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## TRUSTPOWER SUBMISSION: GAS TRANSMISSION ACCESS: SINGLE CODE OPTIONS PAPER – PART 2

### 1 Introduction

- 1.1.1 Trustpower Limited (Trustpower) thanks the Gas Industry Company (GIC) and First Gas Limited (First Gas) for the opportunity to submit on the *Gas Transmission Access: Single Code Options Paper – Part 2* consultation paper (the Consultation Paper).
- 1.1.2 Trustpower's general comments on the Consultation Paper are below. Our answers to the specific questions posed in the Consultation Paper are attached in Appendix A.

### 2 General comments on shortlisted options

- 2.1.1 Trustpower has considered the shortlist of available options for the new Gas Transmission Access Code (GTAC), and believes that they represent a fair set of shortlisted options for gas transmission access. The options are representative of different allocations of risk and complexity to the Transmission System Operator (TSO) and those transporting and using gas.
- 2.1.2 We believe that the second option, daily nominated capacity, could be extended to allow for the expectation of scarcity through the auctioning of priority transmission rights, as proposed in option 1 (menu of capacity products). We consider that the allocation of firm capacity products proposed under this option when the likelihood of scarcity is not significant will increase administration costs to the system overall, and potentially increase the complexity of participating in the downstream gas market.
- 2.1.3 Trustpower has strongly advocated on the need for greater transparency in the New Zealand gas markets. This does not only apply to special transmission arrangements, but also to planned and unplanned production outages. Greater transparency will ensure that all participants in the wholesale gas market are acting and trading on the same information.
- 2.1.4 We would like to see any new Code enhance the requirement for events that have the potential to influence market prices or transmission congestion, to be signalled clearly to the market before the causer party has the ability to trade on inside knowledge, thereby influencing market prices. We believe that this will encourage new parties into the market, and assist in the growth of downstream competition.

- 2.1.5 We do not see option 3, flow to demand service, as being feasible to implement. This option could dilute any transmission scarcity signals to the market, and relies too heavily on the forecasting accuracy of participants, with little incentive for accuracy. We believe that this option will create more problems than it attempts to solve.
- 2.1.6 Trustpower is encouraged by the thought that First Gas has given to the future GTAC, and supports the direction that First Gas is taking with its development.
- 2.1.7 For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

A handwritten signature in black ink, appearing to read "C. Schubauer".

**CRAIG SCHUBAUER**  
**WHOLESALE MARKET MANAGER**

SCOP2 Gas Transmission Access Single Code Options Paper - Part 2.docx

## Appendix A: Responses to consultation questions

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?	1.1 Yes. Trustpower views gas transmission access as key to enabling downstream competition. The objectives proposed by First Gas look to promote effective competition in the downstream gas market.
2. Which objectives do you see as most important?	2.1 Trustpower considers the most important objective to be enabling the use of gas. All the other objectives are a subset to enable greater ease of access; however, explicitly stating them ensures that the other objectives are considered.
3. Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?	3.1 Yes.
Scope of the Gas Transmission Access Code	
4. Do you agree that the five other legal or 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?	4.1 Yes. We believe this is a list of all the relevant instruments that require consideration at this stage.
5. Do you agree with the way that we have described what should sit inside the code, and what should fall outside? Are these 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)?	5.1 We agree with the approach that First Gas is taking. Our view is that the GTAC should set the high level rules for the various instruments, such as responsibilities and methodologies for how fees are charged, whilst retaining sufficient flexibility to develop priority rights specific to each situation.

Question	Response
6. Are there any other elements to the scope of the code that we should consider?	6.1 No.
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?	7.1 Trustpower supports option 2, daily nominated capacity, but we believe there is scope to allow for the auctioning of a firm capacity option should the likelihood of scarcity become significant. We suggest this could be triggered when the probability of scarcity over a defined period exceeds a predetermined threshold. Having a firm capacity right when there is no scarcity will increase the complexity of transmission arrangements, and add administrative burden to both First Gas, and participants.
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>8.1 No. We believe that New Zealand’s gas transmission system is unique, and as such international practice has little bearing on what would best suit New Zealand.</p> <p>8.2 We do not support an entry-exit approach to transmission access. Entry-exit type arrangements allow for capacity to be transported through a zone of capacity, where there are multiple paths to transport gas from source to sink. Whilst this could be implemented in New Zealand, there is predominately one route for gas to take between source and sink, i.e. through the Maui Pipeline, implying that a cost per kilometre charge will provide greater clarity regarding the cost of the transmission service, with no added complexity. We believe that implementing an entry-exit type arrangement will add a level of opaqueness to the pricing regime for transmission access, with no benefit to the market.</p>
9. How much focus do you think should be placed on ensuring that transmission access arrangements facilitate further development of the wholesale gas market? Are there particular features of a new	9.1 We consider the development of the wholesale gas market vital to the promotion of downstream competition, and ensuring that the price of gas is efficient and transparent.

