

23 October 2018

Ian Dempster
General Manager Operations
Gas Industry Company
Wellington

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Dear Ian

Submission on GTAC Matters

Introduction

1. This is Vector Limited's (Vector) submission on matters relating to the Gas Transmission Access Code (GTAC) that the Gas Industry Company (GIC) is seeking feedback on. The GIC published its consultation questions on 13 September 2018.
2. We set out below our responses to the consultation questions.
3. No part of this submission is confidential. Vector's contact person for this submission is:

Anna Carrick
Manager Natural Gas Trading
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Responses to consultation questions

1. Aside from matters covered in your feedback to First Gas on the GTAC draft, if there are any elements of the proposed arrangements that you think require particular attention in Gas Industry Co's assessment, can you please explain what these are and why they are relevant?

Hourly nominations and peaking

4. The main issue that Vector would like the GIC to review in some detail is the Hourly Overrun and Underrun Charges. We fully accept that First Gas has made improvements to the GTAC's initial peaking regime by introducing the concepts of Peaking Parties and hourly nominations. However, we remain concerned that there are only a few End-users that will qualify as Peaking Parties.
5. In addition, given the infrequency of peaking incidents each year, we have to question the necessity and usefulness of providing hourly nominations all year round. In our view, the costs of providing, monitoring, and managing the proposed hourly nominations regime every day exceed the benefits that First Gas will accrue.
6. We can see the benefits of having hourly nominations when the pipeline is under stress. However, similar to the application of the higher Daily Overrun and Underrun charges at congested points, we see limited benefits from hourly nominations when peaking incidents are unlikely to occur. Under current arrangements, First Gas has the ability to call for hourly nominations it considers to be useful in managing the pipeline. We believe these current arrangements, combined with the application of the proposed incentive charges when First

Gas calls for hourly information, provide a more efficient and cost-effective method of managing potential peaking situations.

7. In assessing the revised GTAC, we request the GIC to provide detailed analysis of the peaking proposal. The GIC should particularly weigh the costs and benefits between: 1) Peaking Parties and their End-users providing hourly nomination each and every day, against 2) the current on-demand arrangements with the additional accuracy incentives.

Incentive fees

8. Vector's submission on the GTAC, dated 19 March 2018, supports the rebating of incentive fees to parties but disagreed with the analysis undertaken by the GIC especially in light of First Gas' inclusion of nominations for Allocation Groups 4 and 6 in the GTAC. The GIC may wish to consider whether the decision to socialise certain incentive fees rather than rebating these directly back to Shippers, who have the ability to pass these through to End-users, should be reversed.
9. It is our view that all incentive fees should be rebated rather than socialised as this provides an additional incentive for parties to make more accurate nominations.

2. Stakeholders are familiar with the methodology we used to analyse the 8 December 2017 GTAC (broadly the three step; top-down, bottom-up and holistic approach), but if there are any aspects of the analysis you think could be improved, we would like to hear your suggestions, including why these are relevant to MPOC s22.16(b).

10. Vector supports the GIC's use of the above three-step methodology in its assessment of the 8 December 2017 GTAC. We believe this approach supports the change request process provided under s22.16(b) of the Maui Pipeline Operating Code.

Concluding comments

11. As a Shipper, Vector believes that the GTAC, whilst not perfect in its current form, is workable and an improvement over the GTAC submitted to the GIC on 8 December 2017.
12. We are happy to leave the determination of whether the current GTAC is "materially better" than the existing code arrangements with the GIC.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in blue ink, appearing to read "Richard Sharp".

Richard Sharp
Head of Regulatory and Pricing