

24 November 2014

Gas Industry Company Ltd  
Level 8, The Todd Building  
95 Customhouse Quay  
P O Box 10-646  
WELLINGTON 6140

Dear Sir,

Re: Maui Development Ltd Application for GIC Recommendation on Proposed Amendments to the Maui Pipeline Operating Code ("MPOC") – 10 October 2014

1. This 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. Refining NZ
2. These comments are based on our recent interaction with MDL's proposed "Market-based Balancing Change Request" (MBB CR - we attach a copy of our submission to MDL) prior to its submission to GIC, as well as the experience of MGUG members as active participants in balancing debates over many years.
3. We find the debates around balancing challenging and frustrating, firstly because they generate significant effort and much controversy for a matter MGUG believes should be relatively straight forward, and secondly, because the code change process and associated governance arrangements seem to be ineffective for putting in place arrangements that provide an acceptable outcome for all participants.
4. GIC says it intends to consider the MBB CR against a counterfactual based on the MPOC now in force without Back to Back Balancing (B2B). That means the Cost Benefit Analysis (CBA) will be a comparison of MBB as the factual with the MPOC now in force (no B2B) as the counterfactual. GIC has asked for comments on this approach.
5. We are unsure why GIC holds the view that B2B is not a valid option given it was accepted earlier this year. But in any event we're more concerned with what we see as a fundamental problem with the process, which is the lack of a proper problem definition. At this stage MGUG does not feel as though there is a good understanding of the problem we are trying to address. Hence it is difficult to comment on the GIC's

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approach in the absence of a considered problem definition. As such we support the recently established Pipeline Management Working Group. It has agreed establishing the problem definition as an initial priority. The MBB CR does not and we are concerned the CR process (and CBA) will also not address the problem properly.

6. We are concerned that the code change process and approach may fail to or not fully understand the issues and any unintended consequences that may arise. Until that is done we do not see why B2B should be excluded. And furthermore if this CR process is to continue it would seem essential that the process allows for cross submissions to take place.
7. Despite how GIC may choose to evaluate the options the status of B2B in the draft changes to the MPOC provided by MDL is not clear. B2B has been accepted but not implemented. It is difficult to know how to react to this other than to note that it creates ambiguity where there should be certainty. This raises a number of issues:
  - a. What will be the status of B2B if this CR is rejected?
  - b. If B2B is presumed to have a positive benefit against the counterfactual why would it not be one of the options? The logic of the CR process suggests this should be considered as an option.
  - c. Is it good policy to allow a change (B2B) where there is no certainty as to its implementation? We would argue at the very least that changes should be time bounded.
  - d. What priority GIC should accord to its regulatory responsibilities (Gas Act, Gas Policy Statement) compared with the MOU under the CR process? Given the time that balancing issues have taken we question whether the reliance on the code change approach is effective in this instance.
8. At this stage of the consultation process we do not have the benefit of any quantification of the numbers – we point this out simply to record the difficulty of commenting on an informed basis without the CBA. Nevertheless we offer some perspectives as major users, some of which we have provided to MDL.
  - a. Users expect that their costs under MBB will go up, regardless of whether actual costs are incurred in balancing the pipeline. They will be incentivised to take steps to avoid those costs. At this stage it is unclear whether this would be the most effective mechanism for balancing the pipeline, or more particularly whether it might give rise to unintended consequences because of the incentive operating on individual users. Ultimately this may not be the most efficient mechanism for balancing (to the extent that balancing charges are ultimately

reflected in higher transmission charges we have been supportive of MDL's attempt to reduce these costs through their B2B proposal).

- b. A big part of the challenge for end users is understanding how this MPOC change request will impact their day to day operation on the Vector pipeline. Users have various arrangements with their retailers ranging from daily nominations to no nominations. It is impossible to assess what the resource and financial impact of this CR will be on individual end users.
  - c. MGUG have always supported the principles promoting primary balancing to keep transmission costs down. There is concern however that in going from B2B (costs only when CO takes a balancing action) to MBB (daily cash outs regardless of whether a CO balancing action is required) that transaction costs will increase without any additional benefit.
  - d. It appears that in going from what appeared to be a relatively pragmatic step (B2B) to MBB that end users are potentially exposed to higher transaction and balancing costs without all of the necessary tools to minimise this exposure. We note for example that some of the suggestions to provide better tools (e.g. additional or more usable nomination cycles to promote self-balancing) have been left outside of the CR to be resolved "later".
9. We understand MDL's cited value of MBB providing support for a more liquid wholesale gas trading market. We certainly support the development of a more liquid wholesale market but we are less convinced that this should be seen as argument supporting the MBB option.
10. A point repeatedly made is for the need for appropriate tools to enable market participants to undertake primary balancing, including:
- Daily allocation provisions (D+1)
  - Intra day cycles
  - Definition of the gas day
  - Appropriate tolerances

These mechanisms are recognised by all. But in the nature of the CR process this MPOC CR makes no reference to them (our comments to MDL in the 13 August submission were not responded to). The assumption appears to be that these can be developed but at this stage we are pessimistic that the CR process can achieve this in an efficient and timely fashion.

11. MGUG considers that the CR process is limiting GIC's ability to become proactive in the development of a satisfactory solution for balancing. We think it would assist to have GIC in the Pipeline Management work stream and it may be time for GIC to consider whether an appropriate regulatory framework is required.

Yours sincerely

A handwritten signature in black ink, appearing to read "J. Hale". The signature is fluid and cursive, with a large initial "J" and a clear "Hale" following.

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

Attachment: MGUG Submission to MDL dated 29 August 2014