



Shell New Zealand 2011 Ltd
Level 10, ASB Tower
Wellington
New Zealand
Email andrew.p.inwood@shell.com
Internet <http://www.shell.co.nz>

Attention: Ben Gerritsen
First Gas Ltd,
Level 6, Resimac House,
45 Johnston Street,
Wellington, 6011

23 November 2017

Your ref: GTAC Mark-ups

Dear Sir or Madam

Thank you for the opportunity to submit on the Second Draft of the Gas Transmission Access Code (GTAC). In preparing our submission, we have taken the output of the November 10 and November 17 workshops. We have identified the issues that are most important to us and to the wider industry, and provide mark-ups in the GTAC for your consideration in the document accompanying this letter. Alongside those suggestions for amendment we provide the following comments related to your published "Action Points" as follows:

Action Point 37 and 38: Terms of Access for Interconnected Parties

For the GTAC to be a Code it must provide assurance of non-discriminatory access for interconnection. Currently the GTAC provides no such assurance, and we provide a suggestion or change to section 2.7 that sets out minimal requirements.

Failure to provide assurance of non-discriminatory access by interconnection parties, including assurance that no new capital will be required to be invested by parties who are currently connected, will inevitably necessitate a conclusion that access terms of interconnection parties will materially worsen under the new arrangements.

Additionally, as emphasised at the workshop, we are concerned that new interconnecting agreements as well as Existing Interconnection Agreements must not represent an impediment to future code change and we think First Gas needs to demonstrate how it will provide assurance that will not be the case.

Action Points 15, 33: Line Pack and Taranaki Target Pressure

Pressure and (energy) linepack are related, but somewhat different. The current draft of the GTAC focuses on the management of linepack rather than pressure.

Pressure is easier to measure than linepack, as it can be directly measured at various points in the system. Linepack is useful as a measure of the overall system, but could be misleading as to the health of the system in different areas operating at different pressures. This is the likely reason as to why the

Critical Contingency Regulations have low-pressure thresholds at various pressure points in the system. We believe that there is merit in First Gas having both the right and the obligation to manage and control pressure and issue notices for low (and high) pressure in any part of the system, consistent with the Critical Contingency Regulations. It is (for example) conceivable that there could be a low pressure in one part of the network that is of sufficient concern to warrant a notice, when the overall energy linepack is less concerning.

With respect to Taranaki Target Pressure, we again reiterate our concerns expressed at the workshop that under the current draft of the GTAC we have no basis for confidence that First Gas will seek to manage pressure in the Taranaki region to be less than 48 barg at all times.

The majority of the producer receipt points on the Maui Pipeline were designed in reliance on the MPOC pressure limitation of 48 barg. The MPOC requirement with respect to obligations of the pipeline operator to manage pressure is covered in Section 2.5:

2.5 Subject to the provisions of this Operating Code, TSP shall, acting as a Reasonable and Prudent Operator:

...

...

(c) subject to complying with section 2.19, use reasonable endeavours to manage the Target Taranaki Pressure to be as low as practicable while maintaining sufficient Line Pack to meet its obligations under this Operating Code;

and

2.19 The Target Taranaki Pressure shall be between 42 and 48 bar gauge, except as may be required as a result of a Contingency Event, Force Majeure Event or Maintenance. TSP shall give each Shipper and Welded Party not less than 12 months notice if it proposes to change the Target Taranaki Pressure below 42 bar gauge or above 48 bar gauge and any such change may only be implemented through a Change Request determined in accordance with section 29.

The relevant GTAC draft clause is Section 7.13(e):

(e) for interconnections at or near the Bertrand Rd Offtake, that First Gas will use reasonable endeavours to maintain the pressure in the Transmission System between 42 and 48 bar gauge (Target Taranaki Pressure), subject to a Critical Contingency, Force Majeure Event, Emergency, Maintenance or the aggregate Excess Running Mismatch of Shippers and/or OBA Parties, and that First Gas may only change the Target Taranaki Pressure using the process set out in section 17 of this Code and following not less than 12 Months' notice of any such change to Shippers and Interconnected Parties;

From an industry perspective, this is materially worse: it provides no requirement to manage the pressure to be "as low as practicable", and the inclusion of "aggregate Excess Running Mismatch or Shippers and/or OBA Parties" as an exception to the obligation makes the obligations on First Gas to manage mismatch very weak. In our view, reasonable endeavours includes First Gas selling gas as necessary to prevent pressure rising above 48 barg in Taranaki.

We reiterate that this is an industry issue, and not just one particular to Producers (although we are the most immediately penalised in the short term). There are a number of expectations under the Gas Act and the Government Policy Statement on Gas Governance that we consider are not advanced by the drafting of the GTAC.

