

NOVA ENERGY AND TODD ENERGY (TODD)

CROSS SUBMISSION ON PRELIMINARY ASSESSMENT OF GAS TRANSMISSION ACCESS CODE (GTAC)

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SUPPLEMENTARY QUESTIONS	
SQ1:	If there are matters raised in submissions you would like to comment on, that are not addressed in the questions below, please provide your views here.
SQ2:	<p>Methanex Q3, p6: “We disagree that peaky usage should be discouraged only in connection with congestion... the unpredictability of gas throughput and limited line pack capacity... [are why] peaking limits (which apply universally) are imposed to govern behaviour on the Maui Pipeline under MPOC, even though congestion is not a factor. It is also the reason why Methanex is particularly concerned regarding the approach taken in the GTAC of making line pack freely available to users which is also applied in an inconsistent and discriminatory manner.”</p> <p>Do you think peaky usage should be discouraged, even when capacity is not scarce, and why?</p> <p>The purpose of the gas pipeline is to meet the reasonable requirements of users to produce and consume gas at different points on the pipeline, and to the extent that can be facilitated, at different points in time. Underlying this there needs to be acceptance that some producers or users would be materially disadvantaged if they cannot access the pipeline’s capacity to facilitate ‘peaky usage’.</p> <p>As long as providing capacity to absorb peaky usage does not come at a cost to other users, then that capacity should be made available.</p> <p>Every additional GJ of gas that can be shipped on the pipeline helps reduce the overall average cost to all gas users. In addition there are some uses of gas that are non-baseload that provide considerable economic value to the broader economy.</p>

	<p>Methanex notes: 'the unpredictability of gas throughput'. Under the MPOC and VTC, pipeline linepack is largely managed in a reactive manner. (The track record of TTP illustrates the impact of reactive linepack management.)</p> <p>Todd contends that with six nominations cycles, gas throughput can be less 'unpredictable' under GTAC and that congestion and TTP can be more actively managed by First Gas and pipeline users using the tools available to them, rather than purely reactively as per the current codes. This would also obviate the need to impose Agreed Hourly Profiles in the form currently proposed.</p>
SQ3:	<p>Vector Q3: "The determination of whether a Delivery Point will be congested is normally made by First Gas by 30 June each year. We would be surprised if a Delivery Point will potentially or actually be congested every day of the year. We therefore question whether applying a 10 times incentive fee on days when there is a very low likelihood of congestion is efficient."</p> <p><i>For what reason(s) would an F factor of 10 (GTAC s11.4) be appropriate at times when a Congested DP is not congested?</i></p>
	<p>Todd absolutely agrees. F should only be increased when there is evidence that congestion might occur on a day and for that day only.</p>
SQ4:	<p>Todd Q3: "Most of the 'Benefits of diversity' can be achieved with fewer than ten consumers of similar size. That is hardly a number that should 'hinder competition'."</p> <p><i>Regarding the proposed product or pricing design, do you consider that the benefits of diversity would mostly be achieved by shippers who have 10 or more customers? If not, what level of customers would be sufficient to yield the benefits of diversity?</i></p>
	<p>This point was made in the context of a claim that Shippers with a small market share of residential customers would incur excessive underrun and overrun charges due to an inability to forecast demand. Todd contends that it is unlikely that any shipper will have fewer than ten non-TOU customers across a zone for a significant period of time. If a Shipper is so small for an extended period of time, then how relevant should they be in the context of the overall design and acceptance of the GTAC especially given that most small retailers do not intend on remaining small and prefer to obtain a size where they obtain scale benefits?</p>
SQ5:	<p>Shell Q5: "We consider that the removal of the ability to operate Displaced Gas Nominations (as defined in MPOC) has negative implications for gas trading, and this should be factored into the GIC's assessment."</p> <p><i>Given the GTAC does not have point-to-point nominations, do you consider that the absence of displaced gas nominations would bring any disadvantages such as adverse effects on gas trading, and why?</i></p>
	<p>Shippers / Producers can balance their mis-match positions simply by amending their nominations in the receipt zone, or trading within the receipt zone. This is why Todd sees the GTAC as being positive for gas trading.</p> <p>In addition, parties should be able to effect transfer title to gas at any point and at any time simply through the Gas Transfer Agreement process. Title tracking of gas does not always need to be effected through nominations.</p>

