

6 December 2017

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Dear Ben

Submission on the Memorandums on Agenda Items A to E

Introduction

1. This is Vector Limited's (Vector) submission on the Memorandums on Agenda Items A to E on the Gas Transmission Access Code (GTAC), issued by First Gas for consultation on 6 December 2017.
2. Vector appreciates the opportunity to consider Agenda Items A to E. However, we are highly disappointed that First Gas decided not to revise the timeframes for submissions, code re-drafting, and code review by the GIC as proposed by stakeholders via email on 22 November 2017.
3. We cannot consider the provisions for consultation in isolation, and are unable to ascertain whether all our previous mark-ups have been taken into account. The comments we are providing are in the interests of discussion. Due to the very tight consultation timeframe, we have not had the opportunity to fully review these provisions, and we reserve the right to provide further comments.
4. No part of this submission is confidential. Vector's contact person for this submission is:

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Issues on Timeframes

5. The tight consultation timeframe makes us concerned that we have not been able to properly consider the additional proposals. This is particularly in relation to the Liabilities memorandum which, we believe, requires full legal review.
6. We believe that the number of changes in the third draft of the GTAC (Third Draft GTAC) that will be submitted to the GIC for review will require us to not only submit to the GIC on Vector's opinions of whether the GTAC is "materially better" but also on concerns around drafting. With the considerable amount of changes anticipated in the Third Draft GTAC, we

believe the GIC will have insufficient time (two weeks) to undertake a meaningful assessment of the GTAC and release a well-considered draft recommendation before the year-end break.

7. We remain committed to the 1 October 2018 go-live date. We believe the timeframes put forward by stakeholders on 22 November 2017 would have enabled the version that will be submitted to the GIC to have minimal changes from the last version reviewed by the counter parties to the GTAC.
8. We urge both the GIC and First Gas to reconsider the timeframes to ensure that the version the GIC will receive is fit for assessment.

Proposed amendments to Agenda Items A to E

9. We outline below our proposed changes to the GTAC. These are in relation to:
 - a. Agenda Item A - Interrelationship between ICAs and the GTAC;
 - b. Agenda Item B - Agreed Hourly Profiles;
 - c. Agenda Item C - ERM and Overrun/Underrun Charges;
 - d. Agenda Item D - Liability Provisions; and
 - e. Agenda Item E - D + 1 Allocations.

Agenda Item A – Interrelationship between ICAs and the GTAC

10. Vector agrees with the proposed changes but assumes that other proposed drafting changes to the *Second Revised Draft GTAC* will be incorporated in the version that will be submitted to the GIC.
11. Under section 7.13 (o) (ii), Receipt Points should only get a share of ERM rebates as this is the only charge that the Interconnected Party contributes to.

Agenda Item B – Agreed Hourly Profiles

12. There are significant changes being made to the design of the Agreed Hourly Profiles (AHP) that impact their attractiveness as a mechanism for managing End-Users' exposure to Hourly Overruns. The most significant of these changes is that End-Users using an AHP will now have lower priority capacity than an End-User being supplied under DNC.
13. As stated in our submission, dated 24 November 2017, we do not believe that Hourly Overrun Charges pass the fairness test of the *Gas Act*. As a tool for End-Users to mitigate risk, it is now providing a lower priority transmission capacity product than other users of the system. We do not believe that this is materially better for the four End-Users that First Gas has indicated will be charged with Hourly Overruns.

14. We assume that where sections are referred to but were not included in the memorandum, they have not changed from the *Second Revised Draft GTAC*.

