



10 March 2017

Ben Gerristen  
General Manager Customer and Regulation  
First Gas Limited  
By email

Dear Ben,

**RE: First Gas Limited Workshop on 28 February 2017**

The workshop was most productive.

Thank you for confirming in the workshop that there will not be any competition issues under Option 2 (daily nominated capacity with priority rights).

On this basis, Option 2 could work even if it is not the most efficient, not the best aligned with a first principles design, and not the best aligned with an unbiased objective assessment against the new code's own objectives – provided that it meets the test in the Gas Act.

Interestingly, it appears that part of the reason that Option 3 (flow to demand) is not favoured is because it is considered to be more risky at the outset than the other options. This is unfortunate because this can be solved with innovation, and the theory behind such a solution already exists in the form of congestion management.

The danger is that Option 2 contains the same level of risk as Option 3, but that this risk will not become evident until towards the end of the detailed design stage. History<sup>1</sup> suggests that it will be difficult for industry to unanimously agree on a contractual capacity regime that does not have competition issues in times of congestion.

Failure to adequately address this during detailed design will set industry back 6 months and probably reset discussions closer towards Option 3. It is therefore imperative that First Gas ensures that the design of Option 2 in fact raises no competition issues.

Yours sincerely

Chris Boxall  
Commercial Manager

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<sup>1</sup> Industry inadequately addressing competition issues on the ex-Vector pipeline earlier this decade, until Otahuhu and Southdown closed.