



Analysis of Submissions on:

Gas Transmission Access: Single Code Options
Paper (SCOP2), First Gas, November 2016

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Executive Summary

Gas Industry Co and First Gas are co-leading the development of a single new gas transmission access code¹. As part of that process, First Gas issued a consultation paper entitled *Gas Transmission Access: Single Code Options Paper (SCOP2)*, on 28 November 2016, and called for submissions. The paper was presented at a workshop on 5 December 2016.

The purpose of SCOP2 was to explore the options for shaping a single new Gas Transmission Access Code to replace the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC). The paper focused on decisions that are important to establishing the direction for the new code and the IT system to implement it. After consulting on the general direction of the new code, First Gas proposes to embark on its detailed design work.

This paper provides Gas Industry Co's analysis of submissions on SCOP2 and comments on the process forward. The submissions demonstrate a high level of stakeholder engagement. At the highest level, our analysis of those submissions indicates that:

1. There is strong support for the main First Gas objective; to enable the use of gas.
2. Most submitters value simplicity highly, particularly for arrangements that apply to parts of the system without capacity constraints.
3. There are different sets of system users with quite different needs, reflected in their different opinions about where the preferred solution would lie on the 'spectrum of access regime options' presented in SCOP2.
4. There is strong interest in applying a zonal approach to allocating and pricing transmission capacity.

In Gas Industry Co's view, the submissions have been very helpful in identifying where the pressure points are, and how progress can be made. Among other comments we suggest that the current contract structure, where the 'common pool' provisions are in the code and are referenced in user contracts as necessary, has served the industry well. In our view it would be an unnecessary distraction to change this present structure. However, we agree with those submitters who support taking this opportunity to re-consider the code governance arrangements.

For the next stage, we invite First Gas to consider whether a robust and coherent design could incorporate the following features:

1. Zoning of the system.
2. Only requiring receipt and offtake information (in the form of nominations or otherwise) to the extent that it provides material value to the operation of the system.
3. Retaining Operational Balancing Agreements (OBAs) at locations where they are already agreed by the parties.

¹ This process was set out in the Gas Industry Co's September 2016 paper – *Gas Transmission Access: Single Code Options Paper: Part 1 (SCOP1)* – and refined in the November 2016 analysis of submissions on SCOP1.

By mid-February, First Gas expects to propose a set of directions and next steps for the code development process, based on what it has heard from submissions. A workshop to discuss the SCOP2 submissions, the proposed directions, and next steps will be held at the GIC office on Tuesday, 28 February. We encourage stakeholders to register and attend and look forward to discussing these matters then.

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1. Introduction and purpose

1.1 A single transmission code

In 2016, both of New Zealand's open access transmission systems – the Maui and Vector pipelines – came under the ownership of First Gas Limited (First Gas). For several years prior, Gas Industry Co and stakeholders had been reviewing the access arrangements to these pipelines, as set out in the Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC). Before First Gas became owner, various proposals to 'converge' these codes were under consideration.

On becoming the new transmission system owner, First Gas confirmed that it wished to develop a new access regime, and a single new transmission code. As 'industry body' under the Gas Act, Gas Industry Co wishes to ensure that any such arrangements meet the objectives of the Gas Act and the Government Policy Statement (GPS), and may recommend regulation to the Minister where necessary. Considering these matters, First Gas and Gas Industry Co agreed to co-lead the new code development work, each with its complementary responsibilities.

1.2 SCOP1

Gas Industry Co issued a foundation consultation paper on 13 September 2016 entitled *Gas Transmission Access - Single Code Options Paper - Part 1* (SCOP1), that proposed Gas Industry Co and First Gas should co-lead the new code development process. SCOP1 also proposed a regulatory objective and discussed how options for a new transmission access regime could be developed. On 23 November 2016 an Analysis of Submissions on SCOP1 was published. Submitters generally agreed with the proposals and the process set out in SCOP1, including unanimous support for First Gas and Gas Industry Co co-leading the process. Gas Industry Co noted that, in addition to providing a regulatory backstop if no agreement is reached, its role would include:

1. Facilitating the consultation process on key documents;
2. Independently analysing key documents and submissions on those documents; and
3. Making a full evaluation of proposals against Gas Act and GPS objectives when First Gas arrives at a point where it is requesting users to sign up to new arrangements.

1.3 SCOP2

Building on SCOP1 and one-on-one discussions with its key stakeholders, on 28 November 2016, First Gas issued a consultation paper entitled *Gas Transmission Access: Single Code Options Paper* (SCOP2), and called for submissions. The paper was presented at a workshop on 5 December 2016.

SCOP2 explores the possible forms that a single new code could take. The paper focuses on decisions that are important to establishing direction for the new code and the IT system that will implement it. After consulting on the general direction of the new code, First Gas proposes to embark on its detailed design.

All the submissions, the SCOP2 paper and workshop presentations are available from Gas Industry Co's website at: <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gas-transmission-workshop-single-code-options-paper-december-2016/>

1.4 Purpose

Appendix A of this paper provides a comprehensive summary of how each submitter responded to the questions First Gas posed in SCOP2. These comments are analysed under the broad topic heading in Chapter 2. In addition to characterising the submitter views on the topics we also provide some Gas Industry Co comment. Given the high level of SCOP2 it is not possible to provide any meaningful assessment against the Gas Act objectives at this stage, however, we hope that our comments will be a useful input to further stakeholder discussions.

2. Analysis of submitter views

2.1 Submissions received

Submissions on SCOP2 were received from:

-  • Contact Energy Limited (Contact)
-  • Critical Contingency Operator (CCO)
-  • emsTradepoint
-  • Genesis Energy (Genesis)
-  • Greymouth Gas New Zealand Limited (Greymouth)
-  • Major Gas Users Group (MGUG)
-  • Methanex New Zealand Limited (Methanex)
-  • Nova Energy Limited (Nova)
-  • OMV New Zealand Limited (OMV)
-  • Shell New Zealand (2011) Limited (Shell)
-  • Spindletop Law (Spindletop)
-  • Trustpower Limited (Trustpower)
-  • Vector Limited (Vector)

It will be seen from the [Appendix A](#) summary of submissions that the quality of submissions is high, submitters are generally on-board with the First Gas code development process, and are keen to be involved in the ongoing code design decisions.

2.2 Objectives of a single code

The objectives of a single code, proposed in SCOP 2 are:

1. Enable the use of gas (s2.7)
2. Minimise the cost of transporting gas (s2.8)
3. Keep it simple (s2.9)
4. Promote flexibility (s2.10)
5. Increase transparency (s2.11)

These objectives are generally accepted by submitters, although they also propose some additions, substitutions, and modifications. There is good support of 'enable the use of gas' as the primary objective, although Contact suggests that 'efficient use of the transmission system' is paramount, Spindletop believes the ultimate objective should be to improve market liquidity, and Shell considers that the overriding objective should be for the new code to be developed and

operated to the standard of a Reasonable and Prudent Operator following international best practice.

The importance of the 'keep it simple' objective is emphasised in a number of submissions², particularly in relation to sections of the system that are not capacity constrained. However, Shell notes that using a single design element for multiple functions may seem simple, but can compromise the outcome.

Several submitters³ suggest the inclusion of one or more Gas Act/GPS objectives.

And several submitters⁴ also propose that more emphasis needs to be placed on reliability of the system.

There is general agreement that the SCOP2 proposed objectives are compatible with the regulatory objective presented in SCOP1.

Some submitters propose that the regulatory objective needs to capture some additional concepts. In particular:

1. The Critical Contingency Operator (CCO) notes that efficiency and reliability are given equal emphasis in the Gas Act objectives, so proposes that reliability is added to the regulatory objective. Spindletop also considers that pipeline integrity warrants inclusion, and that urgent repairs should not be reliant on a customised price path being decided. Greymouth also emphasises the importance of system maintenance and investment for secure supply.
2. Genesis suggests that 'ease of use' should be encouraged by including a 'fit for purpose' statement. It believes that an overly complex solution will result in reduced competition. Vector also believes that a simple design will promote the use of gas.
3. Nova also suggests a number of wording changes to clarify the objective.
4. MGUG advocates a holistic objective, emphasising the overall health of the gas sector, particularly as seen from the perspective of gas consumers.
5. Mercury and Trustpower both stress the importance of transparency to competitive outcomes.
6. In addition to pipeline integrity (included in point 1 above), Spindletop suggests that the new arrangements should aim to facilitate upstream investment (and consequential downstream investment). It notes that pipeline owners in North America provide financing, technical support and DBOO⁵ capital lease structures to facilitate new connections and development of upstream/downstream facilities.

² Particularly emsTradepoint, Genesis, Greymouth, MGUG, Nova, Methanex, Trustpower and Spindletop

³ CCO, Methanex, Shell, and Spindletop

⁴ CCO, MGUG and Nova

⁵ Design, build, own and operate.

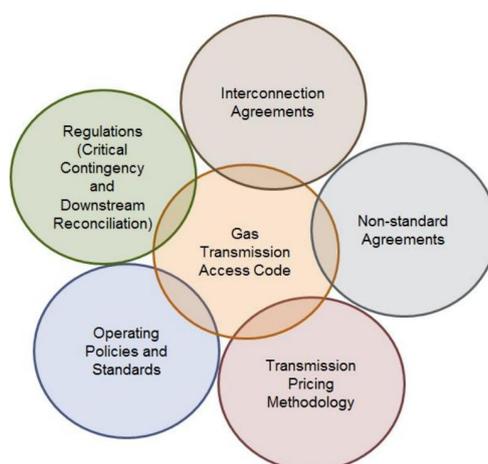
Gas Industry Co comment

We believe the First Gas objectives are generally in line with our regulatory objective, and will be a useful guide to the design process. We do not think that it is necessary for them to explicitly reference all the Gas Act objectives in its work. Some Gas Act objectives are more relevant than others in this context, and the code is not the only means of promoting Gas Act objectives. Furthermore, as a check Gas Industry Co will assess the final proposals against the Gas Act objectives in any case.

However, it is important that the objectives reflect the essential purpose of replacing the existing codes with a single new transmission access code, from the perspective of First Gas and its stakeholders. We leave it to those parties to discuss what refinements are necessary.

2.3 Scope of the code

Figure 2 of SCOP2 (reproduced below) illustrates the arrangements related to the new code. There is wide agreement that these are relevant to establishing the boundaries of the new code.



