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Dear Ben

## Submission on the Single Code Options Paper 2

1. This is Vector Limited's (Vector) submission on First Gas Limited's (First Gas) *Gas Transmission Access: Single Code Options Paper 2 (SCOP2)*, issued in November 2016.
2. In our view, a variation of Option 1 using priority rights with "no notice" fixed capacity service and some system of title tracking would best achieve the proposed objectives of the new code, and meet stakeholders' needs.
3. We believe Options 2 and 3 do not provide the certainty that long-term gas users require.
4. Despite the above, there are two fundamental issues with the SCOP2 Options that include:
  - an attempt to integrate nominations for gas under Gas Supply Agreements (GSAs - title tracking) with nominations for capacity under transmission arrangements. Critically, the integration of these into one quantity will impact on the existing rights of buyers and sellers under GSAs. This issue is relevant to multiple SCOP2 questions, making it difficult to respond to certain questions in this submission.
  - the preference for an overrun mechanism only. This creates an incentive on shippers to estimate a quantity higher than the quantity that is reasonably expected to be required to be transported to minimise overrun costs. The difference between the two quantities will be determined by the magnitude of the overrun fee. This has the effect of influencing retailer behaviour that conflicts with a transmission service provider's (TSP) requirement for gas flow estimations that reflect expected quantities (Options 1 and 2) and shippers' desire to release capacity back into the pool (Option 1).
5. We set out in the attached template our responses to the questions raised by First Gas in SCOP2.
6. Vector's contact person for this submission is:

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7. No part of this submission is confidential, and we are happy for First Gas or the Gas Industry Company to make this submission publicly available.

Yours sincerely



**Anna Carrick**  
Manager Natural Gas Trading

## Vector's Submission on SCOP2

Question	Response
<b>Objectives for the Gas Transmission Access Code</b>	
Q1: 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?	Yes.
Q2: Which objectives do you see as most important?	We consider “enabling the use of gas” to be the most important objective. All the other objectives would support its achievement.
Q3: Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?	Yes.
<b>Scope of the Gas Transmission Access Code</b>	
Q4: 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?	Yes. We do not believe that there are missing legal or subsidiary instruments.
Q5: 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)?	Yes.
Q6: Are there any other elements to the scope of the code that we should consider?	None.
<b>Overview of options for the access regime</b>	
Q7: 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?	No, we believe SCOP2 provides a sufficient range of options for industry participants to consider.
Q8: 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?	We do not see any merit in seeking any further lessons from international experience.

Question	Response
<p>Q9: 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 access code (in addition to short term availability of capacity) that are important?</p>	<p>The focus of code development should be to remove barriers and enable the use of gas, rather than facilitate the development of the wholesale gas market per se.</p> <p>The removal of barriers enables an environment where commercial solutions can be developed and the gas market can flourish.</p>
<p><b>Option 1: Menu of capacity products</b></p>	
<p>Q10: Do you have a view on whether the priority right product should be designed as an option (subject to nominations) or a fixed property right?</p>	<p>We support the proposed “priority rights” as a fixed property right. However, designing the right as an option just adds unnecessary complexity. There should be commercial incentives for shippers not to retain unused capacity if that is the reason for considering it as an option.</p> <p><i>Incentives for efficient pipeline and shipper behaviour</i></p> <p>Section 4.26 in SCOP2 states that “an incentive is likely to be required under this option to match actual injections and demand with nominations (as close as possible)”. We agree if those nominations are for title tracking but not for capacity.</p>
<p>Q11: Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?</p>	<p>Our customers seek security of supply and price certainty over multiple periods (years, quarters and months). They also seek simplicity and confidence in the gas market so they can focus on their core businesses and the requirements of their own customers.</p> <p>In our view, the proposed priority rights would meet the requirements of our customers for the following reasons:</p> <ul style="list-style-type: none"> <li>• Priority rights provide customers certainty that transmission capacity is secured when they make long-term investment decisions. Without this certainty, gas would become unattractive relative to other energy fuels that can provide that certainty.</li> <li>• A party committing to a product for a longer term also provides certainty to the TSP.</li> <li>• Multiple products provide optionality to end users and allow different pricing structures to be set, i.e. a longer term capacity product may cost less than a seasonal product on a per GJ basis, reflecting the peaky nature of the gas usage.</li> <li>• A transparent priority booking system would allow users to see where capacity is constrained and provide advance notice of constraints, i.e. it</li> </ul>

Question	Response
	<p>provides strong market signals. This supports the transparency objective of the new code.</p> <ul style="list-style-type: none"> <li>• Priority rights are akin to existing arrangements under the Vector Transmission Code (VTC), and shippers and our customers are already familiar with this process. This supports the simplicity objective of the new code.</li> </ul>
<p>Q12: 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>	<ul style="list-style-type: none"> <li>• Priority rights should be fully tradable with the TSP or other shippers.</li> <li>• These rights should be able to be requested/traded on all [business] days so that capacity can be contracted alongside GSAs if required.</li> </ul>
<p>Q13: Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?</p>	<p>As stated in our cover letter, we strongly believe that capacity and title tracking cannot and should not be linked in one nomination. Title tracking can be achieved through the existing downstream reconciliation process and ensuring all other non-allocated welded points have some form of allocation process. We would be comfortable with allowing welded point information to be provided to the TSP if this assists with gas flows and managing the pipelines.</p> <p>If daily nomination for capacity was required to be submitted to the TSP, the quantities provided would likely be different to that provided to/from sellers/buyers and influenced by fees set for overruns (or underruns). Capacity nominations are unlikely to be required on the day.</p> <p>For this reason, we agree with SCOP2's proposed alternative to daily nominations (section 4.23) which is to treat priority rights effectively as a "no notice" fixed capacity service (similar to Reserved Capacity under the VTC).</p> <p>However, we disagree with the reasons provided in sections 4.23.2 and 4.23.3 that requiring shippers to nominate their total daily capacity requirements is preferable for the reasons stated above.</p> <p>We strongly disagree that daily nominations provide a process for scheduling the flow of gas from producers into the pipeline system (section 4.23.2). This is already done outside of the transportation systems under GSAs. The data types involved are different, therefore, there is no additional benefit from this arrangement.</p> <p>The option of making firm capacity that is not required available to others on the day and during congested periods (section 2.23.3) may seem sensible. However, in practice, it raises the question of how shippers will be incentivised to relinquish capacity when underruns</p>