SQ6:	<p>First Gas Q6: “We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially.”</p> <p><i>Do you think that the GTAC s2.6 obligation on First Gas to deal with Shippers impartially mitigates concerns around how tolerances would be set under s8.5(b)?</i></p>
	<p>Todd agrees that First Gas can be expected to act impartially. However it is also concerned that the way in which the tolerances are determined will impact on its business and would prefer to have this clearly defined in advance and any changes subject to an obligation to consult at a minimum.</p> <p>Todd’s preference is for the Code change process to be utilised for such changes. Vector also refers in its response to Q.6 that First Gas should remove itself from setting fees in relation to managing pipeline flexibility.</p> <p>The primary issue is that the relationships are complex and would benefit from a wider input and review than just First Gas’ own analysis.</p>
SQ7:	<p>Methanex Q6: “In general terms, we don’t believe that GIC has sufficiently assessed changes made in the GTAC regarding physical balancing arrangements, particularly in regard to the implications of FGL relaxing its obligations in regard to managing pipeline pressure and line pack (section 8.5/8.6 in particular), and its diminished responsibilities to pro-actively undertake balancing actions when the pipeline approaches the acceptable limits (including through operation of Section 8.6).”</p> <p><i>Do you consider that the GTAC would relax the obligations on First Gas to manage pipeline pressure and, if so, is that detrimental?</i></p>
	<p>No, Todd does not believe that the GTAC relaxes the obligations on First Gas. The greater transparency under GTAC should also assist Shippers to monitor First Gas’ performance in managing linepack. That said, it is also important that FG has the right tools and information to manage linepack; which is why Todd supports four-hourly nominations cycles which would also enable shippers and interconnected parties to manage imbalances better.</p>
SQ8:	<p>Shell Q6: “The burden of proof should not be on submitters to prove that the ERM mechanism is worse, it should be on the GTAC proposer to demonstrate that it is better than the current system of daily balancing, and in accord with good gas practice that has been proven elsewhere.”</p> <p><i>Overall, do you consider that the ERM mechanism, coupled with back-to-back balancing, is likely to improve on, or be worse than, the current balancing arrangements (MBB, coupled with the Balancing and Peaking Pools)?</i></p>
	<p>Todd is of the view that the ERM mechanism is worth trying, even if it cannot be proven to be materially better than MBB from the outset. Under the GTAC it should be simpler for parties to balance their position, which means that the MBB cash-out provisions should not be required. MBB does not appear to increase trading liquidity on emsTradepoint as it seems that parties frequently rely on the cash-out rather than matching their own position via the market. As per Todd’s response to Q9 below, determining the most appropriate values for the ERM fees may be something that needs to be determined over time given the response of the market to the level of fees and trading liquidity.</p>

<p>SQ9:</p>	<p>Trustpower Q6, 8.11.3: "... the proposal will provide sustained upward pressure onto market prices by incentivising market offers to be \$0.60/GJ ABOVE the last trade, while bids will only be \$0.20/GJ BELOW the last trade."</p> <p><i>Do you consider that the ERM fees will distort the market price of gas compared with the status quo?</i></p>
	<p>No. Trustpower's logic does not hold.</p> <p>The ERM fees act as a cap on what buy/sell spread might be deemed acceptable for a trade rather than a floor. A buy or sell offer with a spread outside the fee will be deemed less attractive than paying the daily fee. If the ERM fee is too low, Shippers will hold their position and not trade at all, but rather pay the fee and balance their position some time later.</p> <p>A Shipper prepared to trade may seek to bid or offer with a margin above the expected market clearing price to level of the ERM fee, but they are only likely to succeed in completing a trade if there is very little liquidity available; and if that is the case then the ERM fee is not likely to play a significant role in gas pricing decisions by parties seeking to trade on emsTradepoint.</p> <p>There is a mechanism for changing the ERM fee should the initial values not create the right incentives for the market, and it would not be surprising if these need to be changed once the market becomes more experienced with operating under the GTAC under different market conditions.</p> <p>Working with a predetermined ERM fee provides Shippers more certainty than the market volatility involved in cash-out prices under MBB.</p>
<p>SQ10:</p>	<p>First Gas Q7: "We agree that the single balancing regime across the system will have significant benefits in terms of efficiency. We also agree that uncertainties raised over tolerances are balanced out by the obligation on First Gas to act impartially."</p> <p><i>Do you consider that the requirements for First Gas to be impartial (eg GTAC s2.6 and 2.7) should dispel concerns about the uncertainties of how ERM tolerances will be allocated?</i></p>
	<p>Refer Q6.</p>
<p>SQ11:</p>	<p>Greymouth Q14, item 2: "We consider that a change in transmission products and access terms should require a reassessment of the basis and terms on which non-standard pricing terms are offered to end-users – policies that may have been appropriate under current codes may no longer be fit for purpose under the new arrangements."</p> <p><i>Do you agree with Greymouth, that the Supplementary Agreements should be reassessed in light of any change from the current access arrangements to new access arrangements?</i></p>
	<p>Yes. For example, if by virtue of a legacy supplementary agreement that a party is not exposed to underrun/overrun charges then they should not be eligible for rebates in relation for that volume. There may be other arrangements where SAs are no longer required or of relevance.</p>

