

Gas Transmission Access Code: Transition from MPOC and VTC

22 June 2017

The logo for Firstgas, featuring the word "Firstgas" in a white, sans-serif font. The letter "g" is stylized with a flame-like shape at its top and a circular loop at its bottom.

- Purpose of today's session
- Previous discussion of code transition
- Objectives for the GTAC transition
- Pre-conditions for changing codes
- Options
- Proposed transition process
- Timelines

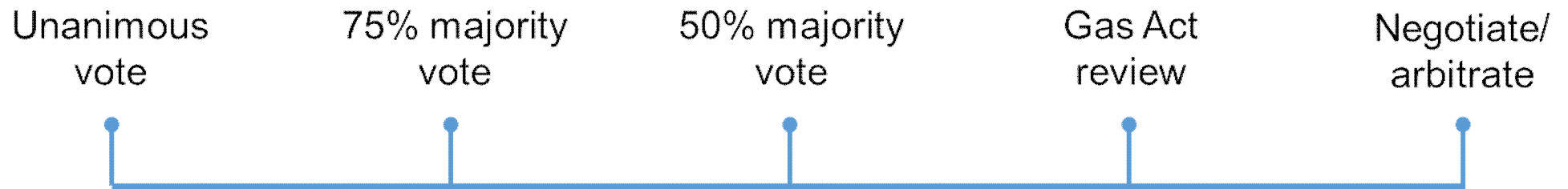
- Talk through the material released last week
- Agree on what a good transition process looks like
- Explain the options for the transition, their pros and cons
- Summarise our proposal
- Encourage parties to share their perspectives

- VTC due to expire on 30 September 2017
 - First Gas planning to submit a change request to extend it for one year until the scheduled date for the GTAC to take effect
- Also need to formalise a way to transition from MPOC
 - Sensible to address at the same time as VTC change
 - Inserting a termination provision in the MPOC is an effective way to handle the transition
 - Need to be clear on pre-conditions for MPOC termination, including:
 - Substantive requirements
 - Procedural requirements, including timeframes for decision-making

- Transition to GTAC must be seamless
 - No gaps in coverage
 - No overlap
 - No exceptions
- Certainty
 - For First Gas to purchase new IT systems, manage implementation risks, carry out training
 - For Shippers to integrate systems, train staff, adjust business processes and contracts
- Ability to influence, without creating the risk of hold-out

Need to ensure that parties remain confident of their ability to access and use the gas transmission system on terms that improve overall industry outcomes

- We consider that specific conditions will help to govern the process of transitioning to the GTAC
- We see these conditions as falling into two categories:
 - **Substantive conditions** that provide comfort that the final form of the GTAC is better than the status quo
 - **Procedural conditions** that ensure the date of transition to the GTAC is known well in advance and that all systems and contracts are available





