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Dear Ben

Gas Transmission Access: Single Code Options Paper

emsTradepoint welcomes the opportunity to provide feedback to First Gas on its paper entitled 'Gas Transmission Access: Single Code Options Paper' (options paper). We commend First Gas for the approach they have taken, and the quality of communications, in the options paper.

In this submission we

1. recommend some arrangements we believe the GTAC will need to contain in order to grow and develop the spot market, and therefore grow and develop the gas industry
2. discuss some specific recommendations for GTAC development that we believe would benefit the gas industry.

We have *not* recommended a preference for any of the three options in this submission. It is our view that all three options are feasible if we assume functional and pragmatic detailed design.

1. We recommend First Gas include appropriate arrangements to ensure a viable and competitive spot market for natural gas

We believe that the best way in which to grow and develop the gas industry is by competing with the electricity industry as a source of energy. To do this, the industry need to keep up with the electricity industry's initiatives to drive down costs through greater competition in all sections of the industry. First Gas have signalled that this is something they want to achieve¹ and we strongly support First Gas in any initiative that works towards this goal².

A well-functioning, liquid and transparent spot market is a key enabler for wholesale market competition³

Without a well-functioning, liquid and transparent spot market, wholesale market competition will always be limited. While bilateral contracting is an efficient form of exchange, it suffers from issues

¹ Both in the options paper and in other publications and media releases.

² This goal is also mandated by legislation. Regulation 43ZN of the Gas Act requires that access to competitive market arrangements are provided for, and barriers to competition in the gas industry are minimised.

³ In this submission we refer to the spot market as a physical exchange for the anonymous trading of wholesale natural gas, which is one component of the broader wholesale market (which includes other methods of gas trading such as bilateral contracts).

associated with market power and information asymmetry. However, there are a number of necessary elements that are required in order for the spot market to function and develop. These requirements are listed in no particular order below, with explanations as necessary:

- **Title management:** In order for any spot market to function it is mandatory that there is the ability to track – and at specific points, exchange – title to gas in the pipeline.
- **Appropriate transparency:** The GTAC should ensure that an anonymous spot market is able to function. That is, it should be possible to buy and/or sell gas at a specific point(s) on the transmission pipeline without knowing who the counter party to the deal is (via an intermediary).
- **Transmission capacity should be closely linked to the physical commodity:** It should be possible to have automatic⁴ or easy access to pipeline capacity following spot market transactions.
- **Neutrality:** The transmission arrangements should not favour any one participant, or group of participants, over another. We would include in our definition of ‘favour’ to include onerous compliance or resource requirements that prevent smaller entities from participating in the spot market⁵.

Pipeline balancing transactions should be carried out in the spot market

Analysis shows that balancing transactions can, and should be, carried out in the spot market⁶. The GTAC should support the use of the spot market for balancing transactions.

We believe that a well-balanced pipeline leads to a more efficient transmission system by reducing excursions and enabling the provision of other services. As such we support the reduction of cash-out tolerances, and the development of market-based ancillary services that enable more efficient use of gas transmission assets (such as demand response or park and loan services).

2. We support First Gas shaping the GTAC in a way that enables the gas industry to grow and develop

We support First Gas in their intention to shape the GTAC in a way that uses their core competencies simply and effectively, while ensuring that the mechanisms they do put in place enable to gas industry to grow and develop. In this section we make a number of general recommendations that expand on our answers to the consultation questions. Specifically, we recommend First Gas:

- focus on making gas transmission as easy as possible (simplicity)
- incentivise transparency wherever possible (transparency)
- consider the transaction costs and costs of unintended consequences of any untested option/arrangement when evaluating transmission arrangements.

⁴ By directly linking capacity and physical commodity nominations, similar to the way in which the Maui Pipeline is currently managed.

⁵ To a point – there is some pragmatic bottom limit of consumption which would need to be accommodated. Our estimate of this bottom limit would be based on our own Small Participant Trading Fee floor which equates to 80,000 GJ per annum; ie. Any industry participant who consumes more than 80,000 GJ per annum should not be unduly restricted from the wholesale market based on compliance or resourcing requirements.

⁶ <http://gasindustry.co.nz/work-programmes/mpoc-change-requests/background/change-requests-20122016/mpoc-change-request-october-2014-market-based-balancing/final-recommendation/> and <http://gasindustry.co.nz/work-programmes/transmission-pipeline-balancing/developing/>

We recommend First Gas make gas transmission as easy as possible for their customers by removing barriers to entry

We recommend First Gas broaden the goal of simplicity to be one of 'making access as easy as possible for customers'. This is because making access simple does not guarantee resource requirements will be low (although it is likely the two will be correlated), nor capacity on the pipeline will be easily accessible⁷. Transmission arrangements need to be simple, have low resource requirements and have low barriers to entry for both incumbent and new shippers.

As such, we recommend that First Gas be light handed with any capacity reservation mechanisms they put in place. Our stance towards booking capacity reservation in advance is neutral, this is a matter for the shippers to decide. However, we would not support any capacity reservation mechanism that favours one participant over another (ie. negating our Neutrality requirement described in section 1).