However, several submitters think that additional arrangements should also be considered, such as:

1. emsTradeport Market Rules (emsTradeport)
2. TSAs (Greymouth)
3. Price-quality regulation (MGUG)
4. The Gas Act (Shell)
5. The Carriage of Goods Act, Sale of Goods Act, the Commerce Act, the Crown Minerals Act and common law principle of bailment and conversion (Spindletop)

Regarding how the content of the new code should be determined, First Gas proposes (s3.3) that the new code should:

1. govern matters that materially affect service levels or cost of most/all shippers
2. address topics to a level that provides reasonable clarity on how different interests are treated.

This approach is widely supported by submitters.

Regarding the particular content of the new code, a few submitters think that some elements that First Gas describe as sitting outside the new code, should be part of the code. For example, Methanex and Shell argue that the operational terms of Interconnection Agreements (eg nomination and reconciliation arrangements) should be in the new code.

Greymouth thinks that there needs to be more consideration of the options for matters such as balancing and transmission pricing before launching into detailed design. It recommends that First Gas canvass these options in a SCOP3 paper.

Methanex considers that the new code should address gas quality liabilities. Shell notes that the new code must preserve the Taranaki pressure limits, and address rights to invest in capacity. And Spindletop notes a few other matters, such as storage, that the new code might cover.

Gas Industry Co comment

We agree with the stakeholders who suggest additional influences on code design, such as the Gas Act. We believe these can just be noted at this stage, since they will all get due consideration as the design takes shape and the new code is finalised.

We also agree with the principles First Gas have proposed for determining what should be included in the new code. In our view this would require that at least the essential terms of interconnection that could materially affect the service levels of shippers should be in the new code.

As noted by some submitters, balancing and gas quality will be key aspects of the new arrangements, but we consider that the shape of the capacity products (the essential service offering) needs to be developed first. We urge parties to consider further to what extent these matters should be dealt with in the new code, or separately, including to minimise issues of complexity and possible delay.

2.4 High-level options

Range of high-level options

SCOP2 described three points along a 'spectrum of access regime options':

1. Option 1 - Menu of capacity products
Offers shippers the widest range of capacity products, and requires daily nominations between locations (points and/or zones). Firm capacity has priority during times of scarcity.
2. Option 2 - Daily nominated capacity
Offers shippers capacity between locations (points and/or zones) on a day, based on daily nominations, with no priority obtainable in advance.
3. Option 3 - Flow to demand service
Delivers however much gas end-users take, only requiring shippers to provide forecast receipts and deliveries. First Gas would negotiate congestion management contracts where scarcity arose.

Contact, emsTradePoint, Genesis and Vector consider that sufficient high-level options have been canvassed in SCOP2. However, others propose certain other options be included. They are:

1. Market Carriage (MGUG and Spindletop)

2. Addition of a postage stamp 'production zone' from Kapuni to Mokau (Nova)
3. A 'status-quo tweaked' option (OMV)

In addition, Spindletop suggests that entry-exit is preferable to point-to-point for all options, and Genesis advocates considering entry-exit pricing for Option 1.

Shell suggests the MPOC nominations/confirmation and allocation protocols should be considered for all options.

Trustpower suggests that a capacity auction, triggered by anticipated scarcity, could apply to Option 2.

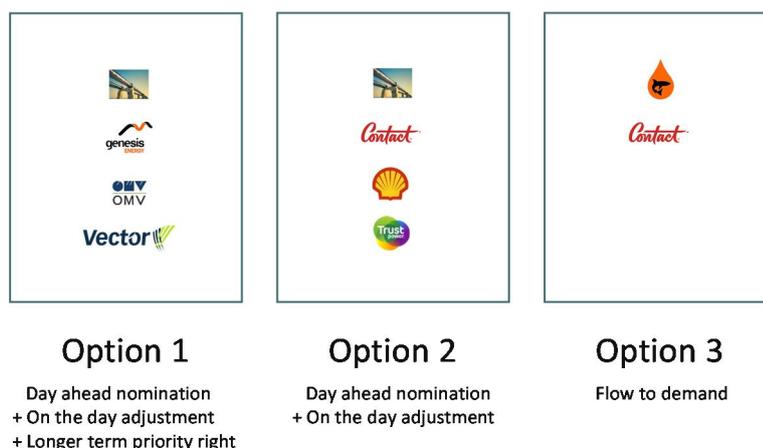
Relevance of international experience

More than half of the submitters⁶ think there are no particular lessons to learn from the experience of overseas jurisdictions. Others think that the relevant lessons are:

1. Capacity hoarding/sterilisation adversely affects trading and retail competition (Genesis)
2. Distance based prices along contractual paths increases transaction costs (Genesis)
3. Adopt proven standards and protocols (Shell)

Preferred high-level option

Many views are given on the individual option designs, with no consensus on which option is preferred. The diagram below shows the submitters who express a clear preference for one or two options.



Some other submitters did not express a clear preference, but commented on specific options. These include:

1. MGUG say that Option 3 on the surface appears to be the least transaction intensive and therefore more attractive to users. However, without more detail (particularly around allocation when capacity is scarce) they are reluctant to express any strong preference.
2. Nova has no preferred option, but states that Option 3 seems to offer little advantage for shippers, assuming that strong incentive arrangements will be needed on shipper forecasts that would replace the nominations requirements (in areas where capacity constraints could arise).

⁶ Contact, emsTradepoint, Greymouth, MGUG, Nova, Trustpower and Vector

3. emsTradepoint considers all options to be feasible, but comments that untested or unproven arrangements can have unexpected costs. For this reason, it recommends Option 3 would need to exhibit a significantly higher net benefit than the other two options to be progressed.

Best option for managing congestion

Almost all submitters consider it important that the new code reflect the physical constraints on the system, although there are different views on which option best achieves this. MGUG thinks that a capacity allocation method for each option has yet to be developed. Contact thinks that all options would signal constraints, but in different ways. Genesis thinks Option 1 would do this best; Shell and Trustpower think Option 2; and Greymouth thinks Option 3. Spindletop suggests that Options 1 and 2 would be best suited for constrained parts of the system, while Option 3 could be used elsewhere.

Balancing and linepack management

SCOP2 proposes that shippers should continue to have an all reasonable endeavours obligation to balance their receipts and deliveries each day. However, the need for multiple Balancing and Peaking Pools (BPP) would fall away, and balancing could be reframed as a service that is provided by the pipeline (similar to a 'park and loan' service). Shippers would continue to warrant good title to the gas they receive, and First Gas would continue to have 'control and possession' of that gas while it is in the transmission system.

Many shippers⁷ support these proposals. However, Greymouth disagrees on a number of points and considers that First Gas is delving into the detail without considering the high level options such as MBB (status quo), MBB (with tweaks), B2B, ILONs, and a load factor fee. It also calls for more discussion on D+1.

The CCO believes that there should be obligations on producers and large end-users as well as shippers, and that arrangements need to allow for the location of large imbalances to be identified.

Nova, supports a single balancing pool but with more realistic cash-out tolerances and a move to obtaining balancing gas via periodic tenders (rather than from the illiquid market).

Shell notes that users need timely information on their balancing status, up-to-date pipeline status information, and sufficiently strong incentives to balance. Any new arrangements should not put the target Taranaki pressure at risk.

Spindletop suggests storage fees reflecting the value to stored gas to the system and the length of time it is stored.

Vector wants more discussion on title tracking.

Defining and pricing capacity

Vector considers that the choice between points and zones may be different for different parts of the system. Almost all other submitters support some form of zonal approach to defining and pricing capacity. In addition, Genesis and Spindletop advocate an entry-exit approach, to further simplify arrangements.

emsTradepoint believes prices need to provide efficient long term investment signals.

⁷ Contact, emsTradepoint, Genesis, Nova, Spindletop and Vector.

Gas Industry Co comment

We understand that First Gas did not intend the 'options' to be fully formed. Rather they were to allow submitters to indicate which pathway they think is most appropriate. We think they have been successful in doing that, and we conclude that different parties have different needs/priorities. For example, it is important to Greymouth that the industry is not burdened with unnecessary cost/complexity where congestion is not an issue. And it is important to Shell and OMV that well established arrangements, primarily affecting producers, are not overturned without good reason. And it is important to Trustpower that capacity products do not give larger companies an unfair advantage. These are all legitimate perspectives.

In light of submissions, we invite First Gas to develop more detail to inform which of the pathways, or combination of pathways, is best able to meet the diverse needs of different stakeholders. More specifically, we invite First Gas to consider whether a robust and coherent design could incorporate the following features:

- 1. Zoning of the system, where a zone is defined as a set of receipt and delivery points at and between which there are no anticipated capacity constraints.*
- 2. Requiring receipt and offtake information (in the form of nominations or otherwise) only to the extent that it provides material value to the operation of the system. This may, for example, mean that different requirements are suitable for points within a zone (unconstrained) and points outside a zone (constrained).*
- 3. Retaining OBAs at locations where they are already used by the parties and retiring or relocating those that no longer serve a purpose.*

We consider that related components, such as balancing and transmission pricing principles, will be more easily defined once the core access regime products are designed. We urge First Gas to continue to give priority to this area.

2.5 Code governance

Form and scope of new code

Views are divided on whether the new code should apply to both Shippers and Welded Parties, or only Shippers. emsTradepoint and Methanex believe that the new code should contain the essential principles, rules, right and obligations for all pipeline users. Contact and Shell also believe the new code should relate to shippers and interconnected parties. On the other hand, Genesis, MGUG, and Nova would be satisfied if the new code only relates to Shippers. Spindletop suggests that the UK experience should be considered (where the Transporter, Interconnected parties, Shippers and Suppliers is each required to be licensed by the industry regulator, Ofgem, and to become party to the industry codes in accordance with the conditions of their licence).

Vector considers that requiring industry-wide discussion every time a change to the new code is proposed would be inefficient and could stifle innovation, it prefers bilateral contract with substantially similar terms.

Code change processes

A tiered approach to considering changes to the new code is preferred by MGUG, Methanex, Nova and Trustpower, but Genesis is concerned about the cost of this.

Most submitters favour an independent assessment of changes. Methanex and Nova suggest a wider role for GIC. Nova also advocates change proposals being approved by a majority vote of

shippers, although Shell is opposed to voting mechanisms that could potentially exclude competitors.

emsTradepoint favours a change process like the that of the Electricity Industry Participation Code with First Gas in the position of the EA (approving code changes).

Spindletop suggests the UK arrangements should be considered (where Ofgem can change the license conditions following consultation).

Vector considers that parties should be able to vary their contracts without having to consult the industry.