SQ12	<p>Methanex Q14, p3: “Lack of transparency due to the non-disclosure of those agreements [SAs] has made it impossible to determine the level of impact they have on the rights of MPOC users during the GTAC consultation process. The lack of transparency is then carried forward under GTAC, as those agreements are not subject to any disclosure requirements under GTAC. GIC comments that GTAC is an improvement over existing codes by reducing information asymmetries and in so doing reducing barriers to competition. We contend that in this respect there is a substantial reduction in the level of transparency that is currently enjoyed by MPOC users.”</p> <p><i>Do you consider that the confidential nature of non-standard pricing and other terms of existing SAs would raise more concerns under the GTAC regime than under the current access arrangements?</i></p>
	<p>No. As per Q11, there is a possible implication that SA’s become more favourable under GTAC versus the VTC under which they were written, (and as such should be reviewed), but in a general sense Todd does not see that introducing the GTAC raises any more concerns than exist under the current arrangements. In principle parties with negotiated long term agreements cannot be forced contractually to waive their rights. However we would recommend:</p> <ul style="list-style-type: none"> a) Approaching all parties holding non disclosed supplementary agreements and requesting them to voluntarily waive their rights to non-disclosure; b) If parties prefer their arrangement remain confidential that at least the GIC (using their powers under the Gas Act if necessary) should review those agreements and identify if there any structural issues, distortions or inequitable outcomes that could arise.
SQ13:	<p>Shell Q18: “No party considering entering into gas transmission or interconnection arrangements should be expected sign an agreement which states there are circumstances where the party can be “deemed not to have acted as a Reasonable and Prudent Operator”. Such a determination should be determined by the facts. Any necessity for such a “deeming” is indicative of a flawed design in the liability provisions.”</p> <p><i>Do you consider that the proposed provisions deeming a party not to be an RPO are significantly worse than provided for in the current codes?</i></p>
	<p>Todd is totally against the ‘deemed’ provisions in the GTAC and draft ICA and considers those provisions to be worse than the current codes.</p>