We recommend First Gas incentivise transparency to facilitate well informed decision making

We encourage First Gas to follow the goals and ambitions of the electricity industry. Through Transpower (as transmission owner and system operator) and the Electricity Authority (as a provider of industry information) the electricity industry has evolved to be very transparent and open in its management of the power system. We believe this has enabled participants, system operators and regulators to make better decisions.

We recommend First Gas appropriately consider the additional costs associated with untested arrangements

Untested, or unproven, arrangements – be it one of the three options or detailed design aspects – have unknown, or difficult to estimate, costs. These costs can often be higher than proven arrangements due to higher than expected transaction costs (costs of building new resources/systems to accommodate the arrangements) or costs associated with unintended consequences (the costs, or benefits, that were not known at the outset and impossible to accurately predict).

While these costs are very difficult, sometimes impossible, to quantify, we recommend that First Gas put a slightly favourable weighting on proven arrangements during evaluation. This means, while we have no preferred option, we would expect that option 3 ('flow to demand') would need to exhibit a significantly higher net benefit than the other two options in order to be progressed. Similarly, when considering alternative arrangements for aspects such as pipeline balancing, we expect these alternative arrangements would need to demonstrate net benefits well in excess of the status quo arrangements.

If you would like to discuss any of these matters further, please contact me on (04) 590 7293.

Yours sincerely



Bennet Tucker
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emsTradepoint

⁷ An extreme example of a situation where capacity is not easily accessible is grandfathered capacity rights.

Appendix A – Submission template

Question	Response
Objectives for the Gas Transmission Access Code	
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?	Simplicity and transparency, see body of submission for more information
Q3: Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?	Yes
Scope of the Gas Transmission Access Code	
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?	Agree that the five other instruments presented are relevant to establishing the boundary of the new code No (see question 6)
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)?	Agree and no
Q6: Are there any other elements to the scope of the code that we should consider?	emsTradepoint Market Rules

Overview of options for the access regime

Question	Response
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
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?	No
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?	We believe a strong focus should be placed on ensuring the transmission access arrangements facilitate further development of the wholesale gas market See submission body for details of particular features that we believe important
Option 1: Menu of capacity products	
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?	No
Q11: Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?	No
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?	Yes, priority rights should be designed to ensure they promote competition rather than restrict it, therefore we recommend open and regular booking rounds
Q13: Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?	No

Question	Response
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)?	We will support any scheme that promotes competition and removes barriers to entry at receipt points and delivery points
Q15: Are there any aspects of the menu of capacity products option that you see as particularly valuable, or particularly concerning?	No
Option 2: Daily nominated capacity	
Q16: Do you have any views on how scarcity should be signalled if a daily nominated capacity option was developed?	We believe that a market-based solution (eg. auctions) should be developed if there is a need for it
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?	No
Q18: Are there any aspects of the daily nominated capacity option that you see as particularly valuable, or particularly concerning?	No
Option 3: Flow to demand service	
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?	<p>We are sceptical that shippers would have the inclination and/or sufficient information to provide timely and accurate forecasts and would expect that First Gas would need to provide their own central forecast</p> <p>We also believe providing timely and accurate forecasts would create a barrier to entry for shipping</p>

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?	N/A
Q21: How dynamic do you think pricing should be under a flow to demand service approach?	Pricing should have some amount of variability over the transmission network, the level of variability should be governed by, and linked to, the underlying investment needs of the network
Q22: Are there any aspects of the flow to demand service option that you see as particularly valuable, or particularly concerning?	We do not believe First Gas has provided sufficient information with which to realistically evaluate this option
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, but we do not have a preferred option
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?	Pricing needs to provide efficient long term investment signals
Q25: Of the options described in this paper, which do you prefer and why?	We do not have a preference
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?	The Code should contain all the principal obligations of shippers, interconnected parties and First Gas. In the absence of legislative backing, First Gas should bind each shipper and interconnected party (and First Gas itself) to the Code through bilateral agreements

Question	Response
<p>Q27: Are there particular code change processes or features that you consider important or valuable for the new code?</p>	<p>The Code change processes should mirror those in the Electricity Industry Act that apply to changes of the Electricity Industry Participation Code, with First Gas in the position of the Electricity Authority (i.e. the person who actually approves Code changes). All changes should need to be consulted on and supported by a cost benefit analysis, except changes that are minor or are required urgently. Urgent changes should be reconfirmed by way of the full process in due course</p> <p>We support First Gas exploring a ‘tiered approach’ to change requests</p>

Balancing, linepack management and allocation

<p>Q28: Do you agree with the comments on balancing and linepack management above? If not, why not?</p>	<p>Yes</p>
<p>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?</p>	<p>Yes</p>

Non-standard Agreements

<p>Q30: Do you agree with the comments on non-standard agreements above? If not, why not?</p>	<p>Yes</p>
<p>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?</p>	<p>No</p>

Gas quality

<p>Q32: Do you agree with the comments on gas quality above? If not, why not?</p>	<p>Yes</p>
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Question	Response
<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>No, although we would support incentivising/requiring transparency at all times, which would include transparent information disclosures about gas quality</p>
<p>Next steps</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>No</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 would like to be involved in any workstreams that interact with our business, including – but not limited to – title tracking, transparency of information, access neutrality, the connection between capacity and the physical commodity flow and balancing arrangements.</p>