Non-standard agreements

SCOP2 proposes that the new code should apply clear, reasonably restrictive/deterministic criteria to determine when a non-standard agreement will be available. The criteria should be limited to bypass opportunities and situations where investment by First Gas is required to enable new demand. Non-standard agreements, including prices, would be publicly available in full once executed.

Most submitters⁸ agree with these proposals. However, MGUG notes that transmission prices are rarely a deal breaker and, if prices become more variable, the need for them should diminish. Spindletop considers that non-standard agreements should be approved by GIC.

Gas Industry Co comment

We have not heard any strong arguments in favour of changing the current contract structure, where code provisions are incorporated into bi-lateral contracts by reference. We consider that this structure has served the industry well, and that it would be an unnecessary distraction to change it at present. However, we agree with those submitters who support taking this opportunity to re-consider the code governance arrangements.

We agree with most submitters that non-standard agreement should be permitted, but for a narrow range of circumstances. In the absence of any clear conflict of interest, First Gas should be reasonably placed to negotiate such non-standard agreements.

2.6 Gas quality

SCOP2 proposes that the core principles and requirements⁹ for gas quality will be in the new code. Most submitters¹⁰ think this is adequate. However, Vector believes that a new code provides a unique opportunity to address fragmented gas quality responsibilities and suggests GIC and other regulators should consider if these matters might be better addressed in regulations such as the Gas Safety and Measurement Regulations. Nova also asks that First Gas consider whether current insurance arrangements are the most effective way for the industry to manage gas specification risk. Greymouth would also like to see some alternative gas quality options.

⁸ emsTradepoint, Genesis, Greymouth, MGUG, Methanex, Nova, Trustpower and Vector.

⁹ Such as compliance with the Gas Specification, including monitoring at minimum frequencies to demonstrate compliance, demonstrating that facilities, systems, and procedures are sufficient achieve this, and notifying First Gas of any non-spec gas injections.

¹⁰ Contact, emsTradepoint, Genesis, MGUG, Nova, Shell, and Trustpower

Gas Industry Co comment

Following up on previous gas quality work, a gas quality status update is pending and we will be attending to that update in Q1 of 2017.

2.7 Process

SCOP2 anticipated that in 2017 new code design work would begin by getting several workstreams underway to focus on the main elements of the code. Each workstream would involve the First Gas new code project team, selected industry experts and GIC. First Gas also anticipated having a small number of shipper representatives directly involved in the drafting process. Exposure drafts would then be issued for consultation.

Various submitters commented on the ambitious timetable and the demands this would put on industry resources, but overall there was enthusiastic support for the proposed process.

Gas Industry Co comment

We note that First Gas will hold a workshop to discuss the SCOP2 submissions, the proposed directions, and next steps at the GIC office on Tuesday, 28 February. We support that approach and encourage stakeholders to participate. In our view, submissions on SCOP2 provide useful feedback for the First Gas new code design team. The workshop should be able to task the design team with developing proposals in regard to (we suggest):

- 1. Zoning the system (which may cast light on approaches to defining capacity products, pricing, balancing, nominations, etc).*
 - 2. Governance arrangements (this was a sticking point towards the end of the industry discussions that led to implementation of the MPOC, so it may be prudent to tackle it at an earlier stage).*
 - 3. Other code provisions (as with the governance arrangements, we think there is an opportunity to settle many of the provisions such as; prudential requirements, force majeure, etc, at an early stage).*
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3. Summary and Next Steps

Bringing the earlier analysis together, we can classify submitter views and Gas Industry Co comments into two broad areas: 'code objectives and design' and 'product/service design options'.

3.1 Code objectives and design

Submitter views

1. There is general agreement on what the new code should aim to achieve, particularly that the main objective should be to 'enable the use of gas', and that 'simplicity' is important, especially where the system is not congested.
2. There is wide support that the boundaries of the new code should be drawn in ways that provide reasonable clarity on matters that materially affect service levels or costs to most or all pipeline users.
3. There are different opinions on whether only shippers should be counterparties to the new code, or also interconnected parties.
4. Some submitters emphasise the need for the new code to contain all the fundamental principles, rules, right and obligations of all pipeline users.
5. Most submitters agree that the new code should apply clear, reasonably restrictive/deterministic criteria to determine when a non-standard agreement will be available.
6. Many submitters support a tiered approach to code change approvals, with complex changes subject to independent assessment.
7. Some submitters see merit in developing the GIC's role in some areas such as: the code change process, regulating gas quality and approving non-standard agreements.

Gas Industry Co comment

- 1. We believe the First Gas objectives are generally in line with our regulatory objective, and do not think that it is necessary for its work to explicitly reference all the Gas Act objectives, including because Gas Industry Co will assess the final proposals against the Gas Act objectives in any case.*
 - 2. We also agree with the principles First Gas proposes for determining what should be included in the new code. In our view this will require that at least the essential terms of interconnection that could materially affect the service levels of shippers should be in the new code.*
 - 3. As noted by some submitters, balancing and gas quality will be key aspects of the new arrangements, but we consider that the shape of the capacity products (the essential service offering) needs to be developed first.*
 - 4. We consider that the current contract structure, where code provisions are incorporated into bi-lateral contract by reference, has served the industry well, and that it would be an unnecessary distraction to change it at present. However, we agree with those submitters who support taking this opportunity to re-consider the code governance arrangements.*
 - 5. We agree with most submitters that non-standard agreements should be permitted, but for a narrow range of circumstances. In the absence of any clear conflict of interest, First Gas should be reasonably placed to negotiate such non-standard agreements.*
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3.2 Product/service design options

Submitter views

1. There is no consensus on a preferred option, with a wide range of views expressed on each of the three proposed options, and a few suggestions for additional options to consider.
2. There are mixed views on whether the costs of administering a menu of capacity products would be justified, given the relative absence of congestion.
3. Several parties support current nomination processes, although there is general agreement that there is room to improve aspects such as the frequency and process for adjusting intra-day nominations.
4. There are different views on whether nominations should be dual purpose – scheduling both gas flow and transmission capacity – or not.
5. Although many submitters support the idea that balancing could be reframed as a service that is provided by the pipeline (similar to a 'park and loan' service), more detail of the option is called for.
6. If priority capacity rights are available, then there is widespread support for designing them as an option rather than a capacity reservation, and general support for using auctions to discover their value.
7. Most submitters do not consider that there are any particular lessons to learn from the experience of overseas jurisdictions.
8. There is strong interest in applying a zonal approach to allocating and pricing transmission capacity.

Gas Industry Co comment

1. *We understand that First Gas did not intend the 'options' to be fully formed. Rather they were to allow submitters to indicate which pathway they think is most appropriate. We think they have been successful in doing that, and conclude that different stakeholders have different needs/priorities.*
 2. *We invite First Gas to consider whether a robust and coherent design could incorporate the following features:*
 - (a) *Zoning of the system.*
 - (b) *Requiring receipt and offtake information (in the form of nominations or otherwise) only to the extent that it provides material value to the operation of the system.*
 - (c) *Retaining OBAs at locations where they are already agreed by the parties.*
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3.3 Next steps

First Gas will propose a set of directions and next steps for the code development process, based on what it has heard from submissions. It expects to release that proposal in mid-February.

First Gas will hold a workshop to discuss the SCOP2 submissions, the proposed directions, and next steps at the GIC office on Tuesday, 28 February.

Appendix A Summary of submissions

General	
Contact	<p>Contact believes that the main objective should be efficient use of the transmission system.</p> <p>It favours Option 2 or 3, depending on what First Gas determines the additional cost of risk under Option 3 would be.</p>
CCO	<p>The CCO wishes First Gas to develop an option that promotes reliable operation of the pipeline.</p> <p>It does not have a preferred option.</p>
emsTradepoint	<p>emsTradepoint strongly supports First Gas efforts to enable growth of the gas industry, to improve competition and thereby drive down costs.</p> <p>It does not have a preferred option.</p>
Genesis	<p>Genesis strongly supports the objective of enabling the use of gas but also considers that efficient investment is an important principle.</p> <p>GIC should have a central role in code changes to ensure the interests of the broader gas market.</p> <p>Option 1 will provide the flexibility and certainty shippers need as well as reflecting the variable conditions across the network. It can be enhanced by allowing for auctions to allocate scarce capacity and possibly by incorporating entry-exit pricing.</p>
Greymouth	<p>Greymouth suggests that First Gas should canvass options for supporting arrangements like balancing and pricing (in a SCOP3 paper) rather than moving straight into detailed design. It asks that GIC give First Gas and the industry ample time to agree on a design and implementation framework.</p> <p>Hidden issues and commercial differences will only surface when a detailed design is proposed. GIC should not wait for this, but consider now what potential regulatory changes are needed to give effect to the new code (eg formalising D+1 arrangements).</p> <p>Option 3 is preferred.</p>
MGUG	<p>MGUG supports enabling the use of gas as the primary objective and believes that keeping transmission rights simple so that they can be easily matched with gas trading arrangements is critical.</p> <p>Each option could bring improvements. Option 3 appears to be the least transaction intensive, so seems most attractive to end-users. But more detail is required (particularly on capacity allocation) before a strong preference can be selected.</p>
Methanex	<p>Methanex is concerned that by merging the codes some of the distinct characteristics of the Maui pipeline and its customers will not be given sufficient consideration. It suggests adopting a zonal/segmented approach to</p>

	<p>network operation and pricing would be an effective way of achieving a tailored outcome.</p> <p>It is most important that efficient and accurate mechanisms for allocating and reconciling gas quantities are preserved.</p> <p>SCOP2 presents a preliminary high-level overview which has insufficient detail for Methanex to choose a preferred option.</p>
Nova	<p>Nova supports the top down approach to new code development, and recommends including users in the assessment of IT systems at an early stage.</p> <p>Nova is open-minded on the option selected, providing it is consistent with the objectives and shippers can obtain firm rights when constraints emerge.</p>
OMV	<p>OMV advocates implementing any proposed changes by using the MPOC code change provisions. This would allow for assessment against the Gas Act objectives.</p> <p>It believe the shortcomings of the current arrangements can be addressed in a 'status-quo tweaked' option. This would probably look most like Option 1.</p>
Shell	<p>Shell is particularly concerned that the new code should be based on good international transmission practice.</p> <p>It particularly advocates standard nomination and reconciliation arrangements, including retaining an OBA option at producer and major user stations.</p> <p>It believes Option 2 offers the best prospect for timely development and lower cost.</p>
Spindletop	<p>Spindletop argues that simple solutions are suitable for an unconstrained parts of the system. Considering the famous Brattle Group analysis that led to the adoption of entry-exit arrangement for the EU, it argues that the flexibility offered by entry-exit would go some way towards meeting the Gas Act objective of developing efficient arrangements for the short-term trading of gas. It also believes that an entry-exit model can provide the firmness of point-to-point but also allow the TSP or third parties to develop specific tools to solve congestion at the very few points on the system where congestion arises. It suggests the key elements of a new code should be to:</p> <ul style="list-style-type: none"> • Adopt of entry-exit • Consider priority rights in areas of current or prospective congestion • Make unused capacity available to the market (apply 'use it or lose it') • Apply nomination and acceptance regime for gas inputs • Balancing via storage fees and daily cash-out • Price based on a mix of capacity and use <p>It believes Option 1 or Option 2 are suitable for constrained parts of the system, and Option 3 is suitable elsewhere. However, in all situations an entry-exit approach is preferable to point-to-point.</p>
Trustpower	<p>Trustpower considers the options present a fair range of risk allocation and complexity.</p> <p>It would like a new code to provide greater transparency, particularly of events that could influence price, to avoid information asymmetries.</p>

