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Ian Wilson

Principal Adviser, Infrastructure Access Group

Gas Industry Company

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Dear Ian

Transmission Pipeline Balancing: MPOC 17 December 2009 Change Request Draft Final Recommendation

1. Vector Gas Limited, On Gas Limited and Vector Gas Contracts Limited (Vector) welcome the opportunity to make a submission to the Gas Industry Company (GIC) regarding Transmission Pipeline Balancing and the MPOC 17 December 2009 Change Request Draft Final Recommendation.

GIC has made the right decision for the industry

2. Vector welcomes the GIC's decision not to recommend the Change Request be implemented. Vector believes this is the right decision for the industry.
3. Vector believes the governance of system operation, including the balancing arrangements, needs to be improved for the benefit of the industry.
4. Vector is pleased that the GIC has acknowledged many of the concerns raised by the wider industry in their submissions on Transmission Pipeline Balancing: MPOC 17 December 2009 Change Request Draft Recommendation. It should be noted that of the 7 parties who submitted on the Change Request, 5 did not support its recommendation for a wide variety of reasons.
5. The GIC has acknowledged that the Change Request would have a questionable and uncertain impact on the industry. Specifically that the Change Request:
 - a. Would likely result in a decline in system security;
 - b. A decline in system operation would be inconsistent with Vector's service provision obligations in the VTC;

- c. Seeks to improve MDL's position to the detriment of other industry participants, including Vector;
 - d. Increases users' risks whilst reducing their mitigation and self balancing tools;
 - e. Broadens the consequences of being out of balance beyond section 12 of the MPOC;
 - f. Is completely unbalanced in its approach to risk allocation;
 - g. Will introduce significant instability to industry arrangements;
 - h. Will likely increase costs for the industry; and
 - i. Cause industry uncertainty and the likely increase in disputes by introducing incompatibility between the open access regimes.
6. While we welcome the decision, we believe that the GIC has not sufficiently considered some aspects of the Change Request that would have a detrimental outcome for the industry.

Accountability of the Balancing Operator

7. The Change Request seeks to codify the actions of the Balancing Operator. However as raised in a discussion with the GIC, the proposed changes place no responsibility or accountability onto the Balancing Operator for its actions. MDL is only obliged to *instruct* the Balancing Operator to act as a Reasonable and Prudent Operator and use "reasonable endeavours to buy and sell Balancing Gas in accordance with the following procedures:...".
8. If the Balancing Operator fails to act as an RPO or in accordance with the procedures, then no party could make a claim against them. This is a fundamental risk for the industry.

Status Quo is the correct counterfactual

9. The GIC must assess the Change Request against the status quo of current practice by both MDL and Vector. Many of the changes, such as provision of information and the actions of the Balancing Operator seek to codify current practice and therefore have no additional benefit.
10. We note that the GIC has attempted to acknowledge this by rating many aspects as having a potential impact. The proposed changes are not consistent with the VTC and therefore largely theoretical in isolation of successful corresponding VTC Change Requests. The analysis must therefore consider the current VTC.
11. Further, specific concerns are detailed by category, and rated using the GIC's scale, in the table below.

Category	Vector Comments	Vector Evaluation
Allocative Efficiency	<p>The Change Request has a potential detrimental impact on allocative efficiency</p> <p><i>The Change Request will not ensure cost of imbalance is borne by causers</i></p> <ul style="list-style-type: none"> a. As noted above, the impact of the Change Request on Vector Shippers is largely theoretical and contingent on corresponding successful VTC Change Requests. In the absence of these change requests Vector would be unable to pass on balancing costs to causers of imbalance and would need to attempt to socialise this cost to the extent possible. This would have a negative impact on allocative efficiency. b. In Appendices A and B of Vector’s 4 June 2010 submission to the GIC we gave two examples of situations where if the Change Request was implemented without linked nominations then other parties who did not cause the need for balancing action to be taken would incur a higher share of balancing costs under the Change Request than in the status quo. If this change was implemented via the VTC then this would have a detrimental impact on allocative efficiency. c. By not ensuring that MDL is responsible for its imbalance, the Change Request further does not ensure that the cost of balancing is borne by causers and would lead to an incorrect allocation of Balancing Gas to the Welded Points. <p><i>Linepack Flexibility</i></p> <ul style="list-style-type: none"> d. The removal of tolerances without a corresponding mechanism to ensure that this linepack flexibility is available to the Balancing Operator will not ensure that the inherent linepack flexibility is maximised for the benefit of the users. e. Measured against the status quo, there would be a significant detrimental impact on 	Potentially Moderate detriment

