

Questions

Preliminary Assessment of Gas Transmission Access Code (GTAC)

Submission prepared by: Greymouth Gas New Zealand Limited

QUESTION	COMMENT
Q1: Do you agree with our assessment of the GTAC gas transmission products?	<p>We have significant concerns about two matters:</p> <ul style="list-style-type: none">- GIC says that <i>"[Retailers incurring incentive charges for overruns/underruns] ... will favour retailers with established, diverse customer bases because of their greater relative access to diversity benefits. ... However, this issue also applies under the VTC because overruns are measured at delivery points. ... Accordingly, for any given level of overrun/underrun, competition effects should be similar under VTC and GTAC"</i>. We disagree. Under the VTC in non-congested situations, Shippers have discretion about how much reserved capacity to book and therefore exposure to overruns is a controlled decision and there is no competition issue.¹ Moreover, there is no exposure to underruns. However, under the GTAC in non-congested situations, Shippers have no control on exactly how accurate their nominations will be, thus there is a new competition issue of the manner described by GIC in the first part of the quote above. We consider this should result in at least a "moderate" red arrow in the top assessment on page 28.- GIC should assess whether the ability of mass-market Shippers to opt in and out of the auto-nominations regime creates any competition issues, and if so amend the arrows accordingly.

¹ The competition issue with reserved capacity relates to congested situations where hoarding, or the absence of trading with switches, is the issue. GIC has factored this into its green arrows.

QUESTION	COMMENT
<p>Q2: Do you agree with our assessment of the GTAC pricing arrangements?</p>	<p>We have the following concerns:</p> <ul style="list-style-type: none"> - Pricing from a Receipt Zone, rather than from each Receipt Point, will create allocative inefficiency because Receipt Points at the extremity of the Receipt Zone which are delivering to Delivery Points in the other direction will receive subsidised transmission compared to Receipt Points located much closer to that Delivery Zone. We consider there should be a “modest” red arrow in the top assessment on page 44. There is a similar argument in respect of Delivery Zones. - The absence of a requirement for any independent party to check that pricing is subsidy-free is a concern. Where this is relevant to the GIC’s assessment is the variable nature of what points are in which Delivery Zone (or in any Delivery Zone at all). The discretion for First Gas to determine these matters without external oversight or accountability may create some perverse outcomes (the obvious example being Huntly based on draft prices). Accordingly, we consider there should be a “moderate” red arrow in the bottom assessment on page 47. - Delivery Points with OBAs are excluded from Delivery Zones which makes no sense (i.e. why should the balancing regime chosen influence whether or not a point is in a Delivery Zone for the purposes of capacity pricing). We are unsure how Delivery Points with OBAs will be priced. We consider this strengthens the conclusion made in the previous point. <p>Points 2.10 and 2.11 in our late October 2018 submission to First Gas should also be reviewed by the GIC.</p>
<p>Q3: Do you agree with our assessment of the GTAC energy quantity determination?</p>	<p>Yes.</p>

QUESTION	COMMENT
<p>Q4: Do you agree with our assessment of the GTAC energy allocation?</p>	<p>No. We consider the Stratford 3 allocation issue identified in our covering letter to warrant a “substantial” red arrow in the top and / or bottom assessments on page 55 of the PAP. We have three further concerns, as follows:</p> <ul style="list-style-type: none"> - GIC says <i>“GTAC Sch8 ... brings a number of important wash-up algorithms into the code, and subject to the GTAC governance arrangements. We have not considered these in detail but the GTAC change process would allow for any errors to be remedied”</i>. First, the former is already how the VTC works. Second, it is GIC’s role to assess (not assume) the GTAC put to it, not to decline to analyse a particular item. We consider that GIC should assess the wash-up calculations in detail – they are part of the GTAC. Do they work or not? How do the wash-ups relate to the existing arrangements? - It is not clear how the wash-up concepts are intended to mesh with running mismatch, and the definitions cause confusion. The VTC uses separate definitions (e.g. Running Mismatch, Wash-Up Running Mismatch etc) whereas the GTAC uses the same definition “Running Mismatch”² for three stages of the calculation process. This is confusing and appears to be less efficient and may warrant a “modest” red arrow somewhere at a minimum. In any case, it is a further reason why it is important that GIC assesses that the interplay between wash-ups and running positions is workable. - In the VTC, parties allocated gas at points such as Kapuni and Stratford 3 may receive an allocation of more than the metered quantity if another party receives a net-off in the other direction. This is acceptable because the VTC is old and does not contemplate bi-directional points. The GTAC, however, does contemplate Bi-directional Points (which is good), yet it retains the unworkable requirements in s6.3 and s2.2 of Schedule 4 requiring, respectively, GTAs to allocate receipts equal to the metered quantity of Receipt Points and Allocation Agreements to allocate deliveries equal to the metered quantity of Delivery Points.