	It prefers Option 2, noting that it could be extended where congestion arises. Given the infrequency of constraints, Option 1 is needlessly complex. Given the likely unreliability of forecasts, Options 3 is infeasible.
Vector	<p>Vector strongly disagrees that noms for gas under gas supply agreements should be integrated with noms for capacity under transmission services agreements.</p> <p>It notes that an overrun mechanism (without an under-run mechanism) creates an incentive for shippers to over-estimate the quantity reasonably expected to be transported.</p> <p>It favours a variation of Option 1 using priority rights with 'no-notice' fixed capacity service and some system of title tracking.</p>

Objectives of 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?

Contact	Yes, but a better formulation, that would cover a number of the proposed objectives, might be to aim for 'an efficiently operated transmission system'.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
CCO	Notes the objectives are not as comprehensive as those in the Gas Act. Also, they should include reliability.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
emsTradepoint	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Genesis	<p>Yes.</p> <p>Suggests:</p> <ul style="list-style-type: none"> • adding 'promote efficient investment in transmission and non-transmission assets' and 'sound governance practices' • changing 'increase transparency' to 'promote transparency' • moving 'cost and risk' from the explanation of 'enable the use of gas' to the explanation of 'minimise the cost of transporting gas' • adding: 'promote efficient investment in transmission and non-transmission assets'. 	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Greymouth	<p>Yes.</p> <p>Suggests changing 'minimise the cost of transporting gas' to 'maximising efficiency'.</p>	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
MGUG	<p>Yes.</p> <p>Suggests objectives should include 'reliability'.</p>	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No

	Notes that 'simplicity' means not having to intensively manage transport logistics including scheduling and other transactions.	
Methanex	A key requirement of the GPS not covered by the First Gas objectives is accurate, efficient and timely arrangements for the allocation and reconciliation of upstream and downstream gas quantities. Also, prices should not expose Methanex to costs it does not derive a benefit from.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Nova	Yes. But more emphasis should be put on reliability of supply, including operating a disciplined market, good coordination, and reliable critical contingency arrangements. Risks (eg arising from imbalances product quality or undue liabilities) should be explicitly considered.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
OMV	Agrees the objectives are worthwhile and suggests that current arrangements could be tested against them to identify shortcomings.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Shell	Suggests the proposed objectives are not complete. For example, they should include: <ul style="list-style-type: none"> • Stable protocols and standards for reconciling and balancing gas (Gas Act) • Efficient arrangements for the short-term trading of gas (GPS) • Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream and downstream gas quantities (GPS) Also, there is concern about how of the proposed objectives might lead to bad design choices. It is suggested that First Gas re-assert its commitment to develop and operate the code as a Reasonable and Prudent Operator, ie conforming to 'good transmission practice applied internationally'.	Yes <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Spindletop	The ultimate objective should be to improve market liquidity.	Yes <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Trustpower	Yes. Enabling downstream competition is key.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No

Vector	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Q2 Which objectives do you see as most important?		
Contact	Suggest the most important thing is to aim for is 'efficient use of the transmission system'.	
CCO	Reliable operation.	
emsTradepoint	Simplicity and transparency.	
Genesis	Enabling the use of gas.	
Greymouth	Simplicity (whether obtained through conventional or innovative means).	
MGUG	Enabling the use of gas is the primary objective, and it will be important to recognise this when evaluating options.	
Methanex	<p>It is most important that efficient and accurate mechanisms for allocating and reconciling gas quantities are preserved.</p> <p>Also, choice v simplicity is not the most important distinguishing characteristic of pipeline access arrangements. More relevant are:</p> <ul style="list-style-type: none"> • Customer characteristics. The current MPOC arrangements between producers and end users are successful and should be retained. • Geographic aspects. To reflect the varied nature of customers and costs across the network. 	
Nova	<p>Comments on objectives:</p> <p>Enable the use of gas – the most important objective.</p> <p>Promote flexibility – key to enabling the use of gas.</p> <p>Keep it simple – secondary to the two above objectives.</p> <p>Minimise the cost of transporting gas – would prefer 'optimising the use of pipeline assets' since most cost is related to that.</p> <p>Increase transparency – sufficient to enable effective real-time responses to market conditions.</p>	
OMV	-	
Shell	<p>The overriding objective should be for the new code to be developed and operated to the standard of a Reasonable and Prudent Operator. This matters particularly in relation to:</p> <ul style="list-style-type: none"> • Nomination protocols • Requirements and incentives to flow gas to nominations • Allocation algorithms • Reconciliation <p>Enabling the use of gas is a valid objective if read wide enough to include incentivising production and use.</p>	
Spindletop	<p>The Gas Act objectives of:</p> <ul style="list-style-type: none"> • Efficient arrangements for the short-term trading of gas • Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities 	
Trustpower	Enabling the use of gas.	
Vector	Enabling the use of gas.	

Q3 Do you agree that the objectives proposed in this paper are compatible with the regulatory objective presented in SCOP1?		
Contact	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
CCO	Yes, but not as comprehensive.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
emsTradepoint	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Genesis	Yes, if efficient investment is included, as suggested.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Greymouth	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
MGUG	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Methanex	-	
Nova	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
OMV	-	
Shell	The proposed objectives are not sufficient to meet the Gas Act objectives and international best practice. First Gas should seek to minimise the cost of injecting, transporting and receiving gas, not just the cost of transporting.	Yes <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> No
Spindletop	Not necessarily. SCOP2 is silent on the efficient arrangements for the short-term trading of gas (which is becoming more important as gas moves to cover the peaks). In the UK the Transmission System Operator was integrated with the spot market's development and was critical to that platform's ongoing success. It seems odd that First Gas do not see themselves as having such a role despite the benefits short-term trading can bring to users and the taxpayer.	Yes <input type="radio"/> <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> No
Trustpower		
Vector	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Scope of the Gas Transmission Access Code		
Q4a Do you agree that the five other legal or subsidiary instruments presented above are all relevant to establishing the boundaries of the new code?		
Contact	Yes. But if Operating Policies and Standards are to lie outside the new code there needs to be high confidence that they will be consulted on and transparent.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
CCO	-	
emsTradepoint	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No

Genesis	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Greymouth	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
MGUG	-	
Methanex	-	
Nova	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
OMV	-	
Shell	Useful starting point.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Spindletop	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Trustpower	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Vector	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Q4b Are there any other legal or subsidiary instruments that are missing?		
Contact	-	
CCO	-	
emsTradeport	No.	Yes <input type="radio"/> <input checked="" type="radio"/> No
Genesis	-	
Greymouth	Perhaps TSAs are missing.	Yes <input checked="" type="radio"/> <input type="radio"/> No
MGUG	The Commerce Commissions restrictions and obligations on revenue, pricing, costs and information disclosure should be recognised.	Yes <input checked="" type="radio"/> <input type="radio"/> No
Methanex	The treatment of Welded Parties and interconnections within the MPOC has been successful and should be retained as far as possible.	Yes <input checked="" type="radio"/> <input type="radio"/> No
Nova	-	
OMV	-	
Shell	The Gas Act.	Yes <input checked="" type="radio"/> <input type="radio"/> No
Spindletop	For reasons explained in its submission, Spindletop suggests that other relevant law may include: <ul style="list-style-type: none"> • The Carriage of Goods Act 1979 • The Sale of Goods Act 1908 • Common law principle of bailment and conversion • The Commerce Act 1986 • The Crown Minerals Act 1991 	Yes <input checked="" type="radio"/> <input type="radio"/> No
Trustpower	-	
Vector	No.	Yes <input type="radio"/> <input checked="" type="radio"/> No

Q5a Do you agree with the way that we have described what should sit inside the code, and what should fall outside?		
Contact	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
CCO	-	Yes <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
emsTradepoint	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Genesis	-	
Greymouth	-	
MGUG	Yes.	
Methanex	Broadly, yes.	Yes <input type="radio"/> <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Nova	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
OMV	-	
Shell	-	
Spindletop	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Trustpower	Yes. The new code should set high level rules such as responsibilities and methodologies for how fees are set.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Vector	Yes.	Yes <input checked="" type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> No
Q5b Are there 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)?		
Contact	Additional legal or subsidiary instruments may be required. This will become clear when further detail is provided.	
CCO	-	
emsTradepoint	No.	
Genesis	The new code should include: <ul style="list-style-type: none"> • more specific guidance on setting prices • guidance for determining and managing linepack 	
Greymouth	A SCOP3 paper is required to cavass the options for matters such as balancing and pricing.	
MGUG	Suggests that the Standard Operating Procedures could be made available on request.	
Methanex	Interconnection arrangements should remain in the code. The principles for setting operational policies and standards should be in the new code. For example, the commercial principles of line-pack management, and the principles for managing curtailments and contingencies. Balancing should be dealt with comprehensively in the new code.	
Nova	-	
OMV	First Gas should provide guidance on how it intends to allocate and recover revenues across the network. This will be fundamental to design choices and needs to send the right economic signals to facilitate future investment.	