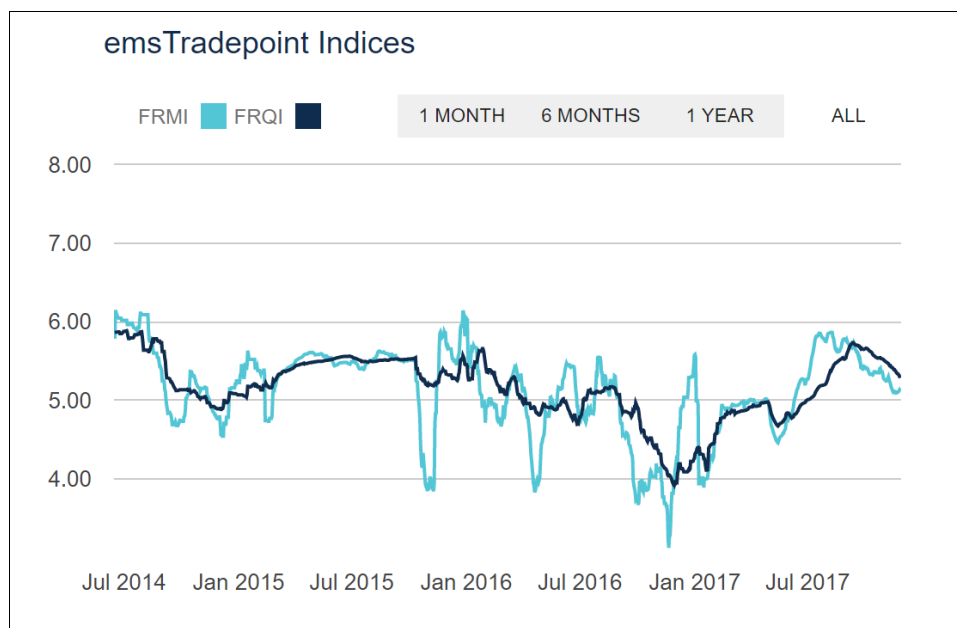
Drafting Amendments

15. The definition for AHP does not include Receipt Points. We note in section 7.12 (h) that AHP is in lower case. As no other drafting has been provided for agreed hourly profiles, it is unclear how this will work with section 4.
16. We propose amending the definition of “Maximum Hourly Quantity” to “...which shall be **the greater of** (as applicable)”.
17. The definition of “Receipt Quantity” does not include trades. We are uncertain whether the points we raised regarding this definition in a previous submission have been addressed.
18. Under section 3.29, an AHP cannot be reduced below what is deemed to have flowed, but in the proposed drafting (in reference to section 4.16), the deemed flow is 1/24th of DNC. This does not seem to make sense as an AHP might have high capacity requirements at the beginning of the day and be able to reduce to below zero for the remainder of the Day.
19. We propose amending section 3.30(b) to: “ $\sum HTC_{AHP}$ is the sum of the Hourly amounts of transmission capacity set out in the AHP **up until 2400 on that Day**”. AHPs can be for seven days.
20. We query whether under section 3.32, “most DNC it can” should be capped at the requested amount of AHP.
21. Under section 3.33, AHP is a lower priority than DNC. The purpose of the AHP is to provide a tool for End-Users to mitigate the risk of Hourly Overrun Charges. When AHP is curtailed to protect DNC and Supplementary capacity, what actions can an End-User take apart from shutting down? Surely, if a curtailment is required, First Gas should first convert an End-User’s AHP to DNC and then treat all parties equitably.
22. Section 3.35 refers to section 3.27, which we think should be a reference to section 3.28.
23. Section 7.12 (h) is unclear; “agreed hourly profile” is not capitalised. We query whether this is intentional. There is no detail provided on whose agreed hourly profiles will work with Receipt Points.
24. Under sections 9.3 and 9.4 (which we assume should be 10.3 and 10.4), it is unclear from the current drafting how an End-User with an AHP will be treated for congestion or curtailment. We believe that AHP should first be converted to DNC and then curtailed under congestion at the same priority level as other End-Users.

25. Under section 11.5, the timeframe to change M is 60 Business Days to either increase or decrease within the bounds set by the clause. We propose that this be amended to 30 Business Days for either an increase or decrease.

Agenda Item C – ERM and Overrun/Underrun Charges

26. First Gas has stated that the average market price is \$6.00/GJ. This seems to be at odds with the indices provided publicly by emsTradePoint which shows that it has rarely hit \$6.00/GJ in the past three years. Vector is also concerned that First Gas believes that the average market price could be \$10.00/GJ. We query what market information First Gas has used to base this gas price on.



