



Gas Industry Company
By email: info@gasindustry.co.nz

Attention: Ian Wilson

23 December 2016

Dear Ian,

Submission in response to Gas Transmission Access: Single Code Options Paper (November 2016) "SCOP2"

OMV New Zealand (OMV) thanks First Gas and the Gas Industry Company for the opportunity to provide input to the development of a single code for the New Zealand gas transmission system.

OMV is a producer of gas in New Zealand, being a joint venture participant in the Pohokura and Maui fields. OMV has also been a key supporter in the development of transparent wholesale gas markets in New Zealand and, until the recent sale to First Gas, was involved in the governance of the Maui Pipeline.

Having secured ownership of the entire gas transmission network, First Gas is in the enviable position of being able to put in place unified arrangements, however this process is time constrained to an extent by the apparent need to replace the gas scheduling system (OATIS).

Under the SCOP2 paper, feedback has been invited on 35 questions, however at the industry workshop on 5 December, First Gas identified three key questions on which industry participants are invited to provide feedback. OMV will focus its comments on these three questions, however we will address them in reverse order.

Are there any other options for code direction that you think we should consider?

It is interesting that the status quo was not presented as an option. This has the advantage of being the least cost, both in terms of industry learning curve and impact on upstream and downstream arrangements. It would also have the advantage of being the quickest to implement as an appropriate IT system could be procured and rolled out within 12 to 18 months with little or no interruption to the industry.

However OMV does not advocate simply replicating the current arrangements. Instead we favour an approach best described as the "status quo tweaked", whereby the current known short-comings with the current arrangements are addressed, such as:

- MPOC AQ has never been implemented and no analysis has been presented on whether AQ can, or should be, rolled out across the wider network,

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- The current VTC balancing arrangements, making use of a few BPPs, don't provide the TSO with any comfort that control is being exercised to ensure receipts match deliveries, and,
- The clearly anti-competitive VTC arrangements, such as grandfathered capacity rights and the requirement for incumbent shippers to agree allocation arrangements at delivery points, are addressed.

Which direction to you prefer and why?

Given the lack of detailed information provided by First Gas in its second options paper (SCOP2) and the industry workshop, Option 1 could be considered as the "status quo tweaked". Therefore OMV favours Option 1 if it is viewed in light of the comments made above.

Are the objectives the right ones?

First Gas has stated that their objectives in assessing the new code are that it is enabling, efficient, simple, flexible, and transparent. OMV agrees that these are worthwhile objectives, and suggests that these objectives are used as a test against the current arrangements to identify the specific issues which need to be addressed.

OMV would also strongly encourage First Gas to include consideration of the OBA principles in the design of the new code. These are stated in the definitions section of the MPOC, but are discussed below, including some implications of the principles:

- A shipper's allocation of gas at a "balancing zone" is deemed to be its approved nomination.
 - Title tracking is simplified, and is fundamental to the basis of the current spot market design
 - Nominations are confirmed only if the pipeline has the capacity to deliver the gas, therefore on an operational level nominations for capacity and gas should be considered as intrinsically linked
- Any imbalance is allocated to the party responsible for the balancing zone, and that party undertakes to minimize imbalances
 - Control in maintaining systems performance is assumed to lie with those parties best able to control it
 - Downstream balancing zones (perhaps subsets of the current VTC BPPs) should be required to have a party obliged to take responsibility for imbalances which could lie with the TSO or contracted commercial agents
 - This also allows for the possibility that large points on the non-Maui parts of the network could be compelled, or elect, to take responsibility for control

Finally there are two issues which OMV considers lacking from the SCOP2 paper which are crucial to the successful timely implementation of new transmission arrangements.

First Gas has so far been unclear on how the new transmission arrangements are to be put in place, other than passing references to "industry agreement". As Mark Twain reputedly said, history doesn't repeat



but it often rhymes. In the gas industry the rhyme which keeps recurring is that there may be broad agreement on high level concepts, however when the detail is discussed, this agreement breaks down.

As the VTC expires annually and the MPOC has a defined code change process, the new code could be put in place making use of these, but would put the onus on the GIC to ensure the new arrangements better met the objectives of the Gas Act and thereby taking into account a wider set of interests than those of the parties directly connected with the transmission network.

OMV also calls on First Gas to provide guidance on how it intends to allocate and recover revenues across the network. This guidance will be fundamental to design choices, but also First Gas should be designing the code and revenue recovery mechanisms in parallel to ensure that the code is not only fit for the present, but is also set up to generate the economic signals which may be required to facilitate future investment.

OMV thanks First Gas and the Gas Industry Company for the opportunity to provide this feedback on SCOP2 and welcomes the opportunity to discuss this submission in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nick McDougall'. The signature is fluid and cursive.

Nick McDougall

Commercial Executive