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Dear Ben

Submission on the Second Revised Draft GTAC

Introduction

1. This is Vector Limited's (Vector) submission on the Second Revised Draft Gas Transmission Access Code (*Second Revised Draft GTAC*), issued by First Gas for submissions and mark-ups on 3 November 2017.
2. Vector welcomes the decision made by First Gas to remove the "throughput charges" that were proposed in the *Revised Draft GTAC*, issued on 11 September 2017. We maintain the view that any new charges should be subject to a code change process.
3. We outline below our proposed changes to the *Second Revised Draft GTAC*. These are in relation to:
 - a. hourly overrun charges;
 - b. tolerances and incentive fees;
 - c. extra nominations cycle;
 - d. critical information;
 - e. workability and impact on IT implementation;
 - f. 'incomplete arrangements' (Park and Loan Service and Priority Rights); and
 - g. Non-Specification Gas.
4. We attach our proposed mark-ups on the template provided by First Gas, reflecting the above changes and our other proposed changes. Capitalised terms used in this submission but not defined have the meaning given to them in the *Second Revised Draft GTAC*.
5. No part of this submission is confidential. Vector's contact person for this submission is:

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Hourly Overrun Charge

6. Section 43ZZJ(1) of the *Gas Act 1992* provides that “[t]he principal objective...in relation to gas is to ensure that gas is delivered to existing and new customers in a...**fair**...manner”. [emphasis added]
7. The principle of fairness is reaffirmed in section 9 of the *Government Policy Statement on Gas Governance 2008*, which states that “[i]t is also the Government’s objective that Gas Industry Co. takes account of **fairness**...in all its recommendations”. [emphasis added]
8. We believe that the proposal to apply an Hourly Overrun Charge to only a small number of Dedicated Delivery Points simply because it is easy to identify End-users that exceed their MDQ at those points is not consistent with the fairness principle.
9. In the interest of fairness, we **recommend** that an Hourly Overrun Charge either apply to all Delivery Points (i.e. ‘smeared’ across the customer base) or not at all.

Tolerances and Incentive Fees

10. We acknowledge that First Gas should have some discretion in adjusting tolerances and incentive fees. However, such discretion should be limited. For example:
 - a. when adjusting the Running Mismatch Tolerance component **T**, which is key to the cost of delivery of Gas to End-users, there should be clear criteria within the GTAC on how this will be determined by First Gas; and
 - b. any material adjustments to incentive fees First Gas wishes to make outside an agreed level must be subject to a code change process.

Extra Nominations cycle

11. We welcome First Gas’s proposal to provide an extra nomination cycle in certain circumstances. We seek further detail on how an extra nomination cycle will operate.

Critical Information

12. Under the *Second Revised Draft GTAC*, Shippers will pay incentive fees where they do not nominate Daily Nominated Capacity (DNC) to a 100% accuracy or manage their Running Mismatch within certain tolerances. To manage their DNC nominations and their Running Mismatch position on the pipeline, Shippers will be reliant on information on their customers’ gas consumption and energy quantities at Receipt and Delivery Points. The allocation methodologies currently in place (D+1 and Daily BPP) provide critical information for Shippers to manage their risk. It is therefore of extreme importance that Shippers get information on gas composition and energy quantities not only every day but as early as possible on the day, i.e. not by 4.00 pm on a business day, which is currently the case.

13. We therefore **recommend** that First Gas publish the following information each day:
 - a. gas composition data by 9.00;
 - b. unvalidated DDRs by 10.00;
 - c. validated DDRs by 11.00; and
 - d. subject to receiving daily allocation figures from the Gas Industry Company (GIC), running mismatch positions by 13.00.