Shell	<p>All operational terms of interconnection must be in the new code. In particular, both shippers and interconnected parties need to be bound to common:</p> <ul style="list-style-type: none"> • Noms protocols • Requirements/incentives to match noms • Allocation algorithms • Reconciliation and allocation arrangements <p>There can be some scope for non-standard agreements.</p> <p>Deliveries should be determined by nominations, not the Downstream Reconciliation Rules.</p>
Spindletop	Notes that Standard Operating Procedures should reflect operational best practice, and disputes could be managed by reference to an independent expert.
Trustpower	-
Vector	-
Q6 Are there any other elements to the scope of the code that we should consider?	
Contact	Not at this stage.
CCO	Responsibilities of producers and large customers to flow to nominations etc.
emsTradeport	emsTradeport Market Rules.
Genesis	Not at the current high level.
Greymouth	No, but this question should be asked throughout the process.
MGUG	-
Methanex	In respect of gas quality excursions, the new code should contain back-to-back indemnification and a duty on First Gas to actively pursue damages on behalf of its customers.
Nova	The work of the PEA should inform the design process.
OMV	-
Shell	The 48 barg pressure limit around Bertrand Road must be maintained. Users should have the right to invest in capacity reinforcement if First Gas chooses not to.
Spindletop	Suggests it may be worth considering storage, linepack tolerances, interruptible contracts, and financial firm rights.
Trustpower	No.
Vector	No.
Overview of access regime options	
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?	
Contact	No.
CCO	-

emsTradepoint	No.
Genesis	No, but entry/exit pricing should be considered under Option 1.
Greymouth	Notes that they do not cover all reasonably practicable options.
MGUG	Market Carriage could be considered.
Methanex	-
Nova	An unconstrained 'production zone' can be considered to extend from Kapuni to Mokau, including emsTradepoint. This zone is suitable to apply flows on the day with a simple postage stamp charging mechanism. This would simplify any trading. Elsewhere one of the three options could apply.
OMV	OMV advocates a 'status-quo tweaked' option. It would address the shortcomings of the current system, while being least cost in respect to industry learning and impact on existing arrangements.
Shell	The MPOC nominations/confirmation and allocation protocols should be considered for the whole system. Each of the 3 options presented could provide stable operation providing it has good nomination/confirmation protocols, and strong daily balancing incentives.
Spindletop	The 'options' are really just ways of booking capacity. The type of capacity (entry-exit, point-to-point etc) and other aspects such as the pricing methodology also need to be considered. Suggests it was an oversight for SCOP2 not to have considered previous access regime advice from Larry Ruff even though 'it is quite a dramatic shift from the current method and interposes the TSO into gas sale contracts in a manner not anticipated by sellers and buyers'. However, in all situations an entry-exit approach is preferable to point-to-point.
Trustpower	Options 2 (which Trustpower supports) could be modified by including a capacity auction, to be triggered when scarcity is predicted.
Vector	No.
Q8 Are there any particular lessons from international experience that you consider First Gas should seek to learn from when designing and implement the new access code?	
Contact	No.
CCO	-
emsTradepoint	No.
Genesis	Capacity hoarding/sterilisation adversely affects trading and retail competition. Distance based prices along contractual paths increases transaction costs.
Greymouth	The NZ gas industry should follow its own path, keep it simple and innovate.
MGUG	No.
Methanex	-

Nova	We should be wary of adopting overseas regimes. NZ's transmission system is small with no interconnections to other systems, so simplification is possible.
OMV	-
Shell	The major lesson is to adopt proven standards and protocols, including: <ul style="list-style-type: none"> • A sound noms regime • Conventional allocation arrangements, including a default algorithm where there is no agreement • Adequate incentives for noms to reflect expected gas flows
Spindletop	Suggests that the experience in the UK and EU will offer insights. Notes that economic rationale for these systems cannot be dismissed because NZ is not 'big' or 'integrated'. There are many similarities, such as the type of economic regulation, legal system etc.
Trustpower	NZ is unique and international practice may not be relevant. In particular, Trustpower does not support entry-exit, believing that a cost per kilometre tariff will provide greater clarity without added complexity.
Vector	Does not see any merit in seeking any further lessons from international experience.
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?	
Contact	Provided the new code delivers an efficiently operating transmission system, this should facilitate further development of the wholesale market.
CCO	-
emsTradepoint	A well-functioning, liquid and transparent spot market is a key enabler of competition. It requires that transport of gas should facilitate trading of gas by: <ul style="list-style-type: none"> • Effective title tracking • Not identifying counterparties to a trade • Easy access to transport for traded gas • Non- discriminatory access arrangements • Sourcing balancing gas from the spot market
Genesis	This is important and can be helped by the availability of short-term capacity and appropriate pricing.
Greymouth	This deserves some focus.
MGUG	It is critical that the new code remove current barriers to gas trading and emerging gas contracting models. If gas trading products are on the day, day ahead, week ahead, and month ahead, matching transmission products should be available to facilitate trading.
Methanex	-
Nova	Access arrangements should be neutral; not hindering the market or investing in its enhancement.

OMV	-
Shell	This is a matter that the Gas Act requires to be considered. Standard nomination and allocation arrangements will support a well-functioning wholesale gas market.
Spindletop	Development of the short-term wholesale gas market should be the highest priority, and the entry-exit model is critical to its development.
Trustpower	Development of the wholesale market is vital to promoting downstream competition and ensuring the price of gas is efficient and transparent. Transparency requirements in the new code will remove asymmetric information concerns, and facilitate trading.
Vector	The gas market can flourish if the new code seeks to remove barriers and enables the use of gas.

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?

Contact	It should be an option if that will provide better information and efficient use of capacity.
CCO	-
emsTradepoint	No.
Genesis	It should be an option.
Greymouth	No opinion at this stage.
MGUG	Perhaps both are needed. To maximise asset utilisation a priority product with nominations is preferred. However, some users may require a no-notice product, in which case a fixed property right product may be more suitable than an option.
Methanex	-
Nova	It should be an option and available to both shippers and end-users.
OMV	Notes that MPOC AQ has never been implemented and no analysis has been presented on whether AQ can, or should, be rolled out across the wider network.
Shell	Unsure how this works, but suggests that it must be designed to avoid capacity hoarding or sterilisation.
Spindletop	Option 1 should only apply where constraints exist or are anticipated. Scarce capacity should be auctioned.
Trustpower	The priority right should be an option. This will provide more flexibility for the shipper and reduce the possibility of capacity hoarding.
Vector	Supports priority right to capacity, but designing it as an option would add unnecessary complexity. There should be other commercial incentives for shippers not to retain unused capacity.

Q11 Do you consider that there would be sufficient interest in priority rights to justify the effort in administering this product?

Contact	No. Although it could be offered only in zones where capacity is constrained.
CCO	-
emsTradeport	No.
Genesis	Yes, where capacity is constrained. In any case, arrangement should be designed now, preferably including an auction mechanism.
Greymouth	If there is to be contractual capacity then priority rights will need to be designed and administered (even if not used).
MGUG	Possibly. It will depend on the arrangements for allocating capacity when it is scarce. Or, if pricing is sufficiently dynamic and appropriate capacity investments are made, there may be no need for priority rights products.
Methanex	-
Nova	Yes. The value may only be significant when capacity is constrained. But an option will also have value when a shipper requires security of tenure, and is a useful tool for signalling anticipated congestion.
OMV	-
Shell	Notes that if services such as 'park and loan' are offered, capacity on the pipeline could be considerably reduced, making priority rights attractive.
Spindletop	Suggests testing the market to gauge interest.
Trustpower	The priority right should only be introduced when there is an expectation of scarcity.
Vector	Yes. Priority rights give end-users confidence to make investment decisions and give the TSP greater certainty. Multiple products provide optionality to end-users and allow for more pricing signals. A transparent booking system would provide visibility on where constraints are developing. Rights akin to the VTC are simple for shippers and end-users to adapt to.
Q12 Do you have any views on the broad features of the priority right product, such as the length of the contract, the frequency of booking rounds, etc?	
Contact	If there is to be priority booking rights then having shorter term rights that cover specific seasons or demand profiles would provide efficiency and flexibility.
CCO	-
emsTradeport	Priority rights should be offered openly and regularly to promote competition.
Genesis	Only a proportion (say 70%) of capacity should be sold as firm. Capacity rights should be annual, but sold for several years in advance. A monthly or quarterly product could also be investigated.
Greymouth	This is complex.
MGUG	In addition to offering multi-year priority rights, it would be useful if the term matched the terms of the wholesale trading platform products: day, day-ahead, weekly, and monthly strips.

	These could be available as needed, without the need for booking rounds.
Methanex	-
Nova	<p>A priority right could be long-term (eg to support investment in new plant over its life) or short-term (eg during a compressor outage). So a variety of terms may be required.</p> <p>The holding cost of a priority right could be some percent of the average price of traded capacity.</p> <p>Rights could extend for 3 years, with 1/12 of the capacity being renewed by tender each quarter.</p> <p>To protect the value of the rights their priority must be protected by strong rules.</p>
OMV	-
Shell	Insufficient Option 1 detail to comment. But agrees that investors in new plant need some mechanism to secure capacity. And agrees that not all capacity should be subject to options... perhaps only 70%.
Spindletop	Proposes that the time between pricing the priority right and exercising it should be minimised so as to ensure the pricing and product remain the same relative value as a the time of contract.
Trustpower	<p>To match offtake, the right should be no longer than quarterly, with (at most) annual opportunities to change reserved capacity.</p> <p>For seasonal loads, the absence of seasonal capacity is an incentive to use alternative fuels.</p>
Vector	<p>Priority rights should be fully tradable with the TSP and other shippers.</p> <p>The rights should be available and tradable each day, to cover gas supply commitments.</p>
Q13 Do you have any views on the frequency and timing of nomination cycles, and the role of nominations?	
Contact	The ability to adjust noms hourly would reduce balancing requirements and be more efficient.
CCO	Noms should be balanced and reflect title to gas.
emsTradepoint	No.
Genesis	<p>First Gas should have access to gas noms, as these provide better information than capacity reservations.</p> <p>Gas and capacity noms may need to be decoupled if the incentives on each are different... it is too early to say.</p> <p>Week-ahead noms, updated day-ahead are suitable.</p>
Greymouth	Current noms could be extended if merited. Noms and cycles may be improved by a new IT system.
MGUG	<p>The role of noms should be to manage line-pack and signal physical capacity constraints.</p> <p>Frequency and timing will depend on the penalties/incentives of supporting arrangements such as balancing.</p>

	Arrangements that reduce the need for end-users to manage nominations would be welcome.
Methanex	-
Nova	Noms indicate how much priority capacity will be used and how much will be available for interruptible users. Noms to use priority rights could extend for 3 years or so, set each month in advance, with daily amendments from 22:00 to the previous day to 12:00 on the day.
OMV	-
Shell	The current, and conventional, week-ahead/day-ahead approach is matched in gas contracts and should be retained. Between 4 and 6 cycles are preferred, and current timing seems to be working well. But an earlier Gas Day start time is recommended.
Spindletop	-
Trustpower	Noms are the best means of indicating expected flows. Ideally it should be possible to nominate at any time.
Vector	Strongly believes that capacity and title tracking cannot and should not be linked in one nom. The commercial incentives for nominating transmission capacity are different to those for gas purchases. Also, there are already arrangements to schedule gas with producers, independent of transmission. Supports the SCOP2 s4.23 proposal to treat priority rights as a 'no-notice' service, with no requirements for noms. But does not agree with the reasons provided in s4.23.2 and s4.23.3. Is not clear how unused firm capacity can be made available to others, if there is no commercial incentive to release it.
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)?	
Contact	No preference at this stage.
CCO	-
emsTradepoint	Arrangement should promote competition and not introduce barriers to entry.
Genesis	Preferred allocation methods are as at present.
Greymouth	No preference at this stage.
MGUG	No, other than promoting simplicity for end-users.
Methanex	For Maui Pipeline users the current arrangements are successful and should be preserved.
Nova	Allocations should be based on metered quantities on a zonal basis. (By delivery point allocations would not be required.) It may not be efficient to apply OBAs to all receipt and delivery points.
OMV	Strongly encourages consideration of the OBA principles. In particular: <ul style="list-style-type: none"> • A shipper's allocation of gas at a 'balancing zone' should be deemed to be its approved nomination. This simplifies title tracking and spot market design. The approval also allows for a check against available capacity.

