offer both options, where major industrial customers and electricity generators could adopt the dynamic pricing if they have the demand flexibility to respond to price peaks, while all other users pay on the basis of a fixed daily rate. Clearly there would need to be careful consideration on how to ensure such a pricing structure is equitable.</p>

Q	Question	Response
22.	Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?	The Flow to demand service has some appeal so long as the capacity management and pricing issues can be managed.
Link between access options and system characteristics		
23.	Do you believe that the new code access arrangements should reflect the physical constraints on the transmission system? If so, which option does this support in your view?	<p>Yes.</p> <p>The trading arrangements need to reflect the physical attributes of the system, particularly throughput capacity and flexibility in storage. Processes such as balancing should not be excessively tight if there is flexibility in the system to absorb a certain level of under and overs, but nor should throughput become constrained by excessive imbalances.</p> <p>It is also important that capacity that is physically available is then made available to shippers, rather than being unused because it is 'locked up' by parties that have rights but will not be using the capacity on the day.</p>
24.	Do you have any views on how capacity on the system should be defined and priced (i.e. between points or between zones or between points and zones), and why?	<p>It would seem that Capacity can be determined between zones, sub-zones and delivery points. For example, the Bay of Plenty could constitute a zone, with a defined capacity, while the East Cape is a sub-zone within that, and Rotorua a delivery point with fixed capacity. The area north of Auckland can be similarly defined.</p> <p>It would also be useful if the trading system employed could provide a real time view of demand on the system.</p>
25.	Of the options described in this paper, which do you prefer and why?	<p>Nova is open-minded on the particular option selected, as long as it is consistent with the objectives above.</p> <p>It is important in the code that parties can rely on firm capacity rights in the event of pipelines becoming congested. It is also important that those rights can be freely traded as and when congestion occurs. There is also a risk, of course, that parties may choose to 'lock-up' capacity rights or capture excessive rentals for capacity rights, and that also needs to be managed through careful market design.</p> <p>The way in which each option is priced is also important to shippers, as these charges must be</p>

Q	Question	Response
		able to be translated into firm prices for consumers.
Code governance		
26.	Do you have any preference on the legal form for the new code, and who should be counterparties to the new code?	Nova favours short form contracts with the pipeline owner that refers to a common code. Interconnection Agreements (ICAs) should be separate bilateral agreements.
27.	Are there particular code change processes or features that you consider important or valuable for the new code?	<p>The processes required to make changes to the Code are important. Neither the VTC nor the MPOC has been entirely satisfactory. Nova suggests the following process for consideration:</p> <ul style="list-style-type: none"> • It is reasonable that any party should be able to make a change request. • The GIC should act as a first filter on the change request; with the GIC able to reject the change (if it is deemed frivolous, or otherwise can be dealt with in a different manner), negotiate with the requestor to have the requested change modified, or consult with Shippers on the form of the change request. • The GIC can determine the final form of the change request. • Once the form of the change request is finalised it should be assessed against the GIC objectives. If it can be shown to provide a net market benefit it should then be formally consulted on with Shippers and connected parties. • The change request may be modified following consultation, but otherwise be agreed if supported by 50% of shippers by number or 75% by volume.
Balancing, linepack management and allocation		
28.	Do you agree with the comments on balancing and linepack management above? If not, why not?	Yes. We support the concept of balancing at a total pool level rather than in the micro level.
29.	Are there any particular arrangements for balancing and linepack management that are not discussed in this paper that you consider critical to include in the new code?	There may be a case for a specific 'standardised' agreement relating to a party contracting to provide balancing gas for operational purposes. There has not been sufficient liquidity on the EMS TradePoint platform to always result in market based pricing for balancing trades and that situation does not look like changing. As an alternative, First Gas should be able to periodically (weekly, monthly or quarterly) tender for parties to be on call to either provide or take balancing gas up to specified volumes each day at a fixed price. This would be a transparent arrangement and contracted parties would have to be able to meet stringent criteria. The intent would be to

Q	Question	Response
		<p>manage smaller day to day fluctuations in imbalance and not major supply shortfall events. Separate arrangements should exist for including the last resort of applying the critical contingency regulations.</p> <p>The cash out tolerances are too tight currently in relation to the accuracy of the data that parties are working with. This is creating extra workload for no real benefit.</p>
Non-standard Agreements		
30.	Do you agree with the comments on non-standard agreements above? If not, why not?	Yes
31.	Are there any particular arrangements for non-standard agreements that are not discussed in this paper that you consider critical to include in the new code?	Yes
Gas quality		
32.	Do you agree with the comments on gas quality above? If not, why not?	Yes
33.	Are there any particular arrangements for gas quality that are not discussed in this paper that you consider critical to include in the new code?	First Gas needs to consider the relationship between users' insurances that contributes significantly to the protections against loss resulting from gas quality issues caused by third parties and that are beyond the control of the affected party. Loss mitigation is not something that parties solely rely on the code for and the extent of each party insures its activities is based on each party's assessment or the risks it is willing to bear or manage itself. Parties can also protect themselves directly from gas quality issues through gas monitoring and treatment at their gas consumption sites.
Next steps		
34.	Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?	Nova supports the top down approach to a code convergence process.
35.	Are there particular issues or aspects of the new code that you would particularly	Nova will be happy to remain involved in the process of developing the Code.

Q	Question	Response
	like to be more closely involved in, including by participating in workstreams to prepare code exposure drafts and working papers?	We also recommend including users in the assessment of IT systems at an early stage. This should help to achieve 'buy in', or user acceptance of the new system. Users may also recognise some useful attributes not necessarily picked up by First Gas.