Question	Response
<p>access code (in addition to short term availability of capacity) that are important?</p>	<p>9.2 We believe that enhancing the transparency requirements in the Code will ensure that all parties are acting on the same information. The current lack of transparency in the wholesale gas market can be viewed as a barrier to entry for, or inhibitor of action by, other parties as a result of asymmetric information.</p>
<p>Option 1: Menu of capacity products</p>	
<p>10. Do you have a view on whether the priority right product should be designed as an option (subject to nominations) or a no notice fixed property right?</p>	<p>10.1 We believe that the priority right should be implemented as an option. If it is reserved as a no notice fixed property right, then there is the possibility that capacity hoarding could occur, and the requirement for the holder of the right to accurately forecast flows on the pipeline is removed. This has the potential to exacerbate issues in a scarcity situation.</p>
<p>11. Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?</p>	<p>11.1 Trustpower believes that priority rights should only be introduced when there is an expectation of scarcity. Administering a priority right when there is no congestion will add administrative burden to the TSO, and increase the complexity of the system. Once a priority right threshold has been triggered, based on forecast system utilisation, a clear signal would be sent to the market that there is a congestion issue on the particular part of system.</p>
<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>	<p>12.1 In order to shape any priority right to match offtake, products should be no longer than quarterly with, at a minimum, annual opportunities to change the amount of reserved capacity.</p> <p>12.2 Managing a seasonally variable consumption pattern with annual capacity forces parties to carry surplus capacity in off-peak periods, increasing the cost to peaky consumers (such as Mass Market customers), and incentivising alternative fuel usage.</p>

Question	Response
13. Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?	13.1 Trustpower believes that nominations are the best means of indicating expected flows. The current nomination cycles are a minimum requirement, with an ideal outcome being allowing parties to nominate a flow at any time, to ensure that gas flows are as flexible as possible.
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)?	14.1 Trustpower has not formed a firm preference regarding the allocation methodology at this stage. We can see the merits of having the flexibility of operating under OBA's, however, a rules based approach could provide greater certainty to the market.
15. Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?	15.1 Trustpower believes that there is a need to ensure that the mix of capacity products will allow effective downstream competition. Placing a requirement for Mass Market and seasonal retailers to book firm capacity over an annual period will increase the cost to end consumers, as capacity will need to be booked at a higher level for much of the year.
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?	16.1 We believe that First Gas should produce a forecast of expected utilisation of the pipeline for a defined period, covering multiple years. There could also be an auction of capacity for quarterly periods, should scarcity look possible. This will allow parties to hedge some of their exposure to capacity, and provide an indication of the expected utilisation of the pipeline through a willingness to purchase product.
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	17.1 No.

Question	Response
<p>timing of nomination cycles, and the role of nominations?</p>	
<p>18. Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?</p>	<p>18.1 We believe that the daily nominated capacity option will provide the most effective form of title tracking, which is vital for the effective functioning of the wholesale gas market.</p> <p>18.2 We believe that nominating daily capacity will provide greater flexibility to parties, and improve their response to transmission scarcity should it arise. This will also reduce barriers to downstream competition by placing all parties on the same level, without peaky consumers having to carry unutilised capacity in off-peak periods.</p>
<p>Option 3: Flow to demand service</p>	
<p>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?</p>	<p>19.1 Shippers should produce a forecast of the number and type of customer in each location. If the customer is not Mass Market, and is non-conforming load, then forecast consumption should also be provided.</p> <p>19.2 Trustpower has previously highlighted the issue of decentralised Mass Market consumption forecasting, with individual parties exerting differing levels of effort and accuracy, and the aggregate representing the sum of all errors.</p>
<p>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>	<p>20.1 Security of supply should not be signalled to the market by a capacity price alone. We believe a clear forecast of expected congestion for a period of at least 12 months based on forecast gas consumption by region, and an indication of how the TSO plans to manage any specific scarcity situation would provide valuable information to the market.</p>

Question	Response
21. How dynamic do you think pricing should be under a flow to demand service approach?	21.1 Under a flow to demand service regime the price should be relatively stable, but fluctuate to indicate utilisation. A parallel here is the nodal price in electricity. As flows to a region increase, the price should increase to indicate the higher utilisation of a pipeline, and increasing likelihood of scarcity.
22. Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?	22.1 We believe that the structure of the flow to demand service option will reduce signals of scarcity.
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?	23.1 Yes. We believe that option 2, daily nominated capacity, with the extended ability to perform auctions for higher priority products should scarcity become increasingly likely, will best reflect the physical characteristics of the system, whilst minimising the complexity when scarcity is not an issue.
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?	24.1 We believe that gas should be nominated between zones, with each zone encompassing an area which can be managed without daily nominations. Pricing within the zones should be done <i>ex post</i> , based on actual metered consumption. Nominated flows should be based on the nominated quantity transported per kilometre, with the possibility of a throughput fee.
25. Of the options described in this paper, which do you prefer and why?	25.1 Option 2 appears to be relatively simple, and flexible. It can be set up in such a way as to include a priority product as the need arises.  25.2 We also believe that option 2 would allocate risks to those who are best positioned to manage them.
Code governance	

Question	Response
26. Do you have any preference on the legal form for the new code, and who should be counterparties to the new code?	26.1 No.
27. Are there particular code change processes or features that you consider important or valuable for the new code?	27.1 We would prefer a tiered structure to Code change processes, where simple, non-contentious changes can be implemented quickly, and more complex and potentially contentious changes undergo a longer, more formal process. This would be valuable in ensuring that minor fixes are implemented quickly, but more significant changes are given greater consideration.
Balancing, linepack management and allocation	
28. Do you agree with the comments on balancing and linepack management above? If not, why not?	28.1 Yes. 28.2 Care needs to be taken to ensure that the transmission arrangements do not penalise parties for imbalances resulting from forecast inaccuracies, as this is already captured in balancing charges.
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?	29.1 No. We believe that simplicity and transparency should be key features in the arrangements.
Non-standard Agreements	
30. Do you agree with the comments on non-standard agreements above? If not, why not?	30.1 Yes.
31. Are there any particular arrangements for non-standard agreements that are not discussed in this	31.1 No.

Question	Response
paper that you consider critical to include in the new code?	
Gas quality	
32. Do you agree with the comments on gas quality above? If not, why not?	32.1 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?	33.1 No.
Next steps	
34. Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?	34.1 No.
35. Are there particular issues or aspects of the new code that you would particularly like to be more closely involved in, including by participating in workstreams to prepare code exposure drafts and working papers?	35.1 No.