² It is assumed that RMn is for the purposes of outlining the different stage of calculation, rather than being a different concept. In any case, the definition of Running Mismatch in the GTAC includes an adjustment for Wash-Ups meaning that all concepts are basically the same.

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	<p>Complying with these clauses is simply not possible at Bi-directional Points that can go bi-directional on a day and are used by more than one party. The IP at Kapuni, therefore, has no choice but to elect an OBA. The GTAC is really missing a separate allocation system for Bi-directional Points. Absent this, the allocations do not mesh as written, not just for Stratford 3 but for any Bi-directional Point.</p> <p>We consider that further design work is required.</p>

QUESTION	COMMENT
<p>Q5: Do you agree with our assessment of the GTAC balancing?</p>	<p>No. Half our concerns relate to balancing tolerances (see Q18), and the remainder are as follows:</p> <ul style="list-style-type: none"> - GIC says that <i>“earlier delivery [of validated DDR data by midday] will improve efficiency by enabling Shippers to make earlier self-balancing decisions”</i>. We agree – provided that the components for calculating this data are available in time, which they are not. Schedule Two provides for gas composition data to be provided by midday, allowing no time for processing. Accordingly, we consider the top assessment on page 64 should have a “modest” red arrow. - GIC says that <i>“the removal of automatic end-of-day cash-out, a move to system-wide balancing and the introduction of ERM Charges would improve primary balancing, reduce secondary balancing and be positive for efficiency”</i>. However, there is system-wide balancing at present, MBB is a model that works and we suspect parties value consistency with title transfer at rough market prices more than a penalty charge which is likely to get passed onto end-users. Accordingly, we consider the benefits to be overstated and that the top assessment on page 64 should have its green arrow reduce to “moderate” or “modest”. - We consider that the punitive nature of ERM charges may encourage inefficient behaviour or result in perverse outcomes as parties try to minimise exposure. Accordingly, we consider that the top assessment on page 66 should be at least a “modest” red arrow. - Compressor fuel usage may well remain similar to the present time because First Gas has a policy (we understand) to maximise Mokau use and will probably be incentivised to maximise tolerances. We consider that the latter assessment on page 66 of the PAP should therefore be “neutral”.
<p>Q6: Do you agree with our assessment of the GTAC curtailment?</p>	<p>See our answer to Q21.</p>

QUESTION	COMMENT
Q7: Do you agree with our assessment of the GTAC congestion management?	No: <ul style="list-style-type: none"> - Priority rights may drive up consumer gas prices in congested areas and curtailment of mass market customers is unlikely to affect the physical state of the pipeline. We consider that this inefficiency adds to the conclusion in the point above.
Q8: Do you agree with our assessment of the GTAC gas quality and odourisation?	Yes.
Q9: Do you agree with our assessment of the GTAC governance?	No. In addition to transparency as outlined in the letter, the other areas of concern are: <ul style="list-style-type: none"> - Removal of an indefinite term should warrant at least a “modest” red arrow in the assessment at the top of page 99, even if GIC is otherwise comfortable with the concept. - GIC has not assessed how the code would protect natural gas from hydrogen. This manifests itself in the definition of Transmission System wherein First Gas could conceptually change part of the system for hydrogen, whereas under the MPOC and to a lesser extent the VTC, the system is defined by physical reference points and is not able to be changed by First Gas except via a change request. <p>We consider that the latter point above should result in a “moderate” red arrow on the second assessment on page 98. The transparency issue should result in a “substantial” red arrow on the top assessment on page 97.</p> <p>As a final governance matter, GIC refers to the GTAC as a single code in context of whether it is an improvement on the status quo. The GTAC may be a single code, but it is replacing two existing codes that are operating adequately if sometimes imperfectly with a code of significant length, complexity and uncertainty.</p>
Q10: Do you agree with our top-down analysis?	No, for the reasons outlined in this submission.

