

QUESTION	COMMENT
<p>Q1 Do you consider that the objectives identified in Section 2 are appropriate for the analysis of balancing options? If not, what other objectives would you propose?</p>	<p>Yes although we note that the objective of “least cost” must also be applied in the context of a security of supply standard.</p> <p>It is possible to reduce balancing costs by instead using other means to balance the pipeline such as through curtailment of producers or consumers.</p> <p>Nova would like to see this least cost objective articulated in a way that also refers to the requirement to maintain security of supply to some standard.</p> <p>Nova suggests:</p> <p><i>“balancing arrangements should aim to maintain security of supply for pipeline users without recourse to curtailment of consumption or production and to achieve balancing at least cost, where cost includes transaction costs for users”</i></p>

QUESTION	COMMENT
<p>Q2 Do you agree that it is necessary to review tolerances as described in Section 3.1?</p>	<p>Yes.</p> <p>Tolerances are a function of a number of factors including:</p> <ul style="list-style-type: none"> - minimum and maximum pipeline pressure limits - linepack for operational use - contingency volumes - gas flow on the day - availability of gas compressors <p>MDL has tended to maintain that existing tolerances provided are too wide although we tend to believe that this is only the case due to:</p> <ul style="list-style-type: none"> a) tighter than necessary pressure limits on the Maui pipeline b) withholding of linepack volume for contingent event purposes c) potential underinvestment in compression capacity at Mokau <p>We note the recent event where MDL managed a partial day outage at Pohokura through increasing linepack pressure to 51.9barg (as per OATIS) when the maximum MPOC linepack limits are set at lower levels.</p> <p>This shows that the Maui line can be run at higher pressures and as a result more line pack can be utilised.</p> <p>Nova in principle supports a review of linepack tolerances and the contributing factors such as maximum and minimum pressure limits.</p>

QUESTION	COMMENT
<p>Q3 Do agree that it is necessary to consider MPOC changes as described in Section 3.2?</p>	<p>If a regulatory solution to pipeline balancing was to be applied then we would expect that regulations would be implemented overriding certain MPOC and Vector Transmission Code provisions.</p> <p>Changes to the MPOC/VTC would be contemplated if industry was able to make advances through contractual means.</p> <p>Conceptually, applying an evolutionary approach to resolving problems identified and making changes that effectively:</p> <ul style="list-style-type: none"> - reduce the time period for notification of changes to mismatch prices; and - reduce the ILON time period; and - provide a LD regime for “over pressure” pipeline conditions to compensate producers who are curtailed <p>should incrementally improve upon the status quo.</p> <p>The first two of the changes suggested above are relatively straight forward to implement and we expect that the industry will probably implement these changes in the near future. The LD regime for over pressure is more complex but also could be adopted through voluntary industry change but may require more time.</p> <p>While the adoption of the changes suggested will improve the quality of arrangements we believe that the focus is likely to shift to some second issues such as:</p> <ul style="list-style-type: none"> - cashouts occurring when there is no physical need for balancing services such as when there are offsetting imbalances at different welded points. The question arises here whether there should there be a cashout if there is not an actual need for balancing gas. - Balancing gas being required to manage pipeline pressure/linepack but when no one welded point is subject to cashout. This can potentially happen when all parties utilise welded point tolerances in the same direction. <p>A potential solution to these issues is adopting a position that while ILONS can be issued, actual cashouts only actually occur if balancing services are actually procured. Such costs/revenues can be allocated to welded parties contributing to the imbalance (subject to tolerances). This then moves the arrangements closer to managing pipeline imbalance as opposed to managing imbalance at discrete welded points.</p>

QUESTION	COMMENT
<p>Q4 Do you agree that the primary balancing obligation should remain with pipeline users?</p>	<p>Both users and the pipeline owner has interests in balancing the pipeline. We agree with the issues regarding incentives however this should also be tempered by the reality that the roles of the pipeline operator (who also can be an independent party) and the Balancing Agent are closely intertwined.</p> <p>Having separate pipeline operators and balancing agents is likely to lead to additional costs (overheads and governance costs in particular) in order to address issue related to conflict of interest and incentives.</p> <p>In addition it could also be argued that an independent balancing agent does not have the same incentive as users as they have no interests outside of collecting there service fee. So simply using an independent party as a Balancing Agent may resolve issues associated with conflict of interest but it will not resolve issues associated with a lack of incentive.</p> <p>A pragmatic solution is that the pipeline operator continues to perform the role of Balancing Agent and System Operator but with appropriate rules in place to ensure the outcomes are appropriate and enforceable – ie conflict of interest and lack of incentives concerns are addressed and that the disclosure regime is sufficient to manage these concerns.</p> <p>We note that in effect there this in practice only one balancing agent in operation currently (MDL) as Vector is a passive participant in this area and simply relies on MDL to manage imbalance and Vector (supposedly) passes through costs and revenues associated with imbalance to causers on its own system.</p> <p>While Vector reserves the right to procure balancing gas in its own right, in practice this is most likely going to be performed when Vector physically cannot manage imbalance via the Maui pipeline.</p> <p>We also note that a new issue is developing around the pass through of imbalance charges by Vector Transmission and the accounting for historical demand allocations that affect imbalance cost pass through that should also be addressed if necessary through regulation. We understand that Vector has a preference for standing aside from their role in passing through imbalance costs to downstream retailers due to the difficulties involved.</p> <p>The consultation paper focuses mainly on the process of procuring balancing gas however we need also arrangements that pass through those costs to causers and minimise the costs that are socialised though pipeline tariffs.</p>