Question	Response
	are not charged, i.e. where only one side of the expected line is penalised, parties want that line to be as high as possible.
Q14: 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)?	<p>The existing <i>Gas Downstream Reconciliation Rules</i> provide for allocations on shared gas gates. Remaining welded points (or gas gates) would all require some form of allocation arrangement.</p> <p>We do not consider it necessary for allocations to be detailed in the new code; it is a requirement on interconnected parties to have an allocation agreement to provide for the allocation of gas to parties.</p>
Q15: Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?	<p>Offering shippers the option of firm and interruptible capacity products would be of value as would enabling shippers to determine the length of capacity products required (or being able to be bundled together).</p> <p>To address concerns over shippers' ability to 'land bank' capacity, we suggest a system that would disincentivise expected and actual under-utilisation of capacity.</p>
<b>Option 2: Daily nominated capacity</b>	
Q16: Do you have any views on how scarcity should be signalled if a daily nominated capacity option was developed?	We support a variation of Option 1, not Option 2. See our responses to Q10 – Q15.
Q17: 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 timing of nomination cycles, and the role of nominations?	
Q18: Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?	
<b>Option 3: Flow to demand service</b>	
Q19: 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?	We support a variation of Option 1, not Option 3. See our responses to Q10 – Q15.

Question	Response
Q20: 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?	
Q21: How dynamic do you think pricing should be under a flow to demand service approach?	
Q22: Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?	

### Link between access options and system characteristics

Q23: 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?	Yes, and it should be balanced with other considerations to achieve the code's objectives.
Q24: 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?	We believe that capacity booking should not be restricted to just point to point or point to zone etc, as different parts of the pipelines could benefit from different mechanisms. As end consumers have already made investment decisions based on the pricing methodology already in place, substantially changing this methodology could be seen as inequitable.
Q25: Of the options described in this paper, which do you prefer and why?	As indicated above, we believe the proposed priority rights under Option 1 with "no notice" and a system of title tracking would best achieve the code's objectives, and meet the requirements of our customers. See our responses to Q10 – Q15.  We believe that Options 2 and 3 would not meet the needs of our customers due to the uncertainty surrounding the availability of capacity that end users will face.

### Code governance

Q26: Do you have any preference on the legal form for the new code, and who should be counterparties to the new code?	We prefer bilateral contracts with substantially similar terms (described in section 5.4.3). Requiring industry-wide discussions every time a change is required is inefficient and could stifle innovation.
Q27: Are there particular code change processes or features that you consider important or valuable for the new code?	There should be mechanisms for parties to vary their contract should the need arises without having to consult the industry at all times.

Question	Response
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**Balancing, linepack management and allocation**

Q28: Do you agree with the comments on balancing and linepack management above? If not, why not?

Yes, we consider the comments to be fair and reasonable.

Q29: 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?

Title tracking is a critical component and should be discussed.

**Non-standard Agreements**

Q30: Do you agree with the comments on non-standard agreements above? If not, why not?

Yes. Non-standard agreements play an important role in supporting long-term investment decisions, and therefore promote the use of gas.

Non-standard agreements also promote contracting innovation, providing greater choice and flexibility for contracting parties.

The primary focus of the code should be on customers and end users. Some of them may have unique requirements that can only be delivered, or effectively delivered, through non-standard agreements.

Q31: Are there any particular arrangements for non-standard agreements that are not discussed in this paper that you consider critical to include in the new code?

None.

**Gas quality**

Q32: Do you agree with the comments on gas quality above? If not, why not?

Gas quality plays an important part of the delivery of a quality product throughout the gas supply chain. At present, there are no effective governance arrangements for this important aspect of the gas delivered to consumers. This is due to the fragmented nature of the responsibilities associated with the quality of the gas delivered from the wellhead to the consumer.

We believe that the development of the new code provides a unique opportunity, as a minimum, to investigate the concept of a separate gas quality governance regime in other instruments rather than in the new code.

Gas quality issues have implications for other parties in the gas supply chain, not just the TSP and shippers. Other relevant parties include gas processors,



Question	Response
	<p>network operators, metering service providers, retailers and end consumers.</p> <p>We suggest that the GIC and other relevant regulators consider gas quality issues through a separate workstream, building on the GIC's work on gas quality governance in previous years.</p> <p>Governance arrangements for gas quality need not require regulations or new regulations, e.g. they could be in the form of amendments to the <i>Gas Safety and Measurement Regulations</i>.</p> <p>We support any gas quality process improvements by First Gas.</p>
<p>Q33: 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?</p>	<p>None.</p>
<p><b>Next steps</b></p>	
<p>Q34: Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?</p>	<p>While we consider the overall code development timeframe to be tight, we will work with First Gas, the GIC, and other industry participants to ensure its timely development and implementation.</p>
<p>Q35: 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?</p>	<p>We intend to actively participate in particular workstreams in the coming year.</p> <p>We will advise First Gas of our preferred workstreams prior to their establishment.</p>