hale & twomey

ARETÊ CONSULTING LTD

29 August 2014

Matt Wilson
General Manager,
Commercial Operator, Maui Pipeline Gas
PO Box 22039

WELLINGTON 6140

Dear Matt,

Re: Draft Market Based Balancing Change Request – 13 August 2014

1. This following submission is being made on behalf of the Major Gas Users Group (MGUG):

    a. Ballance Agri-Nutrients Ltd
    b. Carter Holt Harvey Ltd
    c. Fonterra Co-operative Group Ltd
    d. New Zealand Steel Ltd
    e. New Zealand Sugar Ltd
    f. Refining NZ

2. The MGUG made submissions in support of Back to Back (B2B) balancing being introduced (MPOC CR 13 Oct 2011 "B2B" and MPOC CR 14 February 2014 "B2B Fix Up Change Request"). The MGUG recognised that balancing charges are ultimately reflected in higher transmission charges to end users. The MGUG was therefore supportive of Maui Development Limited's (MDL's) attempt to reduce these costs through their B2B proposal.

3. MGUG members' further interest in the Change Request (CR) is driven from concern on flow-on effects of the proposal since MGUG members are not in themselves shippers or welded parties on the Maui pipeline system, but rather are part of a retailer portfolio. In particular the concern is whether the changes would impose additional transaction costs on them. The flow-on effects into the Vector system where our members operate aren't clear at this point which means that we can only comment on the general market principles.

4. MGUG members' key concern from the proposed changes is their loss in ability to balance their positions at their delivery point (on the Vector System) by 2400 on the Day to achieve primary balancing objectives. Although it may not be necessary for them to correct their imbalance every day since B2B only impacts Maui's welded points (WP), if there is an overall imbalance at the Maui WP and their Vector WP has an imbalance in the same direction they now face a penalty where they had none before, and which materially has had no impact on maintaining sufficient line pack in the Maui system.

P +64 4 471 1155 F +64 4 471 1158
Level 14, St John House, 114 The Terrace, PO Box 10 444, Wellington 6143, New Zealand

Hence transaction costs are incurred for no additional benefit since users are already using best endeavours to achieve primary balancing.

5. Currently any imbalance is corrected in the following nomination period but under B2B that ability would disappear unless there is some accommodation on the intraday nomination cycle times

6. MGUG therefore believe that B2B with market based balancing ***must be*** adopted with a revision of the intraday nomination cycles, particularly ID4, to allow greater opportunity for users to balance their positions during the Day. Users often have to nominate their demand ahead of shippers to their retailers and ID4 closing at 1700 means that end users are often left with their last opportunity to correct their positions in the middle of the afternoon. Moving ID4 to later in the evening (2000 or 2100) would reduce some of their risk under B2B. Other ID periods would need adjustment also to give sufficient number of opportunities during a working day to correct positions.

7. *The use of EU Code (European Commission Regulation (EU) No 312/2014) as basis for drafting*:

    a. We note that the CR draws heavily on the EU code in design. The CR application doesn't explain why this would be relevant for New Zealand, and whether other models aren't more suitable, but in general we would support adopting lessons learnt in other jurisdictions where there are close parallels to draw on.

    b. We note that the EU Code appears to have an objective of supporting the development of a competitive short term wholesale gas market in its overall balancing design. MGUG see this as an important additional benefit for the overall gas market development from the CR proposal but it is not clear whether the additional (transactional) cost would justify this objective being facilitated. We think that it is important to keep the issues of the requirements for balancing and the development of a liquid wholesale gas trading market separate.

    c. The EU code also allows for greater Regulator oversight on balancing services and transactions provided by the Transmission System Operator (TSO), and also require the TSO to be completely independent. These checks and balance features are absent in a New Zealand context and although MGUG doesn't hold a strong opinion, the matter of independence and objectivity may need to be addressed for other market participants. We suggest that the Gas Industry Company (GIC) should be asked to provide approval for the pricing methodology.

8. We see a number of the proposed design features as helpful for gaining broader acceptance for the adoption of market based balancing:

    a. Allowances for cash out within tolerances at large stations rather than requiring a zero imbalance.

    b. The temporary tolerance increase to provide a "soft landing" approach.

c. Flexibility provided by the Commercial Operator (CO) to temporarily increase tolerances through higher ROIL multiplier (Clause 12.18) that will be posted on BGIX.

d. The use of a market trading platform for balancing transactions and this being placed first in the merit order for settlement.

9. MGUG see a positive spin off by balancing transactions creating further depth and liquidity in the wholesale spot gas market to encourage overall gas market efficiency.

10. MGUG see a potential issue with determining Average Market Price (AMP), Marginal Sell Price (MSP), and Marginal Buy Price (MBP) in the pricing methodology where there may be no trading data for the day to determine these and where there are no standard products currently. The implementation of the CR with B2B should in itself promote greater use of the trading platform that would minimise some of this concern but the idea of a default rule is a useful backstop.

11. The concept of using the energy weighted average price of all trades in standard products made for delivery on the Day using data from trades from the day or previous day should be subject to minimal requirements on volume. If trading is very thin with only a minor quantity traded this could be potentially price distorting, particularly in the context of the amount of imbalance that might exist. Our suggestion is that the minimum weighted volume should be 10 TJ for gas delivered immediately prior to and up to 7 days after the Day as published by emsTrade for ex-post market data. i.e. 10 TJ of the last published transactions that fall below D+7 delivery. To put this in context, 10TJ is about 5% of the daily physical flow on the Maui pipeline.

12. A suggestion for a further default rule might be to use the Frankley Road Monthly Index for the relevant day (FRMI) as published by emsTradepoint. This is already volume weighted and using a rolling one month ensures that sufficient data points are included.

13. With respect to MBP and MSP, if a minimum volume of 10TJ is used for calculating the AMP then perhaps an adjustment may not be needed on AMP to set the MSP and MBP for balancing actions by the TSO as effectively the AMP should be more robust than relying on a few thin trades.

Yours sincerely

Richard Hale
Hale & Twomey Ltd/Arete Consulting Ltd
For the Major Gas Users Group