Unanimous
vote

75% majority
vote

50% majority
vote

Gas Act
review



Negotiate/
arbitrate

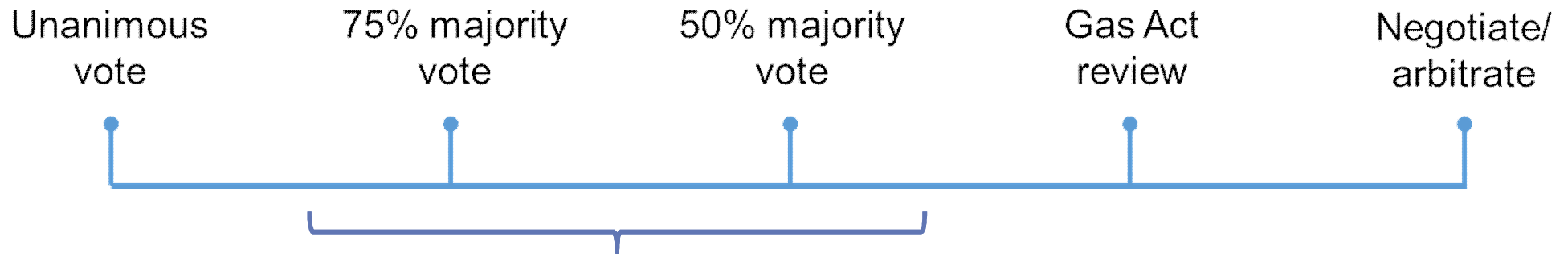


Unacceptably high
risk of hold-out

May prevents gas
industry from
moving forward

Having review as
a “fall-back” is too
weak

Already reflected
to some extent in
GIC/MBIE
regulatory powers

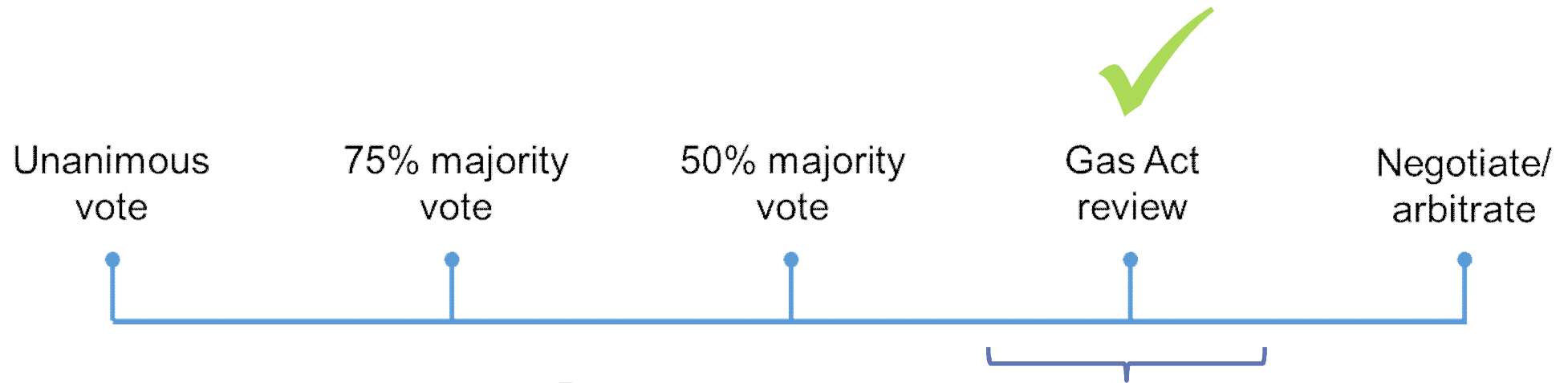


Pros

- Adds democratic legitimacy
- Provides clear demonstration of support (or lack of)

Cons

- Need to define the franchise
- Still retains some risk of hold-out
- Status quo bias prevents industry progress



Pros

- Provides certainty
- Less susceptible to status quo bias
- Check on effective consultation
- Focus on overall industry outcomes

Cons

- A lot hanging on outcome of review
- Increases focus on policy / regulatory objectives

- The VTC currently expires on 30 September 2017. The proposed change request will extend this to 30 September 2018
- The MPOC change request inserts a provision that allows termination of the MPOC when the following conditions have been met:
 - A determination by the GIC that following appropriate consultation, it determines that the GTAC is materially better than the current terms and conditions for access to and use of gas transmission pipelines, having regard to the objectives in section 43ZN of the Gas Act 1992 and any objectives and the GPS.
 - A requirement that 40 business days before the proposed transition date, the MPOC and VTC are set to terminate, the GTAC has been published, that the GTAC makes provision for all Shippers to transport gas and for interconnected parties to continue to connect, and that executable contracts needed for operations have been provided.