Source: <http://www.emstradepoint.co.nz/market-results/natural-gas-indices/>

27. Under section 11.4, the timeframe to change F is 60 Business Days to either increase or decrease within the bounds set by the clause. We propose that this be amended to 30 Business Days for either an increase or decrease.
28. We propose amending section 11.4b (only Shipper and Daily are defined terms) to: “ DDQ_{DNC} is the Shipper’s Daily quantity shipped using DNC...”

Agenda Item D – Liability Provisions

29. In the Liability Provisions Memorandum, First Gas states that mark-ups have been considered, but it is not clear whether First Gas intends this to be its whole response on section 16. In addition, First Gas has not responded to mark-ups on indemnity provisions that appear in other parts of the GTAC, e.g. sections 9, 11 and 12.

Non-Specification Gas

30. In respect of the liability framework proposed under the GTAC, we reiterate the view we expressed in our submission of 24 November 2017 that First Gas must indemnify Shippers in relation to Non-Specification Gas as is currently the position under the VTC. Section 16 does not offer adequate protection, and Shippers are exposed to the risk of Non-Specification Gas which they currently do not have exposure to under the VTC.
31. We note the addition of section 16.12 and welcome this in cases where both First Gas and another party are potentially liable. However, section 16.12 does not work unless a Shipper has a legitimate claim against First Gas for failing to comply with its TSA. For example, in the case of Non-Specification Gas, a Shipper's loss might have been caused by an Interconnected Party but the proposed changes to clause 16.12 do not effectively give Shippers the right to pursue the Interconnected Party. The Shipper must first have a claim against First Gas and in this example, under the proposed GTAC, First Gas has no liability for Non-Specification Gas. Shippers would simply have no basis on which to claim in the first place. Parties cannot make spurious claims against one another for no reason.
32. Even if this provision was effectively drafted to give Shippers sufficient privity and/or step in rights, such a mechanism is uncertain and unfair when compared to the current position.
33. In addition, this position conflicts with the concept that First Gas control, possess and take risk in the gas while it is in the pipeline as set out in section 2. Because this is the case, First Gas must ensure that Interconnected Parties take responsibility for the Gas. First Gas must effectively pass this benefit through to Shippers. To remove this indemnity and replace it with an uncertain and ineffective mechanism materially worsens Shippers' position. First Gas has not provided any explanation as to why the current VTC indemnity framework ought to be changed.

Drafting Amendment

34. We propose amending section 16.6b to: "caused ~~to~~ or contributed to".

Agenda Item E – D+1 Allocations

35. Section 6.9 is subject to 6.12, which requires an Allocation Agreement to be in place for all Dedicated Delivery Points. We query why First Gas needs an Allocation Agreement at a Delivery Point with an OBA. Which agreement will take precedent, the OBA or the Allocation Agreement? Identification of the Shipper at a Dedicated Delivery Point with an OBA will be available via a Shipper's Approved NQ.
36. Under section 6.11b, the mechanism does not work where First Gas provides a Supplementary Agreement to an End-User embedded in a gas gate. We propose that the mechanism first remove quantities allocated to the Supplementary Agreement before using DNC.

37. Under section 6.12, it is now vital that there is an Allocation Agent in place for Dedicated Delivery Points from 1 October 2018. Will First Gas fulfil this role? If so, this should be added to the GTAC to align with the processes and procedures in place for the Gas Transfer Agent.
38. We propose the re-drafting of section 6.13(a) to: "Shipper's Daily **Delivery Quantity** and Hourly **Delivery** Quantities". Section 6.14 (b) should also be re-drafted accordingly.
39. Gas composition data is vital to First Gas's customers and is required to be available by 8am every Day.

Concluding comments

40. As indicated above, we urge First Gas to re-consider its consultation timeframes to ensure industry participants have sufficient time to provide considered and meaningful input to the *Draft GTAC*.
41. We strongly believe the industry can adopt reasonable consultation timeframes without any delays to the proposed GTAC go-live date of 1 October 2018.

Yours sincerely



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