Firstly, deliverability: An increase in pressure in Taranaki translates directly to increased back pressure on wells, which reduces their production potential / deliverability. We know from our own facilities that the effect is material, and small impacts across a number of producers operating a large number

of wells is significant. Note that this economic impact of pressure applies across the entire TTP range, and not to just the upper limit, hence why the MPOC requirement to operate *as low as practicable* is relevant. Reduced supply appears at odds with 11(a) (*'The facilitation and promotion of the ongoing supply of gas meets New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements'*) and 11(d) (*'Delivered gas costs and prices are subject to sustained downward pressure'*) of the GPS.

The second element is overall cost to the industry. On the assumption that the consequences of a higher pressure in Taranaki is reduced compressor duty at Mokau, in the overall context of cost to the industry it is important to understand what this means in terms of additional costs for other parties. A higher pressure means that any consumer that needs to heat gas as part of a pressure let-down skid will have higher duty. Parties needing to compress gas to get it into the transmission system will have higher compression duty. Parties that need to process gas will incur higher processing costs (refrigeration, associated gas compression) with higher pressure.

All of these costs are proportional to the volume of gas that is processed, whereas the Mokau costs are only incremental to the volume of gas that is compressed. With the Mokau throughput being only 30-50% of the production, this reduction in compression costs must certainly be outweighed by the increase in costs borne by other parties. This cost to industry appears to go against 12(a) (*'Energy and other resources used to deliver gas to consumers are used efficiently'*)

We have also previously shared that we have shutdown systems that act to protect our facilities from high pressures, and this is a safeguarding requirement. Without any control on pressure, high pressure excursions may result in a shut-down of our facilities for safety reasons. In this case, we do not see what means we have of seeking compensation from whichever party(s) caused the high pressure. If there is no compensatory mechanism, then this increases our desire for strong incentives on Shippers and meaningful obligations on First Gas to prevent such a situation arising.

In the wider context, point 11(c) (*'Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced'*) of the GPS is relevant. Any potential new field development needs to have a firm design basis that they can use for specifying the upper limit of the required gas export pressure. The Taranaki Target Pressure is a useful upper limit for this, and without such a limit (or a weakly enforced limit), they would need to design for a higher pressure, which would result in higher capital (and operating) costs, which is a disincentive for new development compared to the current MPOC.

Action 31:

There is currently an inconsistency in the wording of section 7.13(c)(ii) and the relevant section of the (draft) interconnection agreement. 7.13 outlines the elements that are required to be included in the interconnection agreement, and 7.13(c)(ii) relates to injection of off-specification gas.

In the GTAC, the clause is presented as:

Injection of gas into the Transmission System that is not Gas shall constitute a failure by the Interconnected Party to act as an RPO;

However, the equivalent clause in the draft Interconnection Agreement (October 2017) is:

The Interconnected Party agrees that any failure by it to comply with this section 6 shall constitute a failure to act as a Reasonable and Prudent Operator and that the limitation of its liability set out in section 16.1 shall not apply.

Section 6 of the draft Interconnection Agreement sets-out the requirements for monitoring and reporting of gas quality. The difference between these two clauses is material, in that the GTAC clause is an **outcome** focus, and the Interconnection agreement is a **process** focus. It is our view that with respect to gas quality, a Reasonable and Prudent Operator should have robust systems and processes to control and monitor gas quality, and should be able to demonstrate them. However, unforeseen events can happen, and it is entirely unreasonable to require parties to be required to agree that if something unexpected happens, then they have failed their duties as an RPO.

Action Point 40: Allocation Principles

Internationally there are well established allocation methods on transmission systems that conform to good operating practice. All are based on Approved Nominations (i.e. OBA, Pro-rata on nomination, swing, and ranking). For this reason, it is important that interconnected parties are assured of having access to the new OATIS to approve provisional shipper nominations, whether or not they choose an OBA.

Additionally, we consider there should be a default allocation algorithm that applies to GTAs in the event that parties cannot agree on an allocation arrangement. International good practice points to that default algorithm being "pro-rata to Approved Nomination".

Action point 47: Emergency Cycle

A "first come, first served" approach to allowing only a single additional intraday cycle ("emergency cycle") could result in unfair treatment of parties. If one party requests an extra cycle during ID1, then this should not prevent any and all other parties from requesting one later in the day (for example during ID4). The ability to request an additional cycle should be available to all interconnected parties.

Yours faithfully
Shell New Zealand (2011) Ltd

Andrew Inwood
Production Services and Logistics Manager