<p>SQ14:</p>	<p>There are some strongly contrasting views on whether the nominations workload would significantly increase the administrative burden for stakeholders. For example, Greymouth Q2: “We consider the potential impact on end-users of punitive fees for incorrect nominations has been underestimated. The workload on those end-users whose shipper agreements delegate nomination obligations to them will increase significantly.” And, in contrast, Genesis Q15: “We agree that once the upfront capital cost of the systems upgrade is paid for, the ongoing staffing costs associated with nominations should not be material.”</p> <p><i>Do you consider that the proposed nomination arrangements would significantly increase or decrease the administrative burden for stakeholders?</i></p>
	<p>Customers that are currently required to provide daily nominations to their gas supplier face no more or less work under the new code as they are already providing daily nominations. It will be up to retailers to decide whether or not they require any particular customer to nominate on a daily basis. A retailer’s ability to force that upon a customer is constrained by the competitive market.</p> <p>Todd suspects the submitter’s view need to be considered in context of their current trading activities. The GTAC needs to cater for shippers across the spectrum, from those traders selling to just a few large TOU customers through to mass-market retailers, some with comparatively small volumes but extending across all delivery points.</p> <p>It would be wrong to design the code specifically to favour either of those extremes. The gas transmission network is a major asset and parties should expect to need to provide adequate resources to manage their use of the pipeline.</p> <p>The observation that overruns and underruns on a daily basis will be incurred also needs to be compared with the current status quo when daily cash outs occur under MPOC and overrun/under run charges are already incurred on a frequent basis under the annual capacity regime under the VTC.</p> <p>Together with the rebate process, we would expect net results to be an improvement on the current arrangements in most situations.</p>
<p>SQ15:</p>	<p>There are some strongly contrasting views on whether the proposed balancing arrangements would increase or decrease spot market activity. For example, Shell Q6: “There is no basis for the GIC’s assertion that the GTAC proposal for balancing has the “potential for increased activity in the spot market”. With the reduced incentive for shippers to balance, the GTAC proposal will likely reduce the activity on the spot market.” And, in contrast, Todd Q6: “Todd agrees with the discussion of the various aspects of the GTAC balancing arrangements. In terms of the assessment, it agrees that the tolerance terms could be improved, but believes the overall efficiency gain is in fact a very material improvement on current arrangements. The likely incentive for greater trading on the emsTradepoint gas market is one aspect of that improvement.”</p> <p><i>Do you consider that the proposed balancing arrangements would likely</i></p>

	<i>increase or decrease the spot market trading your business might engage in?</i>
	Todd does not agree with Shell that there is a 'reduced incentive for shippers to balance'. Todd also notes that the ERM fee can be amended over time to ensure the right incentives are maintained. Trading imbalances becomes simpler under GTAC than the MPOC because there is no shipping or nominations required to balance a position.
SQ16:	<p>There are some strongly contrasting views on whether the proposed requirements for parties to demonstrate the need for a Supplementary Agreement (SA) would likely result in more or less SAs. For example, First Gas Q14: "The assessment seems to miss the importance of requiring parties to demonstrate the need for an SA." And, in contrast, Genesis Q14: "We note that supplementary agreements may be more necessary than the GIC realises in its assessment. For example, Genesis may need to 'contract out' of the GTAC's hourly overrun charge regime to maximise gas throughput at Huntly."</p> <p><i>Do you think SAs are likely to become more prevalent under the proposed GTAC arrangements? For what reason(s)?</i></p>
	Todd concurs with Genesis' concerns in respect of the hourly overruns charge regime in its current form. It does not believe, however, that adopting an SA should be necessary to accommodate Genesis' requirements at Huntly. Instead the hourly regime should be amended and more intra-day nominations cycles introduced to enable shippers to manage their requirements (or some alternative provision allowing a measure of intra-day demand volatility). Indeed if there is a substantial need for new supplementary agreements; for other than transmission pricing reasons in the face of alternative fuels, bypass, or capital investment requirements, then that would suggest something is wrong with the parameters being set within the GTAC.
SQ17:	<p>There are some strongly contrasting views on whether the proposal would bring more excursions from the Target Taranaki Pressure (TTP). For example, First Gas Q19: "The GTAC drafting better reflects reality. As system operator, we endeavour to keep TTP within the range, but there are factors outside of our control that cause divergence. This therefore appears to be more an issue of contractual wording, rather than requiring any change in behaviour from First Gas as system operator." And, in contrast, Methanex Q19, p20: "In regard to there being frequent (but brief) excursions, we consider that the obligation to maintain pressure between 42-48 bar in MPOC does not infer strict observance but it does place an obligation on FGL to act in order to return pipeline pressure to the mandated range. This contrasts with the much weaker reasonable endeavours obligation in GTAC, which is further weakened by the TTP also being subject to the level of "aggregate ERM", which is at best an ambiguous modifier."</p> <p><i>Do you think the proposed arrangements put weaker incentives on First Gas to maintain the TTP, that could lead to more relaxed management and increased costs to interconnected parties?</i></p>
	<p>Todd is of the view that First Gas should use the GTAC and the improved functionality of the system which is to be introduced to support that, to manage the linepack and TTP more proactively.</p> <p>Whether that is reflected in First Gas' obligations in the GTAC seems to be less</p>

