



22 January 2018

Steve Bielby
CEO
Gas Industry Company Limited
By email

Dear Mr Bielby,

8 December 2017 GTAC – the proposed GTAC is not materially better than the current arrangements – it is significantly incomplete and materially worse

Greymouth Gas thanks GIC for consulting on the version of the Gas Transmission Access Code (GTAC) and supporting documents circulated on 8 December 2017.

The GIC is to assess the GTAC under s22.16(b) of the MPOC. That provision requires GIC to determine whether the GTAC is materially better than the current terms and conditions for access to and use of pipelines (i.e., VTC, MPOC and their ancillary arrangements).

We submit the only conclusion open to GIC is to find that the proposed GTAC is not materially better than the current arrangements. The basis for such conclusion follows:

- 1. The drafting of the proposed GTAC results in a regime that is worse than current arrangements.** We submit it is evident that the GTAC is worse, indeed materially worse, than the current arrangements. The Appendix contains an analysis of the provisions of the GTAC supporting this submission. This conclusion is further supported by the matters set out in this letter.

The GTAC process represented an opportunity for industry to modernise, simplify and improve transmission access arrangements, taking the opportunity to draw from international experience and best practice. Rather than approach the new code on this basis, First Gas has proposed to GIC a complex and confusing set of arrangements which are novel and (as far as we are aware) untested in any other jurisdiction. It is difficult to understand why First Gas did not seek to adapt code(s) in use overseas (such as those in the UK and Victoria).

- 2. The GTAC package proposed to GIC is materially incomplete and defective.¹** The GTAC is to be supported by, and form part of, a number of associated arrangements.

¹ Arrangements not yet provided or incomplete include: ICAs, Supplementary Agreements, Interruptible Agreements, SOP for balancing, Metering requirements, Interconnection policy, Pricing methodology, Park and

This is acknowledged by GIC.² Many of these arrangements are unavailable.³ The unavailability of the associated arrangements means that GIC is unable to carry out an “appropriate consultation” in terms of s 22.16(b) of the MPOC or in accordance with its own published process (GIC cannot assess the GTAC regime in full context).⁴

- 3. Sapere’s cost benefit analysis (CBA) does not stand scrutiny – GIC should commission an independent CBA.**⁵ Sapere’s CBA is based on its assessment of high-level concepts stated to be contained either in the GTAC or in documents that have not been published.⁶ The CBA does not consider whether such concepts have been effectively provided for in the GTAC – and was not able to consider that in the case of documents which remain either unpublished or non-existent. The CBA cannot be relied on to validate a sub-par code.

We submit that, given the significance of the GTAC as an entirely new set of access arrangements for the industry, the GIC must commission appropriate and relevant independent expert economic and legal advice, including a cost-benefit analysis, as part of the GIC’s GTAC decision-making process.

- 4. Not all industry participants are subject to the proposed GTAC.** It is not clear why First Gas has largely excluded welded parties from the GTAC. Welded parties and their interconnection agreements are a key part of the gas supply chain, and form part of current arrangements under the MPOC. Pipeline access terms are fundamental. This omission on its own renders the GTAC materially worse than current arrangements.
- 5. First Gas’ acquisition of Ahuroa Gas Storage Facility (AGS)⁷ may have compromised its independence in respect of the GTAC.** While the GTAC requires interconnected parties to be treated equally, the wide discretion First Gas has designed for itself in the GTAC regarding the application of line pack tolerance⁸ (between interconnected parties in aggregate and park and loan) raises questions about whether any discretion should exist and whether and how that discretion might be exercised to benefit First Gas’ unregulated business at the cost of the rest of industry.

We submit that industry needs time to consider the AGS acquisition and discuss and agree measures that avoid or mitigate any conflicts of interest that may arise as a result.

- 6. Proposed gas quality improvements could have been integrated with the GTAC process.** On 18 December 2017, First Gas wrote to producers⁹ with conclusions

loan, PR auction rules, D+1 agreement, Allocation Agreements, Wash-up agreement, Other SOPs, Items in Schedule 2 of the GTAC that are to be published as required, annually or periodically have not been drafted, or published.

² GIC, “GTAC Assessment”, 12 December 2017, page 10.

³ Per footnote 1.

⁴ GIC, “GTAC Assessment”, 12 December 2017.

⁵ This position is supported by Vector per its open letter to GIC dated 18 December 2017.

⁶ Such as the priority rights auction rules (p16) and park and loan arrangements, page 19.

⁷ As advised to industry on 21 December 2017.

⁸ E.g. LPT_{SHIPPERS} as defined and referenced in the GTAC.

⁹ ‘Request for Demonstration of Compliance with Gas Specification’.

about its investigation into producers' compliance with the gas specification. In its letter First Gas proposed incremental improvements are made in 2018. This should be integrated with the GTAC process.

7. **Poor telemetry technology may impact on existing allocation arrangements.** Vector has advised that it will not be continuing with new telemetry upgrades and is trialling new corrector and telemetry equipment. Greymouth Gas is concerned about the impact this has on compliance with regulations, industry's desire to increase reliance on telemetry, and the daily allocation arrangements under the GTAC which are due for negotiation. This should be integrated with the GTAC process.
8. **The GTAC process timeline is lacking.** We do not consider that 13 business days is sufficient for GIC to fully consider industry submissions as part of its assessment, and complete and issue a preliminary analysis that can be subject to full scrutiny by GIC, its legal and economic advisers and thereafter by Industry.

Conclusion

It is crucial that the new access arrangements are fit for purpose and resilient.

We submit that the GIC should extend the go-live date for a new code to 1 April 2019 to allow adequate time for development and thereafter proper consideration of a new code. It is essential that a new GTAC is subject to proper and rigorous industry processes.

Greymouth Gas asks that the process, hereon in, be independently facilitated by the GIC (alongside a qualified adviser and appointee) to ensure the next code produced is high-quality, fit for purpose, and enjoys an appropriate level of industry consensus.

In the other alternative, all of industry (gas producers, marketers and consumers) will be materially worse off (i.e. the losers if the new arrangements proposed by First Gas are implemented).

Yours sincerely



Chris Boxall
Commercial Manager