	<ul style="list-style-type: none"> Imbalance is allocated to the party responsible for the balancing zone. For example, the party at downstream balancing zones (perhaps related to the current BPPs) could be the TSP (as at present).
Shell	Standard allocation algorithms should be offered. OBAs must be an option available to producers and large users.
Spindletop	Notes the need for robust title tracking. In the UK the title follows possession.
Trustpower	No firm preference at this stage.
Vector	The Downstream Reconciliation Rules cover shared gates. Elsewhere allocation agreements are needed. It is not necessary to say more in a new code.
Q15a Are there any aspects of the menu of capacity products option that you see as particularly valuable?	
Contact	The flexibility to match with demand would be valuable.
CCO	-
emsTradeport	No.
Genesis	Certainty provided to shippers and price signals are valuable.
Greymouth	No.
MGUG	Useful to end-users who wish to minimise the chance of curtailment.
Methanex	-
Nova	Rights are valuable to those requiring certainty of capacity rights over a period, including investors in new plant.
OMV	-
Shell	-
Spindletop	-
Trustpower	-
Vector	It is valuable for shippers to have a choice of using firm or interruptible products, and the term they contract capacity for.
Q15b Are there any aspects of the menu of capacity products option that you see as particularly concerning?	
Contact	-
CCO	Complexity of capacity products may diminish value of noms.
emsTradeport	No.
Genesis	-
Greymouth	All aspects are of concern since they perpetuate inefficiency and are complex.
MGUG	The option will require a lot of design effort for products that are in little demand. This effort may be better spent on designing scarce capacity allocation based on dynamic pricing that could be used across all three products.

Methanex	The capacity products and how they are priced needs to be explained in more detail, including how overruns and balancing prices will work.
Nova	-
OMV	-
Shell	Priority rights to capacity and overrun fees can cause contractual congestion, protection of incumbents and anti-competitive behaviour. Also, overrun fees are not conducive to the short-term trading of gas.
Spindletop	There needs to be more understanding of other tools available to the TSP to deliver 'firm' rights (financial, linepack etc). The menu is fairly short and deals with one aspect of capacity with little on pricing.
Trustpower	Only being able to book annual capacity makes it difficult for retailers to match their demand, and increase the cost to their customers.
Vector	Capacity hoarding is a concern which could be addressed by an under-run fee.

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?

Contact	It should be evident by linepack/line pressure.
CCO	-
emsTradepoint	Using market mechanisms such as auctions.
Genesis	Using an auction when capacity is scarce. With administered prices as second-best.
Greymouth	No views at this stage.
MGUG	If more than day ahead signals were required, a traffic light system based on forecasts could be developed.
Methanex	-
Nova	Historical demand tempered by large user forecasts could be a guide. Daily bookings are influenced by many factors (overrun fees etc), so may not be a good indicator of use. If modelling showed likely congestion a capacity auction could be held at that time.
OMV	-
Shell	Shippers could specify the value of lost load (VOLL) within a nominated delivery zone. Scarce capacity could then be allocated by VOLL, giving a clearing price that would provide a scarcity signal.
Spindletop	Option 2 should only apply where constraints exist or are anticipated. Scarce capacity should be auctioned.
Trustpower	First Gas should provide a forecast of expected utilisation, covering several years. There could also be an auction of quarterly capacity where scarcity looked likely. The auction demand would be a further indication of how much scarcity is likely.

Vector	Supports variations to Option 1, rather than Option 2.
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?	
Contact	No.
CCO	Complexity of capacity products may diminish value of noms.
emsTradepoint	No.
Genesis	No.
Greymouth	Not at this stage.
MGUG	No.
Methanex	-
Nova	Noms should be able to be modified at any time on a day.
OMV	-
Shell	As Shell understands it Option 2 has the capacity allocation and delivery allocation aligned, so the separate processes for acquiring capacity and gas required by Option 1 are un-necessary.
Spindletop	Makes economic sense for constrained parts of the system.
Trustpower	No.
Vector	-
Q18a Are there any aspects of the daily nominated capacity option that you see as particularly valuable?	
Contact	No.
CCO	-
emsTradepoint	No.
Genesis	
Greymouth	No.
MGUG	This option should facilitate the use of hub traded products.
Methanex	-
Nova	No. Does not seem to offer any particular advantages over Option 1.
OMV	-
Shell	Potentially efficient and flexible if delivery allocations are aligned with the implied allocation of capacity such that shippers who value gas most highly are assured of having their nominated gas delivered to a zone.
Spindletop	-
Trustpower	Option 2 will provide the most effective title tracking, which is vital for the wholesale market. It will also provide greater flexibility and improve the response to scarcity.

	Barriers to downstream competition will also be removed since peaky customers no longer have to carry the burden of un-needed off-peak capacity.
Vector	-
Q18b Are there any aspects of the daily nominated capacity option that you see as particularly concerning?	
Contact	No.
CCO	-
emsTradepoint	No.
Genesis	It does not provide longer term certainty to a shipper or the price of longer term capacity. Capacity allocation method should be designed in advance (and not just to a principle level).
Greymouth	All aspects are of concern since they perpetuate inefficiency and are complex.
MGUG	The concern is how scarce capacity would be allocated to those who value it most.
Methanex	The capacity products and how they are priced needs to be explained in more detail, including how overruns and balancing prices will work.
Nova	A concern for Options 2 and 3 is that costs may not be allocated fairly (ie reflecting use during the peak period). If daily capacity does not provide the longer period certainty that some users require, they may be driven to use alternative arrangements, at a higher cost than Option 1.
OMV	-
Shell	Would be concerned if daily nominated capacity is not linked to conventional nomination systems and protocols.
Spindletop	Would be concerned if capacity could be held unused in order to prevent competitors from accessing it.
Trustpower	-
Vector	-
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?	
Contact	Forecasts currently tend to be useless. They could be evolved into nominations.
CCO	-
emsTradepoint	Not all shippers can provide timely and accurate forecasts. To avoid this being a barrier to entry, First Gas should provide the forecasts.
Genesis	Forecasts should be annual, quarterly and day-ahead (but may not be accurate without suitable incentives).

	<p>A shippers should notify First Gas of any new customers it has.</p> <p>First Gas should consider if there is merit in obtaining load information from distributors, and requiring distributors to seek its approval if delivery point capacity could be exceeded.</p>
Greymouth	A book-built nomination on either a gas gate or pool or aggregate basis – either backed into customer nominations or based on an algorithm that a shipper uses to purchase gas.
MGUG	<p>Daily and seasonal variation is best judged from historical flows, possibly with some adjustment for eg weather.</p> <p>Shippers should provide exception forecasts based on structural demand shifts.</p>
Methanex	
Nova	At times of constraint, forecasts would only be of value if they can be relied on. The cost of providing reliable forecasts may be no less than providing noms.
OMV	-
Shell	Forecasts are not a substitute for a proper nomination process.
Spindletop	Option 3 should only apply where constraints do not exist and are not anticipated. The gas nominations shippers make to producers can be the basis of an inventory management system.
Trustpower	For each location, shippers should provide forecast customer numbers and types and, for non-mass market customers, a consumption forecast.
Vector	Supports variations to Option 1, rather than Option 2.
Q20	What information do you require form First Gas to provide you with confidence in security of supply both in the short and long term under this approach?
Contact	Real-time information on available capacity.
CCO	Assurance that large quantities of gas can be called on at short notice 24/7 to maintain balance.
emsTradepoint	-
Genesis	<p>Winter capacity margin.</p> <p>10 year security of supply assessments.</p> <p>First Gas operational and investment arrangements to support security of supply.</p>
Greymouth	First Gas needs to have a congestion management product available (such as was developed by the GITAWG).
MGUG	<p>Current capacity reporting in the AMP should be sufficient for the long term.</p> <p>A traffic light system based on First Gas forecasts should signal potential short-term capacity constraints.</p>
Methanex	-
Nova	First Gas could provide an annual review of expected capacity utilisation, including a survey of retailers to identify any anticipated changes. However, difficulties could still arise from unexpected circumstances.