QUESTION	COMMENT
<p>Q11: Do you agree with our overall assessment?</p>	<p>No, for the reasons above and because of inconsistencies with the analysis. GIC is looking for “significant” improvement over the existing arrangements if it is to conclude that the new arrangements are materially better, yet:</p> <ul style="list-style-type: none"> - According to the horizontal criteria, only: <ul style="list-style-type: none"> • 1 of 5 criteria hits an overall “substantial” improvement. • 0 of 5 criteria has a net overall “substantial” improvement. • The average net improvement is exactly “modest”. - According to the vertical criteria, only: <ul style="list-style-type: none"> • 1 of 16 criteria hits an overall “substantial” improvement. • 0 of 16 criteria has a net overall “substantial” improvement. • The average net improvement of all criteria is just below “modest”.³ • The average net improvement of <u>just</u> the criteria considered more significant to the overall assessment is just above “modest”.⁴ <p>Like last time, the analysis appears to obfuscate in using “significant” and “substantial”, yet these are synonyms. If the required bar for just criteria considered more significant to the overall assessment is somewhere between “moderate” and “substantial”, then the new code doesn’t even get close, being at a level of about “modest”. It is difficult to understand how a “modest” improvement can be “significant”, or indeed “substantial”.</p> <p>Overlaying the FAP1 significant issues also supports this view. Problems with liabilities have been fixed, undefined interconnection arrangements have been defined, and the transmission incentive charge structure has been tweaked. These improvements have got rid of some of the red arrows, but have not really added value to the green arrows.</p> <p>GIC appears to have concluded that the new code <i>just clears</i> the bar, but we consider the only available is that it knocks the bar down. When the matters raised in this submission, particularly those in the covering letter, are considered, it is difficult to see the new code even coming close to the bar.</p>

³ At 0.81 if arrows are given numerical values ranging from -3 to +3 with intervals of 1

⁴ At 1.20 using the same numerical analysis as above

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Q12: Do you support the GTAC?	No.
Q13: Do you agree with our analysis of the code design?	Yes, except wash-up arrangements are not unique to the GTAC. As was established in the recent workshops, the MBB D+1 Pilot Agreement is part of the VTC and this agreement contains the current wash-up arrangements.
Q14: Do you agree with our analysis of non-standard contracts?	<p>Yes, except GIC has missed an important point.</p> <p>Currently only one class of capacity (either reserved capacity, or something akin to it) is available under the VTC. However, section 7.4 of the GTAC allows First Gas to choose between DNC or some other type of capacity and rank it above or below DNC. The GTAC therefore does what the VTC does not, and that is create two classes of capacity.</p> <p>Having two classes of non-standard capacity is not efficient, and either the new recipient of a supplementary agreement or all other existing users are likely to feel that the solution is a little unfair where equally ranked DNC is not the capacity model chosen under a supplementary agreement.</p> <p>We consider that the red arrow on page 27 of the PAP should move from “modest” to “moderate” to factor in this point.</p>