Workability and Impact on IT Implementation

14. We have concerns on the workability of the *Second Revised Draft GTAC*, including around the following:
 - a. Shippers' Primary Balancing Obligation being dependent on matching Receipt Quantities and Delivery Quantities, but Receipt Quantities not including any Gas a Shipper trades;
 - b. the concept of multiple Receipt Zones defined as part of Transmission Products, but drafting of the rest of the code is dependent on there being only one Receipt Zone;
 - c. the remaining strong connections in the Code between receipt and delivery of Gas, which is vital in the Vector Transmission Code (VTC) due to the point-to-point nature of capacity, where a Shipper receives Gas at one point and First Gas transports it to a specific delivery point. This is incongruent with the GTAC where there is no connection with the receipt of Gas into First Gas's pipeline and First Gas making capacity available at Delivery Zones and Individual Delivery Points;
 - d. Receipt Quantity for a Shipper only being Gas received at a Receipt Point, which does not take into account any trades;
 - e. the calculation for Running Mismatch Tolerances not accounting for the risk that Shippers take on at non-OBA Receipt Points where that gas is subsequently on-sold. In addition, by using Delivered Quantities, the tolerance provided to Shippers and OBA Parties will change for up to 26 months after the Day of Gas flow. A proposal to correct these issues has been marked up that will co-exist with the changes drafted for Receipt Quantity;
 - f. Receipt Shipper Approved NQ and Schedule Quantity not being flat quantities but needing to be profiled, and successive reductions could see a Scheduled Quantity below what has already physically flowed;
 - g. Approved NQ not explicitly stated as a Shipper's DNC;

- h. Allocation Agreements now being needed at Dedicated Delivery Points within a Delivery Zone;
 - i. Individual Delivery Points not including Congested Delivery Points that are not Dedicated Delivery Points; and
 - j. Unaccounted-for-Gas being based on Receipt Quantities and Delivery Quantities, which are Daily quantities specific to a Shipper rather than receipt and delivery quantities that are not time dependent or exclude certain quantities from OBA Interconnection Points.
15. While each of the above is relatively minor, in isolation, the sheer number of issues being identified at this stage gives us great concern that there are many more issues yet to surface that could compromise the IT system implementation timeframes and significantly increase costs. Code changes will have a material impact on the cost of the transition to GTAC for both First Gas and its customers.

'Incomplete arrangements': Park and Loan Service and Priority Rights

16. We support the proposed Park and Loan service, in principle. However, we do not believe that the GTAC, which we consider to be partially an operational document, should contain 'incomplete arrangements' or serve as a placeholder for 'conceptual arrangements' that do not immediately enable the use of gas.
17. Should First Gas decide to keep the Park and Loan service, it must define the fees associated with this service. The fees for both Park and Loan, and Running Mismatch, must be linked to avoid market distortions. Both services make use of the flexibility within the Line Pack, even to the point that Park and Loan becomes, in reality, the authorised Running Mismatch.
18. We recognise that First Gas wishes to offer Priority Rights at Delivery Points where it expects or anticipates Congestion. However, unless the arrangements for the implementation of Priority Rights are fully developed, this concept should be removed from the *Second Revised Draft GTAC*.
19. We **recommend** that both the Park and Loan service and Priority Rights, and other more minor conceptual arrangements such as multiple Receipt Zones, be introduced into the GTAC via a code change request process. This will provide industry participants sufficient time to fully develop these services, and ensure that their final design and implementation arrangements shall have been subject to robust consultation processes.
20. At this stage, it is important that First Gas and industry participants focus on making the GTAC highly workable to ensure a smooth and low-cost transition, rather than incorporating partially-developed concepts that can be tested at a later stage to avoid costly market disruptions.

Non-Specification Gas

21. The *Second Revised Draft GTAC* materially worsens the position for Shippers in relation to losses arising out of Non-Specification Gas. Under the VTC, First Gas offers protection to Shippers for losses in relation to the injection of Non-Specification Gas. However, under section 12.11 of the *Second Revised Draft GTAC*, First Gas is only offering to indemnify for these losses if it has **caused** the Non-Specification Gas, which is highly unlikely in practice. This means that Shippers are left without a remedy because they do not have a contractual nexus with Interconnected Parties.
22. In reality, only First Gas has the ability to seek protection from Interconnected Parties. Therefore, First Gas ought to do so and pass this through to Shippers by offering a broader indemnity.
23. To achieve the above, we have proposed amendments to sections 7.13(r) and 12.11.

Next Step

24. We are happy to discuss with First Gas, the GIC, and other industry participants possible changes to the code development timeframes going forward. This would ensure that the GTAC will be widely accepted to be “materially better” for the benefit of the gas industry and consumers.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Anna Carrick".

Anna Carrick
Manager Natural Gas Trading