OMV	-
Shell	Not convinced First Gas can offer secure supply under Option 3 without strong incentives for daily balancing etc.
Spindletop	The TSP should be required to take an inventory of goods received, allocate it to the relevant shipper and ensure it is subsequently delivered.
Trustpower	A 12 month forecast and an indication of how the TSP will manage any anticipated congestion.
Vector	-
Q21 How dynamic do you think pricing should be under a flow to demand service approach?	
Contact	Very dynamic where capacity is scarce, in order to signal appropriate investment in capacity.
CCO	-
emsTradeport	Price variations should be linked to the cost of underlying network investment.
Genesis	For correct incentives, and to avoid cross-subsidisation, prices should be just as dynamic as under the alternative options.
Greymouth	No comment at this stage.
MGUG	Pricing should reflect scarcity and should be supported by mechanisms/information to make it transparent.
Methanex	-
Nova	<p>Pricing could be dynamically linked to capacity utilisation on a day. The algorithm could increase price more rapidly as capacity constraints were approached. But it would be difficult for retailers to forecast costs and set downstream prices.</p> <p>A simpler model would be a daily charge set in advance but based on seasonal or weekly demand patterns.</p> <p>Or both methods could be used, allowing users to select which they preferred.</p>
OMV	-
Shell	-
Spindletop	Stable in unconstrained parts of the system (and established by auction elsewhere).
Trustpower	As in electricity, the price should increase as capacity utilisation increases.
Vector	-
Q22a Are there any aspects of the flow to demand service option that you see as particularly valuable?	
Contact	No.
CCO	
emsTradeport	Option is not sufficiently detailed to answer the question.
Genesis	-

Greymouth	Yes. It aligns best with the First Gas objectives and simplifies things for shippers and end-users. It seems to be the only practicable option.
MGUG	If the simplicity of this option is realised, the administrative cost associated with nominations would reduce, both for end-users and shippers.
Methanex	-
Nova	The option has some appeal if capacity management and pricing issues can be managed.
OMV	-
Shell	-
Spindletop	Flow to demand in unconstrained parts of the system would allow the system flexibility to be used, and avoids the complexity of Options 1 and 2.
Trustpower	-
Vector	-
Q22b Are there any aspects of the flow to demand service option that you see as particularly concerning?	
Contact	No.
CCO	TSP may not have sufficient control of supply to manage flow to demand.
emsTradepoint	Option is not sufficiently detailed to answer the question.
Genesis	Moving certain risks and cost from shippers to First Gas may not be efficient, so costs may increase and perverse incentives arise. Risks should lie where they can best be managed. Priced-based rationing is likely to be more efficient than using demand management contracts. Significant that this approach is not used elsewhere in the world.
Greymouth	-
MGUG	It is a concern that there are no examples of this option applying in other jurisdictions. (It would be helpful to understand why.) It is not clear how this option affects other arrangements (balancing, title tracking etc) and how this would flow through to shippers/retailers and end-users.
Methanex	Option 3 cannot be addressed until there is an explanation of such matter as: how supplier forecasts will be formulated; how differences from forecasts will be priced; and how gas scheduling, nominations, title-tracking and balancing operate.
Nova	Designing the capacity management and prices.
OMV	-
Shell	A large proportion of the upstream industry relies on the stable MPOC arrangements. It would be costly and inefficient to change these.
Spindletop	-
Trustpower	There will be fewer indicator of approaching constraints.
Vector	-

Link between access options and system characteristics

Q23a Do you believe that the new code access arrangements should reflect the physical constraints on the transmission system?

Contact	Yes. This is the only mechanism for signalling future investment in the transmission system.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
CCO	-		
emsTradepoint	Yes.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Genesis	Yes.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Greymouth	The new code should allow for gas to be used by its highest value use, and prevent gaming by shippers.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
MGUG	-		
Methanex	Yes, particularly Maui v non-Maui.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Nova	Yes. There should be a balance. The flexibility of the system should be used to a reasonable extend, but imbalances should not so unconstrained that they impact deliveries.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
OMV	-		
Shell	Yes.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Spindletop	Yes, for unconstrained parts of the system capacity can be allocated on a first-come-first-served basis. Where constraints apply, a daily reservation process, including auctioning, should apply.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Trustpower	Yes.	Yes <input checked="" type="radio"/>	<input type="radio"/> No
Vector	Yes.	Yes <input checked="" type="radio"/>	<input type="radio"/> No

Q23b If the new code access arrangements should reflect the physical constraints on the transmission system, which option does this?

Contact	All options, in different ways.
CCO	-
emsTradepoint	-
Genesis	Option 1.
Greymouth	Option 3 is clearly superior in this regard.
MGUG	A capacity allocation method would need to be developed for each option, so it is not clear which options might be better.
Methanex	-
Nova	-

OMV	-
Shell	Option 2 seems most likely to be cost effective. Option 1 could be expensive.
Spindletop	Option 1 or Option 2 are suitable for constrained parts of the system, and Option 3 is suitable elsewhere. However, in all situations an entry-exit approach is preferable to point-to-point.
Trustpower	Option 2 is best able to signal scarcity (through auctions when congestion emerges) without undue complexity.
Vector	-
Q24 Do you have any views on how capacity on the system should be defined and priced (ie between points or between zones or between points and zones), and why?	
Contact	On the limited information available, it seems zonal pricing would be most efficient.
CCO	-
emsTradePoint	Prices need to provide efficient long term investment signals.
Genesis	Capacity defined by zone. And an entry-exit approach for Option 1 may simplify reservation and pricing.
Greymouth	Not at this stage.
MGUG	Zone to zone seems the least complex. Postage stamp rates would offer even more simplicity.
Methanex	Pipeline services and cost allocations should be determined as far as possible on a zonal basis with the objective of allocation being determined by the specific parts of the network and each customer or customer group uses.
Nova	Capacity could be determined between zones, sub-zones and delivery points. It would be useful if the trading system could provide a real time view of demand on the system.
OMV	-
Shell	Does not support point-to-point. Suggest zone-to-zone or point-to-zone. Option 2 need not have any specific definition of capacity or pricing of capacity, there need only be a zone-to-zone or point-to-zone price, perhaps with a distance related component within a zone.
Spindletop	Capacity should be defined as entry-exit. Point-to-point is inflexible – tying reservations to a hypothetical flow path – and may give incorrect price signals – since flow paths may not reflect the physical flows. Tariffs based on distance pricing are still a valid and simple way to charge for use of the system, and could avoid price shocks.
Trustpower	Each zone is an area that can be managed without daily noms. Gas should be nominated between zones. Within zones pricing is ex-post, based on metered consumption. Between zones pricing is distance based, based on noms.
Vector	Substantially changing prices would be inequitable. The choice between points or zones could be different for different parts of the system.

Q25 Of the options described in this paper, which do you prefer and why?		
Contact	Each has merit but Contact would favour Option 2 or 3 depending on what First Gas determine the additional cost of risk under Option 3 would be.	Op.1 <input type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input checked="" type="radio"/>
CCO	Option 1 or 2 are preferred. Option 3 seems unviable.	Op.1 <input checked="" type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input type="radio"/>
emsTradepoint	No preference.	Op.1 <input checked="" type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input checked="" type="radio"/>
Genesis	Option 1. It best meets the objectives and is likely to be most enduring.	Op.1 <input checked="" type="radio"/> Op.2 <input type="radio"/> Op.3 <input type="radio"/>
Greymouth	Option 3. It is simplest, the most transparent, the most efficient, best enables the use of gas and best ensures flexibility.	Op.1 <input type="radio"/> Op.2 <input type="radio"/> Op.3 <input checked="" type="radio"/>
MGUG	All options appear to offer improvements. Option 3 appears to be the least transaction intensive, so seems most attractive to end-users. But more detail is required (particularly on capacity allocation) before a strong preference can be selected.	Op.1 <input checked="" type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input checked="" type="radio"/>
Methanex	-	
Nova	Nova is open-minded on the option selected, providing it is consistent with the objectives. Also, parties must be able to rely on firm capacity rights in the event of congestion, and that those rights can be freely traded. The market design must protect against capacity holders 'locking-up' their capacity. Shippers need to price delivered gas, so capacity pricing is important to them.	Op.1 <input checked="" type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input checked="" type="radio"/>
OMV	OMV advocates a 'status-quo tweaked' option. It would address the shortcomings of the current system, while being least cost in respect to industry learning and impact on existing arrangements. On the limited information available about the options, Option 1 seems closest to what OMV favours.	Op.1 <input checked="" type="radio"/> Op.2 <input type="radio"/> Op.3 <input type="radio"/>
Shell	Option 2, because it could: <ul style="list-style-type: none"> • Provide a simpler capacity allocation method (than auctions) 	Op.1 <input type="radio"/> Op.2 <input checked="" type="radio"/> Op.3 <input type="radio"/>

	<ul style="list-style-type: none"> • Always match purchased gas and transmission quantities • Have lower admin and IT costs • Put interaction with distribution networks on a sounder footing with market referenced mechanisms for managing congestion and curtailment. 	
Spindletop	Option 1 or Option 2 are suitable for constrained parts of the system. Option 3 is suitable elsewhere. However, in all situations an entry-exit approach is preferable to point-to-point.	Op.1 ● Op.2 ● Op.3 ●
Trustpower	Option 2, because it is simple and flexible and can include a priority product if the need arises. It also allocates risk to those best able to manage it.	Op.1 ○ Op.2 ● Op.3 ○
Vector	Option 1 with 'no-notice' and separate title tracking system. Options 2 and 3 would not provide the certainty of capacity availability that customers require.	Op.1 ● Op.2 ○ Op.3 ○
Code Governance		
Q26 Do you have any preferences on the legal form for the new code, and who should be counterparties to the new code?		
Contact	Both shippers and interconnected parties should be parties to the new code.	
CCO	-	
emsTradepoint	The new code should contain all the principal obligation of shippers, interconnected parties and First Gas.	
Genesis	Agree that First Gas and shippers should be parties to TSAs that incorporate the new code. ICAs can be separate bilateral contracts.	
Greymouth	Not at this stage.	
MGUG	Supports First Gas preference for TSAs that incorporate the new code, and separate ICAs.	
Methanex	The new code should encapsulate the fundamental principles, rules, right and obligations for all pipeline users. Standard TSAs (with scope for non-standard amendments as allowed by the code), and Standard ICAs (with scope for non-standard amendments), would reference the new code.	
Nova	Shippers should be parties to short form TSAs that incorporate the new code. ICAs can be separate bilateral contracts.	
OMV	Is concerned that 'industry agreement' is seen as the means of implementing new arrangements. Past experience is that high level concepts can be agreed, but not the detail. As the VTC expires annually and the MPOC has a defined code change process, the new code could be put in place using that	

	process, thereby allowing the GIC to ensure that the proposed new arrangements better meet the objectives of the Gas Act.
Shell	A new code in the same form as the MPOC.
Spindletop	Should consider UK experience.
Trustpower	No
Vector	Prefers s5.4.3 arrangement of bilateral contracts with substantially similar terms. Requiring industry-wide discussions every time a change is required is inefficient and could stifle innovation.
Q27 Are there any particular code change processes or features that you consider important or valuable for the new code?	
Contact	Code change should be through a fair process with consultation and input from parties to the new code, and independent assessment that the changes meet gas industry policies.
CCO	-
emsTradepoint	The code change process should mirror that of the Electricity Industry Participation Code, with First Gas in the position of the EA (approving code changes). The 'tiered approach' should be explored.
Genesis	GIC should have a role in code changes. Unsure what 'an independent review' would add. Concerned that the cost of a tiered approach may exceed the benefit. First Gas and shipper interests should have the same priority. First Gas should confirm that code changes process is intended to not <i>unreasonably</i> diminish or erode parties' interests.
Greymouth	Yes. There needs to be proper regard for producers, the TSP, shippers, end-users NZ inc. etc.
MGUG	Supports a tiered approach, with GIC as the independent assessor of changes.
Methanex	Supports a tiered approach, with First Gas, users and GIC agreeing which changes can be fast tracked. GIC's role should be expanded to take a more active role in guiding code changes. GIC can appoint an independent expert, and define the scope of its work, where it thinks that is necessary to avoid conflicts of interest.
Nova	Suggests the following code change process: <ul style="list-style-type: none"> • Any party can propose a change. • The GIC should be the first filter of a change request, and be able to reject it (if frivolous, or can be dealt with better by other means), negotiate modifications with the proposer, or consult with shippers on the form of the change request. • The GIC can determine the final form of the change request. • Once finalised, the change request can be assessed against the Gas Act objectives. If it provides a net benefit it would be consulted on with shippers and connected parties.