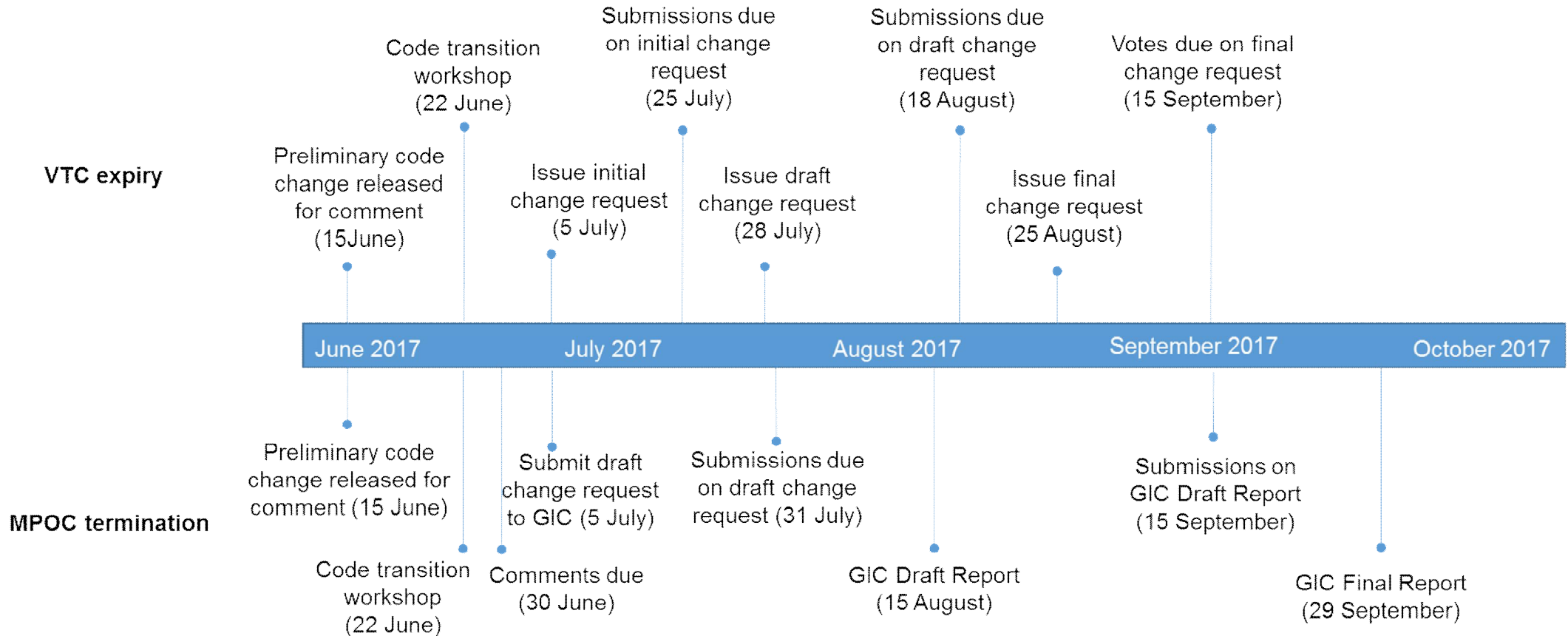
43ZN Objectives of industry body in recommending regulations for wholesale market, processing facilities, transmission, and distribution of gas

The objectives of the industry body, in recommending gas governance regulations under [section 43F](#), are as follows:

