

3 October 2018

Ian Wilson

Gas Industry Company Ltd

WELLINGTON 6140

Dear Ian,

Re: Consultation on First Gas' Revised Gas Transmission Access Code dated 12 September 2018

1. This submission comments on the paper issued by First Gas (FG) dated 12 September 2018, which provides a guide to the changes made to the Gas Transmission Access Code (GTAC) and invites submissions on questions raised by FG as well as feedback on the changes made to GTAC during 2018.
2. This submission is being made on behalf of the Major Gas Users Group (MGUG) which comprises:
  - a. Ballance Agri-Nutrients Ltd
  - b. Fonterra Co-operative Group
  - c. New Zealand Steel Ltd
  - d. Oji Fibre Solutions Ltd
  - e. Refining NZ
3. Nothing in this submission is confidential and some members may choose to make separate submissions.
4. FG is asking whether the GTAC is ready to be submitted to GIC at this time, or whether further work is needed. Specifically FG is asking whether:
  - a. There are any issues with workability from the changes that need to be resolved?
  - b. There are areas where insufficient clarity on how the code functions creates an unacceptable level of risk to "your" business?
  - c. FG has closed out the issues raised in GIC's Final assessment?
5. Our comments are focussed on areas of the GTAC where we have had a specific interest or concern as consumers of pipeline services.

*Process used*

6. Before doing so we wish to comment on the process adopted following FG's memorandum of 19 April 2018, which outlined the steps proposed to obtain GIC's assessment that the GTAC was materially better. Without doubt this 6 months workshop process has been intense, requiring significant commitment from all GTAC stakeholders. However from our perspective the

methodology using a series of topic based workshops (which has also acted as progressive consultation) has been a good process for the time frame set for resubmitting to GIC.

7. We also believe there has been a much greater willingness from all stakeholders and FG to be open to ideas and concerns. This has greatly improved the process compared to that leading up to GIC's FAP.

*Is GTAC ready to be submitted?*

8. In our response of 30 April 2018 MGUG indicated it considered GTAC as a viable alternative to status quo arrangements. We support the GTAC because it is focussed on maximising physical capacity and therefore likely to encourage more efficient use of the pipeline.
9. We identified our priority concerns for the subsequent process as:
  - a. Line pack management (principles and parameters influencing pricing and behaviours);
  - b. Pricing (all pricing as well as rebates);
  - c. Nomination process.
10. We are encouraged that this GTAC round has sought to address these concerns, in particular around:
  - a. providing for an improved intraday re-nomination process (including more cycles, and extended over the day) – this has been critical element for major users. It is a necessary part of moving to a daily product, particularly for members to manage exposure under/overrun fees. This has been a matter of debate from time to time and we have called for improvements to more appropriately reflect the 24/7 nature of industry.
  - b. removal of the rebate mechanism – this was a major concern for consumers. The removal of rebates provides a stronger incentive on FG to ensure its fees are cost reflective, ensuring a focus on the efficiency of charges. The removal of incentive fees rebating also removes the risk of arbitraging incentive fees by shippers and retailers.
  - c. Adjusting incentive fees to appear more cost reflective.
    - i. The formula adjustments around under/overrun to lower the charge.
    - ii. Restricting the scope of hourly peaking charges.
11. Although not a direct party to the GTAC we have endeavoured to participate fully in the process, to ensure a consumer voice is heard. With the changes that have taken place over 2018 we are of the view that the product design of the GTAC can be considered a fundamental improvement and we consider the GTAC is now ready to be submitted to GIC. We expect that issues will arise in the bedding down of a new code but this should be able to be addressed through the code change process.

12. In our initial submission we commented on the assessment process undertaken by the GIC to determine whether the code was materially better. We encourage the GIC to consider including an overall assessment against the objectives identified in SCOP1 and SCOP2 as a final check on whether the code achieves the broader outcomes identified at the start of the process.
13. On the specific questions we comment as follows:

<p>1. Do you consider that the positive features of the GTAC identified in the FAP are retained in the current GTAC draft that incorporates changes made during 2018?</p>
<p>MGUG Comment 1: Over/underrun fees - we agree that making the under/overrun charge structure symmetrical minimises the potential for inefficient behaviour by pipeline users.</p> <p>MGUG Comment 2: Rebates - we reiterate that the removal of rebates is a very positive outcome.</p>
<p>2. Do you have any concerns about how the three key issues identified in the FAP have been addressed in the GTAC?</p>
<p>MGUG comment 3: Peaking – from a MGUG perspective the peaking regime raises questions about FAP, 3, more particularly whether the finding “streamlining transmission products and processes” still holds or is altered when applied to the new peaking regime.</p> <p>Determining inclusion in the peaking regime is by application of a set of specific criteria (including with some degree of discretion FG’s part). These criteria are not balanced by a requirement for FG to consider any site or end user specific requirements e.g. whether a specific Agreed Hourly Profile will deliver the information FG requires to manage impacts on others?; whether the administrative burden and associated transaction cost in providing an Agreed Hourly Profile is efficient? As it stands the risk is that application of the criteria will lead to arbitrary outcomes.</p> <p>We would argue it is in no-one’s interests to arbitrarily impose costs. FG should examine each peaking situation individually to understand the specific operating circumstances and whether the regime will provide what FG wants to achieve.</p> <p>MGUG Comment 4: Aspects of Liability provisions - we note FG has reverted to the liability provisions already contained in the VTC and MPOC, in effect the status quo. The previous GTAC provisions were unacceptable to MGUG (including the subrogation mechanism), particularly in the context of a gas quality event. While it is</p>

<p>a reversion to the status quo we note there have been some wording changes which we will review to ensure align with the tenor of the changes.</p>
<p>3. Do you have concerns about how we implemented the solutions from the workshops to address the other FAP findings ?</p>
<p>MGUG Comment 5: Priority Rights - we would have preferred GTAC provide the ability for priority rights to remain with end users. We accept the intent of 3.23 is to encourage this outcome but wording of 3.23 (“no legitimate interest” – we note the table on Page 7 uses “genuine” perhaps indicating how difficult it will be to apply the term “legitimate”) is vague and hence we still have residual concerns around the possibility for hoarding and the potential impact on competition.</p> <p>MGUG Comment 6: Peaking – there is a lot of uncertainty about how this will operate in practice, including relief from charging in the event of plant start up and shut down. As noted in Comment 3 FG needs to ensure that in the application of the criteria specific user circumstances are understood so that arbitrary outcomes and unnecessary transaction costs are avoided.</p>
<p>4. Do you consider that the changes we’ve made together have the intended impact and retain the positive features of the GTAC identified in the FAP?</p>
<p>MGUG Comment 8: Nomination Cycle Timing – this is an important issue for MGUG, not only for the increased number of cycles but also the timing. It would have been a serious detriment to MGUG not to have the tools available to manage these new transmission products. The agreed proposition should be included as part of the package to be submitted to GIC.</p>
<p>5. Do you consider that our decision to not make certain changes to the GTAC has deteriorated access provisions in relation to the existing codes</p>
<p>MGUG Comment 9: Use of AEMO guidelines - we would support the proposed work programme that reaches out to AEMO.</p> <p>MGUG Comment 10: Supplementary agreement priority in relation to PRs – we agree this needs more detailed consideration.</p>

Yours sincerely



Richard Hale/Len Houwers  
Hale & Twomey Ltd/Arete Consulting Ltd  
Secretariat for the Major Gas Users Group