QUESTION	COMMENT
<p>Q15: Do you agree with our analysis of ICAs?</p>	<p>Yes, except for the following:</p> <ul style="list-style-type: none"> - We consider independent oversight should be required for ICAs to ensure fairness and consistency, particularly given the scope for bespoke terms outside the GTAC. We are particularly concerned about the ability of First Gas in its monopoly position to over-recover capital costs of interconnection, resulting in unfair subsidisation by one user in favour of other users of the system. This is not a matter that would necessarily be identified by the Commerce Commission as economic regulator.. - GIC says that <i>“we consider the GTAC interconnection arrangements are on a par with those of the MPOC”</i>. This is not true with regard to readability where one has to traverse the body of the GTAC and two schedules to understand the information, whereas the same can be achieved by reading just the body of the MPOC. This is not efficient, even if it technically works. - GIC says <i>“[the ICA changes] are acceptable, provided that the core terms of ICAs that apply to Shippers and IPs “mesh”, and cannot become misaligned over time”</i>. Taking these in turn, the lack of a requirement in Schedule Two for First Gas to publish which IPs have elected OBAs is not a good “mesh” as written. In terms of misalignment over time, s1.3 of Schedules Five and Six of the GTAC create the potential for misalignment where a party does not request a restated ICA.
<p>Q16: Do you agree with our analysis of daily OR and UR charges?</p>	<p>Yes, but we disagree with one point, e.g.:</p> <ul style="list-style-type: none"> - GIC says <i>“[extra time nominating for no] significant system-wide benefit ... [is] a potential concern [but] the same broad issue arises with the charging structure in the VTC”</i>. We disagree because compulsory nominations are linked to incentives charges in the GTAC, not in the VTC. <p>WE are taking it that the GIC has accounted for this in its red arrow on page 27 of the PAP.</p>

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<p>Q17: Do you agree with our description of the peaking arrangements?</p>	<p>We have not analysed the numbers and rely on GIC’s numerical analysis.</p> <p>For this reason we do not agree with the GIC’s assessment of the peaking arrangements as GIC concludes that <i>“there may be a potential gaming opportunity for a peaking party whereby it could systematically under-nominate its hourly quantities by up to 20% and reduce its exposure to DNC charges”</i>. GIC goes on to qualify this with three matters which each have cause for concern:</p> <ul style="list-style-type: none"> - <i>“[Gaming] would only work if [Peaking Parties] assiduously managed its hourly flows so as to avoid hourly overrun and underrun charges”</i> – power stations currently manage ½ hour electricity data, meaning diligently managing hourly gas nominations is no great stretch. - <i>“That risk may be mitigated by GTAC s11.6 which suggests that a Peaking Party who engages in that behaviour may be exposed to daily overrun charges if it does not pay a Peaking Charge under GTAC s11.5”</i> – this interpretation is incorrect because s11.4 relates to overs/unders and s11.5 relates to peaking charges regardless if there is a peaking charge in a particular hour or not.⁵ - <i>“If that interpretation is incorrect, a code change could easily remedy this if it were found to be a flaw”</i> – GIC’s role is to assess the submitted code against the current arrangements, not to opine on future changes or disregard poor elements of the new code because they could be fixed later. <p>It is a concern that GIC has identified a gaming issue and that that gaming issue has not been factored into its arrow analysis (and subsequent processes and conclusions). We think it logical that the red arrow on page 27 of the PAP should be a “substantial” red arrow, not “modest” as currently written because power stations use 27% of New Zealand’s gas⁶ and could game pricing by 20%.</p>

⁵ As evidenced by GIC’s analysis on pages 155 and 156 of the PAP

⁶ Page 8 of the sixth edition of GIC’s ‘The New Zealand Gas Story’

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<p>Q18: Do you agree with our analysis of balancing tolerances?</p>	<p>No – the analysis is poor.</p> <p><i>“The aggregate tolerances in effect today”</i> are 51 TJ, not 25.5 TJ as GIC concludes on page 157 of the PAP – because the tolerances apply in both directions. This is important so the GTAC can be compared on a like-for-like basis.</p> <p>The reduction in total tolerances down to 50 TJ or 30 TJ if Mokau is off is understandable. However, compared to the hard-coded tolerances in the MPOC, the GTAC tolerances will be less predictable and less efficient. E.g. First Gas can change the total tolerance without going through the GTAC change request process, the GTAC does not require publication of important information to help parties determine their tolerance (e.g. Mokau intentions or operations and aggregate system receipts and deliveries), and tolerances will be recalculated for wash-up purposes.</p> <p>Further, the GIC says <i>“we suspect that parties ... under the proposed arrangements, would be unlikely to monitor their overall imbalance positions [regularly]. [Parties] would more likely adopt a pragmatic approach of only assessing how their balancing charges are trending at intervals (probably when they receive their monthly transmission services invoice)”</i>. That is nonsense. Parties will try to calculate and assess tolerances daily in order to manage running mismatch, comply with RPO obligations and attempt to minimise daily OR / UR incentive charges. This is part of the point of having a D+1 process.</p> <p>What’s more, s2.6 of the GTAC requires First Gas not to prefer any Shipper or IP except as expressly provided in the GTAC (which excludes the SOP where the calculation of individual balancing tolerances are). Individual tolerances prefer large parties by supplying them with a much greater tolerance. As evidenced by the BGIX, the MPOC supplies all parties with the same +/- 1.5 TJ at present. So not only does the SOP not comply with the GTAC preference requirement, but the allocation policy is not fair.</p> <p>We consider that the top assessment on page 64 of the PAP should therefore have a “substantial” red arrow to factor in all the points above (i.e. in its own regard and not just as a marginal additional worsening further to our answer to Q5).</p>