Category	Vector Comments	Vector Evaluation
	<p>allocative efficiency as Vector would bear all balancing costs in the first instance and attempt to socialise these costs to the extent possible. If it is assumed that the requisite changes could be made, Vector believes that the combined effect of the above issues would negatively impact allocative efficiency.</p>	
Implementation Costs	<p><i>OATIS costs</i></p> <p>f. Vector believes that OATIS costs could be significant. MDL stated in their 4 June submission to the GIC on the 17 December 2009 MPOC Change request Draft Recommendation that there are not expected to be any OATIS costs associated with the change in nomination curtailment priority. The Change Request is comprehensive and traverses a wide range of material. Vector understands that the OATIS changes required to effect the proposed changes to the Shipper Mismatch mechanism are likely to be significant. We consider that making these changes would be inefficient to make because: a) it is unlikely that the Shipper Mismatch mechanism will be used because the current Standard Operating Procedure for Curtailment and ILONs indicates that Shippers will not be put into Shipper Mismatch unless this has been prior approved by the Maui Commercial Operator; and the mechanism has been used only once to date and it sparked a number of disputes; and b) it is likely that these changes would be revoked in future Change Requests and indeed this is supported by Contact's submitted changes to the MPOC.</p> <p>g. It would be expensive and inefficient to implement changes in OATIS that are rarely used and likely to be sought to be revoked in the foreseeable future.</p>	Moderate detriment
Stability Governance	<p><i>There will be counter Change Requests</i></p> <p>h. The Change Request would provide for an inherently unstable regime. This is further evidenced by many parties including Contact's submission which includes a mark up of</p>	Moderate detriment

Category	Vector Comments	Vector Evaluation
	<p>proposed changes to the MPOC, and Nova’s submission which notes a specific point which it considers should be amended “at the next available opportunity”.</p> <ul style="list-style-type: none"> i. The GIC consider that any improvement to a part of the regime will provide for improved stability. As evidenced by industry submissions, the Change Request seeks to introduce a wide variety of changes that the industry consider undesirable. Any Change Request that would lead to a number of change requests to amend the original would not improve the stability of the regime. j. Overall, the Change Request would require much industry resource to amend and would lead to an inherently unstable outcome. 	
Transparency and non-discrimination governance	<p><i>Little new information published</i></p> <ul style="list-style-type: none"> k. The proposed Change Request should be assessed against the status quo and therefore provides for little new information to be published. This results in no significant change to transparency. 	No significant change
Enforcement	<p><i>Accountability of the Balancing Operator</i></p> <ul style="list-style-type: none"> l. As outlined in paragraph 0 above, the Change Request amends section 3 of the MPOC without imposing any meaningful or enforceable balancing obligations on either MDL or the Balancing Operator. This means that there is no industry accountability for the performance of the very important balancing obligations set out in section 3.5 of the Change Request. It is crucial in our view that MDL assume responsibility for these obligations; shippers and TP Welded Parties only have contractual enforcement rights against MDL. This is a fundamental issue. <p><i>Enforcement of payment</i></p>	Moderate detriment

Category	Vector Comments	Vector Evaluation
	<p>m. This remains a fundamental issue. With the removal of Vector's current "pay when paid" right and replacement with a "pay now, dispute later" obligation, MDL will not be incentivised to quickly resolve any disputes. Shippers on the Vector Transmission System who dispute whilst withholding cash will also not be incentivised to quickly resolve disputes.</p> <p>n. Overall, these changes will detrimentally impact enforcement.</p>	

Back to back balancing not an efficient solution in isolation

12. Vector believes that back to back balancing in isolation would introduce problems to the regime unless it was implemented as part of a package. Specifically it would:
- a. Not ensure that the cost of balancing is borne by causers;
 - b. Make the existing arrangements less allocatively efficient by potentially increasing costs to parties who did not cause imbalance; and
 - c. Remove users tools to mitigate balancing costs while not providing for increased information or tools to manage imbalance.
13. If back to back balancing is to be implemented, it must be as part of a comprehensive package of measures.

Memorandum of Understanding Review

14. Vector notes that the GIC is considering how the Memorandum of Understanding between itself and MDL could be amended to restrict the content of future Change Requests to one issue only. Vector considers that introducing this requirement would lead to disputes over the content of change request. The submitter should continue to be allowed to determine the scope and content of change requests.

The way forward

15. Vector is unaware of the status of the Gas Governance (Balancing) Rules subsequent to their discussion by the Directors in the Independent Sub-Committee. This MPOC Change Request is further evidence that an industry contractual process whereby one party focuses on its desired commercial outcome rather than an outcome to benefit the industry as a whole is unlikely to be successful.
16. The GIC urges MDL to consult with Vector on future MPOC Change Requests where there would be a flow on effect to the VTC. Vector agrees that co-ordination of changes are a more efficient way to make sustainable changes. The proposed Gas Governance (Balancing) Rules would provide for a co-ordinated industry wide approach that would ensure that all changes are implemented in both the MPOC and VTC at the same to ensure that the codes remain compatible.

Concluding Remarks

17. Vector is available to discuss this submission. Please contact Katherine Shufflebotham on 04 803 9043 or 021 770 059.

Kind regards

A handwritten signature in blue ink that reads "John Rampton". The signature is written in a cursive style with a small dot at the end.

John Rampton

Manager Industry Governance and Policy