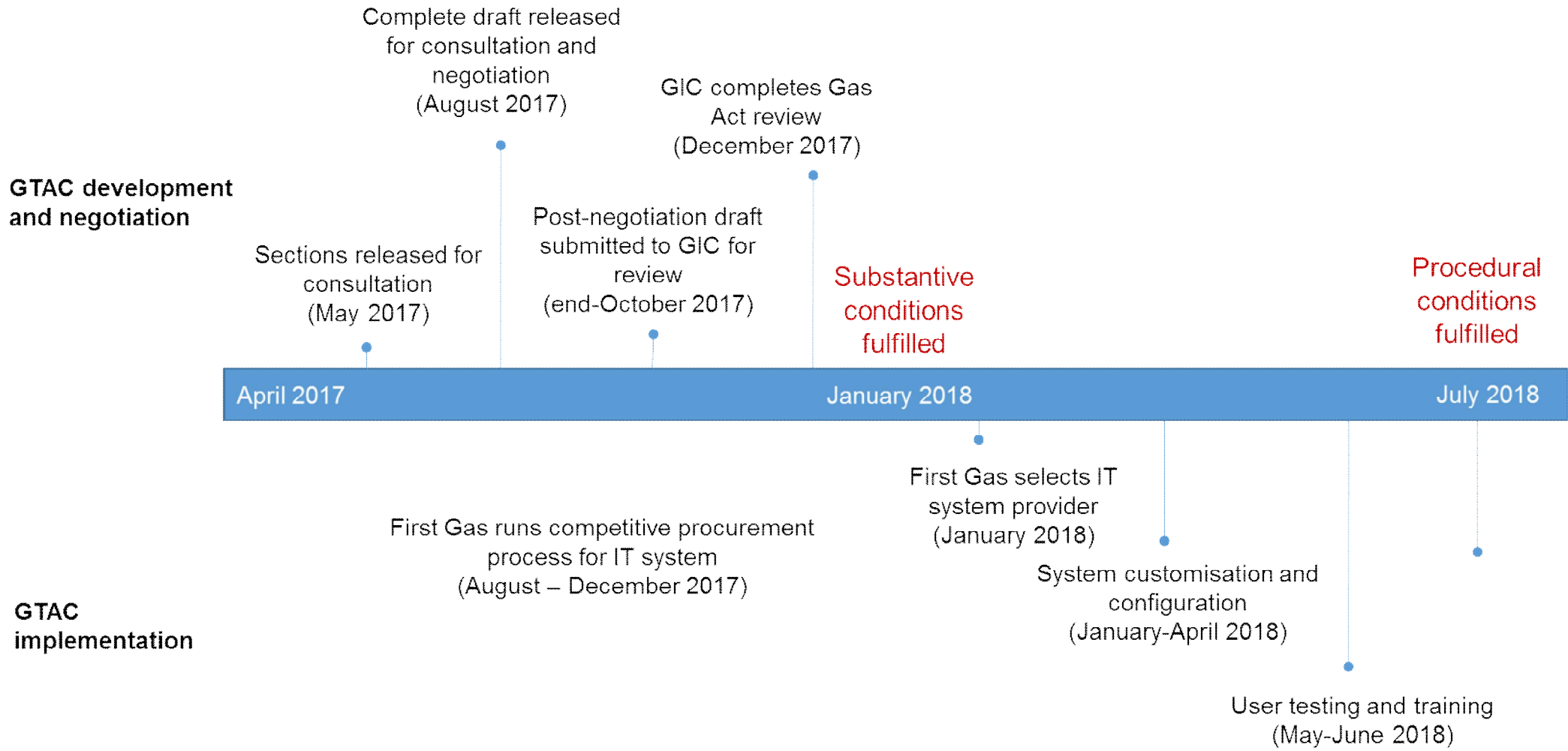
- (a) the principal objective is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner; and
- (b) the other objectives are—
 - (i) the facilitation and promotion of the ongoing supply of gas to meet New Zealand’s energy needs, by providing access to essential infrastructure and competitive market arrangements:
 - (ii) barriers to competition in the gas industry are minimised:
 - (iii) incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced:
 - (iv) delivered gas costs and prices are subject to sustained downward pressure:
 - (v) risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties:
 - (vi) consistency with the Government’s gas safety regime is maintained.

Section 43ZN: inserted, on 18 October 2004, by [section 5](#) of the Gas Amendment Act 2004 (2004 No 83).

Timeline for change processes



Timeline for fulfilling MPOC conditions



Questions?

Comments on draft change requests by 30 June please