QUESTION	COMMENT
<p>Q19: Do you agree with our analysis of liabilities? In particular, do you have any particular comments on our assessment of the removal of the Incentives Pool and Balancing and Peaking Pool?</p>	<p>Yes, except for two matters:</p> <ul style="list-style-type: none"> - GIC concludes that <i>"the absence of an Incentives Pool equivalent would not have a material impact on efficiency ... [because] ... while it may appear to represent a loss of the right for Welded Parties or Shippers to take action to remedy a potential loss, in fact these arrangements do not appear to have been used in practice"</i>. However, it is not relevant that the Incentives Pool has not been used – removal of a stick without replacement by another stick reduces fairness and efficiency vis-à-vis liquidated damages. This logic is also counter to ~90% of contract terms which are often included to cover exceptional circumstances and problems – e.g. to test an extreme, it would seem very unlikely that the PAP would assess as neutral or favourable the removal of force majeure provisions if none had ever been used. - While removal of the Balancing and Peaking Pools seems sensible, it may have unintended consequences for curtailments. We discuss this further in Q21. <p>We consider that there should be a "modest" red arrow somewhere on pages 99 and 100 of the PAP to account for the removal of the Incentives Pool.</p>
<p>Q20: Do you agree with our analysis of the TTP arrangements?</p>	<p>Yes, except there is an inconsistency with GIC's analysis.</p> <p>GIC says, on page 169 of the PAP, that <i>"the GTAC requirements are still more relaxed than the current MPOC provisions. The risk of any relaxation in pressure management within the Taranaki region is that the reliability of gas receipts in to the pipeline could be compromised, which goes directly to the reliability criteria"</i>.</p> <p>We agree, but note that the first arrow assessment on page 66 of the PAP is neutral. We consider that this should be a "moderate" red arrow to give effect to the GIC's conclusion, and reflect a worsening in the position further to our answer to Q5.</p>

QUESTION	COMMENT
<p>Q21: Do you agree with our analysis of the curtailment arrangements?</p>	<p>No.</p> <p>While the reasons for curtailment are well thought through, assigning a “moderate” green arrow on the top assessment of page 72 appears unjustified when most of the discussion is about countering a point raised by Methanex, not how the GTAC adds value with curtailments. A “modest” green arrow would be more appropriate. However, the big issue (which may also cause GIC to reflect on its socialised curtailment conclusion) is the basis on which First Gas will attempt to curtail individual parties. This should be analysed.</p> <p>Very simply, Shippers will get allocated gas pursuant to the D+1 model (then pursuant to the DRR), yet First Gas will base its real-time curtailment decisions on an estimated running position (with particulars set out in the curtailment SOP). Basing curtailment instructions on a concept that is a) not defined in the GTAC, and b) bears little to no resemblance to the regular allocation methodology referred to in the GTAC, makes little sense.</p> <p>This is inefficient, and unfair on parties who may receive (or not receive) a curtailment based on First Gas’ estimate (in which they have wide discretion to estimate). A Shipper with pretty flat TOU load may be curtailed more frequently if its intra-day position is deemed to reflect the profile of gas gates with residential and small commercial load which can be quite peaky. Disputes are likely.</p> <p>The other matter is how the removal of the Balancing and Peaking Pools will remove First Gas’ ability to issue region-specific curtailments. Instead, because of a potential issue in one part of the country, First Gas will need to curtail all or specific Shippers in respect of their position across the whole country. The MPOC targets OBA parties in certain regions appropriately, even if the VTC cannot target a specific party – this is preferable to the GTAC unfairly targeting the wrong party and / or factoring irrelevant location information into decisions.</p> <p>We consider that the assessment at the top of page 72 should also have at least a “moderate” red arrow to reflect the inefficiencies and unfairness discussed above.</p>

