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Nova Energy Limited  
PO Box 10141, Wellington 6143  
[www.novaenergy.co.nz](http://www.novaenergy.co.nz)

## **GAS TRANSMISSION ACCESS CODE**

### **COMMENTS ON THE SECOND REVISED DRAFT**

**Submission prepared by: Paul Baker, Nova Energy**

#### **1 Overview**

- a) Given the extent of discussion and scope of changes already proposed to the second draft GTAC, it is difficult to scope comments around the draft as it stands, or the proposed changes, yet to be published. This high level comment focuses on what appears to be areas of contention where the final industry position does not appear to be resolved.
- b) We note that many participants (including Nova) have not had the benefit of significant involvement of legal advisors to date primarily due to the changing state of the Code. Nova believes that it will be necessary for the code drafting to be fully scrutinized before it is implemented to ensure that the code drafting is robust and free of ambiguity. Nova recommends that First Gas undertakes to commission such a legal review after the GIC has reviewed the GTAC and determined that it is materially better. Any changes resulting from that review could be incorporated using the code change process within the GTAC.

#### **2 Rebates**

- a) As Nova has previously submitted, rebates for PR revenues, overrun charges etc. should be distributed in the same month that they are charged to shippers or Interconnected Parties. There are several reasons for this:
  - The penalties imposed and to be rebated during the month are directly related to the DNC charges for the same month. Without this;
    - parties may have a substantially different gas demand in a later period, and therefore there can be a significant mismatch between penalties and rebates;
    - parties that incur high penalties through the summer period may receive lower rebates due to low winter demand if the rebate is merely reflected in the DNC charge;
    - Shippers can accurately track their relative market performance and make the appropriate adjustments to their processes as they compare the penalties they pay and rebates received.
  - Major gas users are free to negotiate with shippers to receive a share of the rebate if they think that there is sufficient value in doing so. In return, the Shipper may well expect the major gas user to cover any penalties incurred as a result of their actions.
  - Gas retailers are not then forced into passing through the same level of prices changes from year to year as a result of fluctuating gas transmission charges due to First Gas making adjustments purely for the purpose of balancing its regulated returns

- Transparency of transmission charges will be able to be maintained in market competitive processes as retailers will be able to directly refer to published transmission pricing schedules without having to take into account and adjust for the likelihood of penalties.

b) Nova therefore continues to fully support the Rebates methodology.

### 3 Daily Nomination Cycles

a) Nova proposes a significant change to nominations cycles. Having reviewed the prospective systems, and penalties regimes applying to Hourly and Daily Overrun Charges, we believe that more frequent and regular intra-day (ID) nomination cycles will assist in the orderly operation of the transmission system and overcome some of the concerns around deemed flows, hourly profiles etc.

b) Nova proposes ID cycles occur as per the following schedule:

<u>Cycle</u>	<u>Close-off</u>	<u>Effective</u>
• CP	16:00 (Day before)	
• ID1	21:00 (Day before)	
• ID2	02:00	03:00
• ID3	06:00	07:00
• ID4	10:00	11:00
• ID5	14:00	15:00
• ID6	18:00	19:00
• ID7	22:00	23:00

c) We note the Shippers need not be bound to amend nominations at every cycle, but the additional intra-day cycles should provide sufficient flexibility for Shippers to adjust and balance their position as event unfold through each day. It is likely, for instance, that most Shippers would not be making changes on ID2 unless they become aware of a changing circumstance that necessitates a re-nomination at that time. Such circumstance would not necessarily be significant enough to call for an emergency nomination however.

d) The most important additions are the additional ID2 and ID3 which gives the Shipper the ability to respond to overnight events that otherwise would normally result in deemed flows occurring up until 11:00 a.m. on the day.

e) This revised timetable should reduce the need for emergency cycles very significantly. In addition, given the shorter time between cycles, it then becomes appropriate for deemed flow to apply up until the ID cycle prior to the relevant cycle that a change is sought for. This also reduces the need for Shippers to call for an emergency cycle in order to manage short term mismatches.

#### **4 Hourly profiles**

- a) Hourly profiles and incentives to manage hourly off-take have a role where there is a clear risk of a Shipper or Interconnected Party using gas at a rate that is going to adversely impact First Gas ability to manage line-pack or other parties' ability to use gas.
- b) The GTAC does not clearly state the conditions under which First Gas might need to impose restrictions on hourly demand, other than the obvious physical capacity of Delivery Points.
- c) Nova proposes changes to the GTAC that provides a default position that Shippers or Interconnected parties shall only be required to operate within maximum hourly volumes to the extent that those restrictions are necessary to protect First Gas' equipment or ability to meet its obligations under the Code.

#### **5 Priority Rights**

- a) While Nova accepts the desire for Shippers holding PRs to have the flexibility to exercise those rights up to ID4 (or ID7 in the case of Nova's preferred ID cycles) it is clear that this is unworkable and does not adequately incentivise PR holders to work closely with their customers to manage their gas demand in the event of pipeline congestion.
- b) Nova proposes that Shippers should be able to exercise their PRs through DNC up until no later than 10:00 a.m. on the day (currently ID2, but ID4 on the above proposed schedule). After that time any increase in DNC is deemed to be above the PRs already exercised.
- c) Of course, on its own that would incentivise PR holders to nominate maximum DNC up to their PRs at that time, and then reduce them later in the day as they confirm their shipping quantities. It is for this reason that Nova believes PRs must be treated as options; that is to say that Shippers must pay to exercise their PR options on the day. The exercise price would need to be determined as part of the specifications for the auction process.
- d) By treating PRs as options, and setting an appropriate price to exercise those options, then Shippers will only exercise sufficient PRs to meet their DNC requirements. The remaining available pipeline capacity would then be immediately freed up for use by other Shippers.
- e) Under this arrangement, the PR auction would be for PR options and prices would still reflect the value placed by Shippers and their end-users on rights to capacity when congestion is expected to occur.
- f) This would also minimise the probability of Shippers effectively locking out other Shippers through purchase of PR Options. Not only would they need to overbid other Shippers to secure the options, they would also need to pay to exercise those options on the day to prevent other parties from simply nominating DNC up to the available remaining capacity.
- g) We also note that Nova does not believe that there will be an issue of capacity "hoarding" as:
  - i we think it unlikely to be a risk, and
  - ii in any event if there was a risk, such an advantage would be short-lived due to the finite life of PRs.

#### **6 Target Taranaki Pressure (TTP)**

- a) Nova agrees with Shell's position that the pressure on the Maui Pipeline should not be held at near the top of the target pressure for significant periods of time without First Gas taking some form of corrective action. Nor should the pressure be allowed to sit at or near the lower end of the scale as both conditions lead to much higher risk of breaching the limits, causing emergency action to be taken and/or Critical Contingency Management Regulations being invoked.

- b) As a result, Nova is nominating that First Gas' should have an objective of maintaining the Maui Pipeline pressures within a, to be agreed, tolerance level (e.g. between 43 and 47 barg i.e. within 1 barg of the outside limits for the TTP) for predetermined percentage of the time, say 95% (refer clause 7.13(e)). We note that the electricity System Operator has a similar process with respect to system frequency in the electricity market.
- c) While there is no specific sanction specified against First Gas should it fail to meet this standard, it is Nova's view that the Commerce Commission should consider that as a relevant performance measure when assessing First Gas' regulated returns.