	<p>critical than ensuring the appropriate mechanisms are in place for it to achieve that. Increasing transparency and improved performance reporting are likely to provide a stronger incentive for First Gas to manage linepack and TTP within acceptable parameters.</p> <p>Todd believes the emphasis should be shifted from deemed flows, agreed hourly profiles, maximum hourly quantities and hourly overrun charges to provision of more nominations cycles in order that the First Gas operators have the best available data to work with at all times. If more nominations cycles are not the answer, then there does need to be further work undertaken in this aspect of the GTAC.</p>
SQ18:	<p>There are some strongly contrasting views in relation to gas quality. For example, Methanex Q9, p11: “We believe GIC is misrepresenting “passive” wording in GTAC for what is, a substantive reduction in FGL’s obligations to protect its customers from the prospect of receiving non-specification gas. In particular, we dispute that the provisions of [GTAC] Sections 12.8 and 12.11 are passive in absolving FGL of responsibilities and liabilities.” In item 40, p11, of its submission Methanex lists a number of instances where it considers the GTAC gas quality assurances are significantly less than those of the MPOC. This contrasts with the views of other submitters – eg Contact, Greymouth, MGUG and Todd – who agreed with the Preliminary Assessment that there would be “no noticeable change” in relation to gas quality.</p> <p><i>Do you consider that the Methanex is correct to say that the proposed arrangements would bring a substantive reduction in First Gas’ obligations to protect its customers for non-specification gas?</i></p>
	<p>Todd notes that the whole question of liabilities between the various parties using the pipelines is to be addressed.</p>
SQ19:	<p>There are some strongly contrasting views on whether, if the Overrun (OR) and Underrun (UR) fees are balanced, the proposed level of OR/UR fees would still be a concern. For example, Todd Q16, p8: “As noted above, the formula applied in the GTAC is incorrect. Once corrected, and the value of F is no greater than 2, then these charges are much less (and probably one third less) than the levels projected by GIC because there would be no underrun fees applying. Many of the concerns about GTAC pricing would therefore fall away under this correction.” And, in contrast, Genesis Q16: “We are concerned the daily over and underrun charges will increase costs to serve the mass market, which will be exasperated by lower incentive pool rebates. This does not reflect the flexibility the transmission system has been designed to afford.”</p> <p><i>Do you consider that, if the OR and UR fees are balanced, the proposed level of OR/UR fees would still be a concern and, if so, why?</i></p>
	<p>Todd agrees that the value of F should not be excessive, and that in practise a value between 1 and 2 may well be more appropriate than 2.</p> <p>(A value less than 2 will required a partial rebate of the DNC charge incurred but not utilised when there is an underrun, e.g. a value of 1.8 would require a rebate of 0.2 x DNC for underruns. First Gas should ensure the system is capable of implementing that.)</p> <p>Todd does not agree that underrun and overrun charges will be particularly more problematic for mass market customers versus commercial or industrial customers. In fact we would argue the reverse. A number of small residential</p>