QUESTION	COMMENT
<p>Q22: Do you agree with our analysis of Ahuroa underground gas storage? In particular do you agree with our assessment of the scope for First Gas's ownership of Ahuroa UGS to influence its operation of the transmission system under the GTAC? If not, why not?</p>	<p>No – the analysis is poor.</p> <p>GIC refers to First Gas' 8 March 2018 letter citing that First Gas will not take title to gas stored at Ahuroa on behalf of its customers. While this may be true, that letter pre-dated completion. Since then, First Gas (not GSNZ) obtained temporary access to Ahuroa and was party to a Gas Transfer and Allocation Agreement at Stratford 3.⁷ This may have similar implications under VTC and GTAC, but GIC should factor this into its assessment.</p> <p>GIC cites s20.4 of the GTAC which places an obligation on First Gas to implement suitable policies, procedures and systems to ensure confidential information is not disclosed to GSNZ. However, we are concerned that the same person has a similar commercial manager role for First Gas and GSNZ, so we query whether this will comply with the GTAC. It is more of an operational matter, but it may be relevant nonetheless.</p> <p>GIC also makes a number of assumptions about how GSNZ will run Ahuroa, e.g. that GSNZ would be unlikely to allow temporary use of Ahuroa as that would crowd-out its use for inter-seasonal storage. GIC should discuss this with GSNZ to test the robustness of its assumptions. GIC's assumption is incorrect because GSNZ has already allowed two parties temporary use of Ahuroa.</p> <p>First Gas managing its regulated transmission business to generate profits in GSNZ's unregulated storage business has more cause for concern than GIC concludes. E.g.:</p> <ul style="list-style-type: none"> - s8.5 of the GTAC does not actually say that First Gas needs to make all the pipeline's line pack flexibility available, and despite RPO, there is scope for First Gas to change the total tolerance outside of the GTAC change request process. s2.6 of the GTAC does not protect against this. - s8.5 of the GTAC also allows First Gas to offer park and loan – however this, conceptually at least, could involve temporary use of Ahuroa. In any case notwithstanding whether it is via park and loan or otherwise, we consider the more sensible commercial reality to be that GSNZ will allow temporary use of

⁷ GSNZ confirmed offline that this agreement is not confidential

QUESTION	COMMENT
	<p>Ahuroa (as it has done in the past) provided that it doesn't jeopardise its inter-seasonal storage on a particular day. That would optimise the use of Ahuroa on days when parties with inter-seasonal access may not be using it much.</p> <ul style="list-style-type: none"> - GSNZ could use Ahuroa and price it for temporary storage at a cost that is less than the maximum ERM charge of \$1/GJ, even when having regard for transmission costs (if any).⁸ ERM is not in the MPOC and so this is a concern under the GTAC. Even if it was only slightly cheaper for Shippers to use Ahuroa, if this was multiplied by a large volume of GJs used as temporary storage it could generate a lot of extra money for GSNZ. - The absence of a mandatory TSA for First Gas, were it to obtain access into Ahuroa again, is sub-optimal. <p>Ultimately, regardless of GSNZ's intentions, the foot-in-the-door for park and loan and the lack of regulation or protection over interplay in the GTAC with GSNZ should see the top assessment on page 97 of the PAP have a "substantial" red arrow.</p>

⁸ It is difficult to analyse the impact of transmission costs to Stratford 3 Delivery Point, as this point is not included in First Gas' Block 2 outputs on pricing and zones. If emsTP is a virtual bi-directional point and is in the receipt zone, query whether all physical bi-directional points like Stratford 3 also need to be in the receipt zone and thus will have zero transmission fees?