	Following consultation the change request may be modified or, if supported by 50% of shippers by number and 75% by volume, adopted.
OMV	-
Shell	Operational changes, provided they are consulted on, should not require a code change. Voting mechanisms allowing incumbent to define the access arrangements and potentially excluding competitors should not be allowed. Otherwise, code changes should have GIC approval.
Spindletop	Should consider UK experience.
Trustpower	Prefers a tiered structure where simple, non-contentious changes can be implemented quickly and other changes are given due consideration.
Vector	There should be mechanism for parties to vary their contract should the need arise without having to consult the industry at all times.
Q28 Do you agree with the comments on balancing and linepack management above? If not, why not?	
Contact	Yes.
CCO	Buying and selling gas should not be the only tool available to the TSP to balance the pipeline.
emsTradeport	Yes.
Genesis	Yes, it should be possible to simplify and harmonise balancing and capacity arrangements.
Greymouth	No. Various faults are noted including the focus on detail without considering high-level options; inadequate recognition of the lumpiness of demand or that First Gas contributes to imbalance and owns the line-pack; the deficiency of GIC's MBB review etc.
MGUG	Considers line-pack and balancing to be primarily matters between shippers and First Gas.
Methanex	-
Nova	Yes. Supports the concept of balancing at a total pool level.
OMV	-
Shell	Daily balancing should be a central pillar of any new regime. Suggests that, if there is over-recover of balancing costs, it should be paid out to all parties who are exposed to balancing costs (not just shippers). Any park and loan service should not put the target Taranaki pressure at risk without compensation.
Spindletop	Agrees with the 'reframing' away from the 'stick' to a 'carrot'.
Trustpower	Balancing arrangements should be simple and transparent.
Vector	Yes.
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?	

Contact	No.
CCO	The need for the TSP to buy/sell gas can be reduced if the new code puts appropriate obligations of producers and end users, as well as shippers.
emsTradepoint	Yes.
Genesis	The need for accurate and timely information to allow shippers to do primary balancing. The new code should guide First Gas in how it undertakes balancing actions.
Greymouth	Yes. High level options such as MBB (status quo), MBB (with tweaks), B2B, ILONs, and a load factor fee, should be considered. Also, D+1 has not been adequately discussed.
MGUG	No. Expect First Gas to be the experts in this area.
Methanex	The existing balancing roles and responsibilities of Welded Parties and Shippers on the Maui pipeline should be retained.
Nova	There has not been sufficient liquidity on the emsTradepoint platform to provide market based prices for balancing gas. An alternative would be for First Gas to periodically (weekly, monthly or quarterly) tender for parties to be on call to provide or take balancing gas up to specified volumes each day at a fixed price. Currently cash-out tolerances are too tight in relation to the accuracy of the data that parties are working with. This creates extra work for no real benefit.
OMV	-
Shell	Users need sufficient, timely and reliable information on their balancing status. Balancing incentives strong enough to minimise system events. Better arrangements to support shut-down and start-up of major facilities for maintenance. More up-to-date information on pipeline status.
Spindletop	Suggests that a component of the transport price could be based on the time gas is in the system. If input onto the system at an off-peak period then the charge could be nominal or even negative. If gas is input into or otherwise left in the system during peak flows, a storage fee would be incurred reflecting the value of storage.
Trustpower	No. Balancing arrangements should be simple and transparent.
Vector	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?	
Contact	No comment at this time.
CCO	-
emsTradepoint	Yes.

Genesis	Yes, but query whether the proposed criteria would capture all existing supplementary agreements.
Greymouth	Yes.
MGUG	Agree that non-standard agreements are justified in limited circumstances (generally only where there is a bypass opportunity). Transmission costs are rarely a deal-breaker. So First Gas should not easily be swayed by such arguments. Also, if prices become more variable, the justification for non-standard arrangements should reduce.
Methanex	Yes. First Gas should be able to negotiate non-standard agreements (providing this does not incur costs that are socialised).
Nova	Yes.
OMV	-
Shell	
Spindletop	Considers non-standard agreements should be approved by the regulator as agent for the remaining shippers unless some form of reverse DPP/PPP arrangement can apply which allows certain non-standard agreements to be entered into without an extensive approval process.
Trustpower	Yes.
Vector	Yes. Some customers and end-users have unique requirements. Non-standard agreements play an important role in supporting long-term investment decisions, promote contracting innovation, and provide greater choice and flexibility for contracting parties.
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?
Contact	-
CCO	-
emsTradePoint	No.
Genesis	Recognition that prices can be discounted to stand-alone costs.
Greymouth	Possibly. They can be discussed during detailed design.
MGUG	There is a conflict of interest if a non-standard agreement is required between the First Gas transmission business and its distribution business. Non-standard agreements should be time or circumstance bound with no right of renewal. Where 'prudent discounts' are given there should be a lower level of service.
Methanex	Any resulting materially increased expenditure should not be socialised.
Nova	Yes.
OMV	-
Shell	Very few provisions (perhaps only price and metering arrangements) should be permitted to be non-standard. All non-standard agreements should be fully disclosed.

Spindletop	-
Trustpower	No.
Vector	No.
Gas quality	
Q32 Do you agree with the comments on gas quality above? If not, why not?	
Contact	Yes.
CCO	-
emsTradepoint	Yes.
Genesis	Yes.
Greymouth	If facilities are needed to monitor gas composition at downstream locations the cost should be met by First Gas.
MGUG	Yes. In particular supports the greater emphasis and accountability of process for assuring gas quality (external auditing of gas quality controls etc).
Methanex	-
Nova	Yes.
OMV	-
Shell	At this stage they seem reasonable.
Spindletop	-
Trustpower	Yes.
Vector	The development of a new code provides a unique opportunity to address fragmented responsibilities for gas quality and consider whether a separate governance regime in other instruments is preferable. GIC and other regulators should consider what approach is best. For example amendments to the Gas Safety and Measurement Regulations may be appropriate.
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?	
Contact	No.
CCO	-
emsTradepoint	Suggests incentivising/requiring transparent information disclosure about gas quality.
Genesis	No.
Greymouth	Properly designed gas quality option should be presented.
MGUG	-
Methanex	Injecting parties should demonstrate transparently that they are continuously complying with their gas quality obligations. There should be adequate notification of gas quality excursions.

	First Gas should identify the causer of excursions and hold them liable for any resulting damages.
Nova	First Gas should consider if code modifications could provide a more efficient way for the industry to manage the risk of gas quality.
OMV	-
Shell	Supports ongoing efforts to improve monitoring and compliance, and the adoption of a tiered approach to dealing with excursions.
Spindletop	-
Trustpower	No.
Vector	No.
Next steps	
Q34 Do you have any comments or concerns on the process for developing the detail of the new code throughout 2017?	
Contact	No.
CCO	-
emsTradepoint	No.
Genesis	First Gas should consider demands on industry resources between development work and on-going business. Suggests strengthening proposed governance arrangements to ensure small stakeholders are not disadvantaged.
Greymouth	First Gas should canvass options for supporting arrangements (in a SCOP3 paper) rather than moving straight into detailed design.
MGUG	Supports process, and supports First Gas deciding on its preferred option, providing that is supported by analysis (including of the costs and benefits). Suggests that First Gas convenes a workshop/briefing as part of its submissions analysis.
Methanex	More time should be allowed for consultation on the options. Also, First Gas should consider extending the overall timeline to allow more time for design.
Nova	Supports the top down approach to the new code development process. Recommends including users in the assessment of IT systems at an early stage.
OMV	Is concerned that 'industry agreement' is seen as the means of implementing new arrangements. Past experience is that high level concepts can be agreed, but not the detail. As the VTC expires annually and the MPOC has a defined code change process, the new code could be put in place using the MPOC change process, thereby allowing the GIC to ensure that the proposed new arrangements are tested against the Gas Act objectives.
Shell	Anticipates a long process unless a conventional approach to transmission access is adopted.
Spindletop	Suggests starting with UK's Transportation Agreement from ~2001 as a template.
Trustpower	No.

Vector	The timeframe is tight, but Vector is keen to work with stakeholders to achieve timely outcomes.
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?
Contact	-
CCO	Yes, any aspects affecting the CC regulations, security of supply, reliability, or incident management.
emsTradepoint	Yes, any aspects affecting the gas market, including title tracking, information transparency, access neutrality, balancing etc.
Genesis	Yes, wants to participate in all new code workstreams.
Greymouth	Greymouth Gas is keen to participate but notes that it will have limited time and resources available for this work in 2017.
MGUG	No. Providing working papers are issued and explained before detailed drafts are put out for submissions.
Methanex	
Nova	Happy to remain involved in the new code development process.
OMV	-
Shell	Happy to contribute to all aspects, but particularly interested in: <ul style="list-style-type: none"> • Inventory and pressure management • Gas quality • Cycle times, Gas Day definition, and monitoring/confirmation protocols. • Replacement IT system user requirements (particularly data communication protocols and standards, welded point curtailment mechanisms, and mobile access) • Provision of real-time data
Spindletop	Happy to participate in new code drafting and fleshing out some of the ideas mentioned in the submission.
Trustpower	No.
Vector	Vector will advise which workstreams it wishes to actively participate in when they are proposed.

ABOUT GAS INDUSTRY CO

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

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