	<p>consumers tend to act more systematically in terms of gas consumption and follow predictable seasonal and weekly profiles with a key variable being temperature which is forecastable in its own right. On the other hand some large users without metering telemetry exhibit variable demand profiles, and due to their size and lower numbers, are harder to forecast for. The rebate process helps compensate for this.</p> <p>If the final GTAC was to exclude the provision of rebates then Todd is concerned that underruns and overruns could well have a negative impact in the extent that Shippers would need to pass these costs on to consumers. This would also lead to inefficient investment in demand forecasting and nominations for all customer groups. This could be simply remedied by adjusting the F factor to below 2 as initially proposed.</p>
SQ20:	<p>There are some strongly contrasting views in relation to Priority Rights. For example, Trustpower 7.1.14, p7: “We are pleased GIC and other submitters recognise our concerns that: a) the PR auctions may not result in an efficient allocation of risk because if mass market shippers are unable to secure PRs in either the primary or secondary markets they have no effective means of reducing their demand. b) it is also not fair that retailers may not be able to buy affordable PRs and so could become caught in a squeeze between their customers and the competing priorities of the network owner and/or other access seekers.” And, in contrast, First Gas s4.2, p29: “While we acknowledge that mass market shippers cannot control their customers’ demand, we do not believe that PRs are any more onerous than the existing codes. If a mass market shipper does not hold sufficient reserved capacity under the VTC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. If a mass market shipper does not hold PRs under the GTAC then it will face overrun charges and potential liabilities to other parties for loss if gas cannot be delivered to everyone. The key difference under the GTAC is in how the price of scarce capacity is set –with the PR price being set via an auction.”</p> <p><i>Do you consider that the Preliminary Assessment gives undue weight to concerns that, if mass-market shippers may be unable to secure PRs, they have no effective means of reducing their demand?</i></p>
	<p>Todd covered this point effectively in its submission.</p> <p>There is no doubt that Shippers to mass market customers are best served by purchasing PRs if there is a risk of congestion. There is no reason why they should not be able to secure PRs just as easily as any other Shipper.</p> <p>There is also no incentive for Shippers to secure more PRs than they actually require, as that would serve no purpose. Determining the appropriate value of PRs is in fact most critical for commercial entities that are price sensitive and must make a decision of how much gas to secure or forgo under a congested situation.</p>
SQ21:	<p>There are some strongly contrasting views on whether the level of First Gas discretion is always appropriate. For example, Methanex Q22, p21: “We strongly disagree that FGL discretion is appropriate or fair in regard to providing tailored Specific HDQ/DDQ allowances and we are generally concerned that GIC has not considered this as an area which, on efficiency and fairness grounds, is materially worse than the status quo. Further, we consider the rationale set out in GTAC of ‘striking a balance’, at FGL’s discretion, between the proper operation of the pipeline system against the commercial</p>

	<p>requirements of particular end users to be entirely inappropriate.” And, in contrast, First Gas Q22, p45: “We agree with the analysis of First Gas discretion. We believe that the areas of discretion identified strike the right balance for a transmission system operator.”</p> <p><i>How have submitter views on First Gas discretion altered your opinion?</i></p>
	<p>The idea of ‘fairness’ has no relevance. If restricting the tolerances available to many parties has the effect of increasing the capacity of the pipeline to deliver gas to another party on the margin, then it is likely that every party will be better off through lower transmission charges overall, i.e. it would be lose: lose if it were deemed ‘unfair’ to provide the marginal party with a higher tolerance to manage its gas consumption.</p> <p>The concept of providing discretion to First Gas is about enabling it to effectively making maximum use of the transmission assets without going to the extent of writing a full manual on how every decision should be optimised.</p> <p>As per Todd’s response to SQ6, setting operational parameters can be complex and would benefit from consultation to ensure that different perspectives are understood before final decisions are made. Not every situation can be anticipated, but transparency should help maintain suitable discipline where decisions are difficult to make.</p> <p>To the extent that First Gas does exercise its discretion; parties do have the option of seeking a Code change if First Gas’ actions are considered unreasonable.</p>
SQ22:	<p>There are some strongly contrasting views on whether the proposed arrangements will provide more transparency. For example, Shell Q23, p11: “In terms of the commitment to publish information, we agree that the GTAC is not as open as MPOC, to the extent that we consider that the GTAC is materially worse than MPOC. In contrast to MPOC, GTAC does not commit to publish in real time: •The then-prevailing hourly Scheduled Quantity (SQ) established for each receipt or delivery point (or delivery zone in GTAC); •The metering quantity for each hour at each receipt point or delivery point (or the aggregate delivery quantity in each delivery zone in GTAC); •The imbalance between scheduled and actual flow at each major receipt or delivery point.” And, in contrast, First Gas Q23, p45: “We believe that the publication of interconnection agreements is significantly more transparent than the current VTC. Publication of running mismatch positions is more transparent than either current Code. Moreover, changes suggested to publish reasons for SAs will further increase transparency.”</p> <p><i>In light of the submissions, how do you consider the proposed arrangements compare in relation to transparency to the current arrangements?</i></p>
	<p>Todd understands that to the extent that data is available on MPOC, and still exists, then it will be available under GTAC. If not, then Todd certainly would seek for that to be the case. Operational information needs to sufficiently accurate and timely for it to be useful to manage linepack, nominations, imbalance and gas quality.</p> <p>As per Todd’s answers to previous questions, it is strongly in favour of operational data being readily available to Shippers in a timely manner, if only to ensure that there is sufficient transparency to keep First Gas on notice that it is accountable for its actions.</p>