QUESTION	COMMENT
Q5 Do you agree that there should be a single independent Balancing Agent?	<p>See Question 4 response above.</p> <p>Nova prefers the role of balancing to be performed by the pipeline operator (TSO) but subject to rules that:</p> <ul style="list-style-type: none">- protect against conflict of interest- ensure that the pipeline has the appropriate incentives re pipeline operation and balancing actions <p>The benefits of this approach is the minimisation of overheads and governance costs.</p>

QUESTION	COMMENT
<p>Q6 Do you agree with the section 7.1 preliminary assessment of balancing procurement options?</p>	<p>In addition to the two main options advanced in the consultation paper – ie a spot market versus a portfolio of contracts, a third hybrid option is that the Balancing Agent has a portfolio of contracts that can be adjusted at short notice by balancing providers for price and volume. This is effectively what happens currently and appears to be a valid means of balancing gas procurement that benefits from the dynamic attributes of the proposed spot market.</p> <p>The spot market option has the advantage of being a medium for other short term on the day gas transaction than just those required by the balancing agent.</p> <p>We note that there is potentially some reliance on estimated balancing costs for the market used in Section 5.2 of the consultation paper. In that example annual cost of balancing have been estimated to be \$10m per annum. The estimate is likely based on modelling of costs based on historical shipper behaviour.</p> <p>It is apparent from MDL Balancing Gas Daily Dashboard posted on the MDL website http://www.mauipipeline.co.nz/ that since mid December when legacy restrictions on ILONS and cashouts were removed that there have been a significant change in the pipeline operation.</p> <p>Subsequent to the removal of Section 3 of the MPOC that became effective on December 12 2009 it appears that shipper daily and running mismatch has improved (in aggregate at least) such that in March to date (12 march2009) there have been only two balancing transactions totalling 15 TJ's of put gas and no call gas transaction at all and pipeline pressure has remained within the acceptable limits.</p> <p>It is possible that there is a natural positive bias in pipeline pressure due to UFG that requires the odd put gas transaction even though welded parties remain within tolerance.</p> <p>We believe that there has been an element of adjustment by the System Operator (and shippers) over the last three months that may has reduced the need for active day to day balancing by the System Operator. This is not to say that balancing actions are not taking place but they are being performed by welded parties and shippers in response to the new set of incentives they face.</p> <p>Some Observations that we make include:</p> <p>1) In December 08, January 09 and to a lesser extent February 09, the System Operator on several occasions appeared to dispatch balancing gas on a day when pipeline pressures were within tolerances and as a result line pack</p>

QUESTION	COMMENT
	<p>pressure reduced and approached minimum levels or increased to maximum operating levels. Consequently this meant that a dispatch of balancing gas in the opposite direction was required to correct the linepack position. This may have been due to the System Operator relying on the day ahead schedule as an indication of whether balancing gas is required or not.</p> <p>2) With shippers adjusting nominations on the day the System Operator cannot rely on day ahead schedules in trying to predict whether or not balancing gas is required for the next day. Balancing gas requirements are best left managed on an intraday basis.</p> <p>3) Shippers (in the aggregate) on the Maui pipeline have adopted to the removal of Section 3 by being more proactive in managing their exposure to imbalance costs. It appears that intraday nominations are being used more often and in particular the ID4 cycle. We note that there also seems to be a trend of increasing nominations at the ID 4 cycle and perhaps this is a tactic used by shippers concerned that they may not be able to reduce nominations sufficiently if they have an FM event between nomination cycles and therefore have reduced nominations for the first three cycles and then increase them to reflect their full day gas usage at the ID4 cycle. The behaviour is rational but does create difficulties and should be addressed.</p> <p>While the pipeline appears to have reached a degree of self balancing with room for further improvement, it will be interesting to see if this can be maintained through time.</p>
<p>Q7 Do you agree with the section 7.2 preliminary assessment of daily allocation options?</p>	<p>Nova believes that it would be useful to assess some different allocation methods against actual historical data to test whether or not relatively accurate daily allocations can be performed.</p> <p>We note what while this may improve certainly about shipper daily positions, to achieve certainty around running mismatch positions the issues now developing re the application of corrections retrospectively to the beginning of the current month will also need to be resolved.</p>
<p>Q8 Do you agree with the section 7.3 preliminary assessment of the extended nominations options?</p>	<p>Nova does not see any merit in pursuing this option especially as the regime promotes discriminatory treatment of end users.</p>

QUESTION	COMMENT
<p>Q9 Do you agree with the hybrid approach proposed?</p>	<p>Nova supports the development of a regulatory backstop solution to balancing issues.</p> <p>Should industry fail to adopt efficient and effective balancing arrangements through the contractual arrangements that exist then regulations should be implemented, but only those that are necessary.</p>
<p>Q10 Do you agree with the proposed work programme?</p>	<p>We suggest the following amendments to the work program:</p> <ul style="list-style-type: none"> - remove or put on hold the item re developing the extended nominations option; - add as an option the establishment of rules/regulations regarding balancing actions to be performed by TSO's which may include requiring the Vector TSO to utilise first balancing service provided by the MDL TSO. This option competes with the concept of an independent third party balancing agent which although feasible, we suspect will be more costly and more complex given the required inter-relationships with TSO's.