

MEMORANDUM

TO: Pipeline Users
FROM: First Gas
DATE: 8 December 2017
RE: **Summary of GTAC Objectives**

Parties have encouraged First Gas to record the objectives that the GTAC seeks to achieve, so that any ex-post evaluation can consider whether progress against these objectives is made. The following list of what the GTAC aims to achieve is based on the five objectives for the GTAC set out in the Single Code Options Paper 2 released in November 2016.

Enable the use of gas

The GTAC should reflect the important link that gas transmission plays in connecting gas producers with consumers – and play this role in a way that enables gas to compete effectively with other energy sources. This puts end-users of gas squarely as the priority when it comes to gas transmission arrangements. We believe this also serves the interests of explorers, producers, pipelines, shippers, traders, and service providers by ensuring we play our part in encouraging gas demand (which in turn creates the market for wholesale gas and promotes further gas exploration). We also believe that increasing utilisation of the gas transmission system is in the interests of all gas industry participants, consumers and New Zealand:

To promote this objective, the GTAC should:

- Enable First Gas to provide services that our customers value and are willing to pay for. By reflecting willingness to pay, the GTAC should support greater utilisation of shared system assets and ensure that all customers receive value from the system
- Remove barriers to transporting gas. The GTAC should not create unnecessary hurdles that disadvantage gas as a fuel relative to other energy sources
- Limit the costs and risks of transporting gas. The GTAC should provide a clear set of prices for use of the system, and clear consequences when events occur (either on the system or other parts of the supply chain)
- Provide confidence in the gas transmission system. By clarifying how transmission capacity is accessed and priced, the GTAC should provide confidence that core functions are being carried out in a reasonable and prudent way
- Promote gas market development. The GTAC should encourage the development of options for trading wholesale gas, without favouring any particular contracting form or platform.

Minimise the cost of transporting gas

We recognise that gas transmission can be a material component of the total cost of delivered gas. The GTAC should promote least-cost solutions for transporting gas by efficiently allocating costs and risks between First Gas and other parties.

To promote this objective, the GTAC should:

- Strike an appropriate balance between the risks we bear as TSO, and the risks that other parties bear. First Gas should carry out industry functions and bear risks that we are best placed to manage
- Put incentives in place to discover lowest cost solutions. The decisions made by other parties influence the costs of transporting gas. The GTAC should encourage parties to manage those

costs where they can do so most efficiently, and pay for us to manage those costs where that provides the cheapest solution. Prices charged under the GTAC should clearly link to objectives or desired outcomes. This should include appropriate locational signals to encourage parties to locate new sources of gas demand where spare capacity exists on the transmission system

- Deal with scarcity of transmission capacity efficiently, if and when it arises. Such scarcity can be created by physical bottlenecks, when demand on a part of the system reaches a high enough level. Scarcity can also be created by events outside of the transmission system – such as when a production station stops injecting gas into the system and there is insufficient storage in the system to maintain supply. The GTAC should address both types of scarcity, and should allow customers that value gas deliveries the most to continue to use the system.

Keep it simple

Having a single code presents an opportunity for simplification by replacing the two different sets of policies, prices and other arrangements which currently exist. Simple arrangements enable the use of gas by minimising administration and transaction costs and making it easier to enter the gas market. Simplicity also builds trust and confidence.

To promote this objective the GTAC should:

- Ensure that administrative costs imposed on system users provide value.
- Have an information technology (IT) system that efficiently implements and administers GTAC processes that is accessible to different users.
- Eliminate unnecessary complexity.

Promote flexibility

The users of the gas transmission system are diverse, and no code is likely to perfectly meet the needs of all parties. On the other hand, the essence of a code is to apply common, non-discriminatory terms to all users of our shared infrastructure. To reconcile these realities, the GTAC should:

- Provide a range of different ways to interact with the gas transmission system where possible, linked by the same underlying principles and approaches.
- Offer a range of services, with an ability for shippers to buy what they want and pay for what they value.
- Strike the right balance between product differentiation and complexity in pricing different service levels.

Increase transparency

The creation of the GTAC provides an opportunity to increase transparency and ensure that all parties have best information available to make decisions. The IT system will make information available on the status of the gas transmission system, emerging events, and individual shipper positions.

To promote this objective, the GTAC should:

- Provide information that parties need to make decisions in a timely way. Any requirements placed on counterparties under the GTAC should be accompanied by the provision of information that enables them to confidently make required decisions
- Build confidence that arrangements are fair, non-discriminatory, and efficient. Information should be made available to all parties in an even-handed way, providing parties with equal opportunities to manage their costs and risks.
- Actively “push” information in a useful format. Again, this has a strong link to the IT system, which should be configured to allow parties to access and download information to carry out required analysis to inform decisions.