From: Chris Boxall [mailto:chris.boxall@greymouthpetroleum.co.nz]
Sent: Wednesday, 17 February 2010 4:59 p.m.
To: Melanie Strokes
Cc: 'Lara Walker'
Subject: RE: Balancing Rules Workshops

- Clause 1 – wouldn't the rules be dated 2010 if the final draft is to be in 2010?

- Clause 5.1 – relating to 'user'… Do the new inserts contradict each other with regards to TSO's actions? I.e. (a)(iv)(B) includes what (B)(ii) excludes doesn't it?

- Clause 5.2 – same comments as for the SOP, i.e. the shipper does not do the allocation of their own receipts and deliveries so ergo cannot ensure they match. This is an impossible obligation on shippers (and other parties) and one which either the wording needs amending or if the words aren't amended then I assume the GIC accepts that shippers (and other parties) cannot allocate their own receipts and deliveries to ensure they match retrospectively [please let us know if this is not the case].

- Clause 8.1 – The word 'reasonable endeavours' here might prevent a TSO spending a small amount of money that would greatly benefit shippers. E.g. provision of calculations to enable shippers to work out if their balancing charges were correctly calculated, or provision of non-Business day data to enable shippers to balance. Quite frankly if shippers do not get non Business Day data, then a daily back-to-back balancing plan would never be efficient and therefore cannot ever be approved as per the purpose of the rules (i.e. we would incur balancing costs as we would fly blind during weekends and holidays, whereas provision of non-Business Day data would give us the tools and more often than not correct positions and prevent the balancing action even occurring). I think there's a potential stalemate here and TSOs should use best endeavours.

- Clause 11.1.3 – The TSOs do not adjust allocations of gas (receipts and deliveries), rather they adjust the running imbalance to factor in contribution towards balancing action. Wording issue I think

- Clause 15 – are the rules as water tight as they should be? E.g. over Christmas we've had –ve ILONs at Frankley Road, meaning we need to store gas if we're to be opposite to the ILON. However, Vector has reduced its SKF system upper linepack limit and has often threatened to sell excess gas on part of the pipeline that also has a negative ILON, meaning we would need to be short in gas so as not to be pinged if Vector sells gas. I'm not convinced that these actions have been integrated and I would want next year's holiday period to be co-ordinated. Something to be aware of when assessing the Balancing Plan perhaps

- Clause 18.1.3 – this is a step closer to a better outcome, but fundamentally it may limit participation in the balancing gas market if the Balancing Agent starts not paying because they haven't paid.

- Clause 21.2.2 – should refer to Business Days shouldn't it, otherwise in December things could get messy with all the holidays

- Clause 22.3 – there should be a timeframe for payments by the Balancing Agent.

- Clause 22.4.2 – the Balancing Agent should use best endeavours

- Clause 57.4 – Initial reaction is this clause has been hastily put in with little regard to precedent, efficiency and fairness. There are a number of issues:

    1) Overseas, the TSOs do the balancing function and these proposed rules are a step in a different direction. There's a major policy question here in that should TSOs be able to completely outsource their risk <u>and</u> get others to pay for all of it (other than their

contribution as a user for own-use gas etc). Fundamentally I think this logic is flawed because while it is users who contribute to the need for the balancing action, it is the TSOs who operate the transport business and own the assets and get the return on assets, therefore they should take their share of risk (and cost) as TSO – it's a business cost of operating the pipelines. I think there is a strong argument for the regulations to say that TSOs can only pass on say, 50% or 65% of the costs to users. This way the incentives would be in the right place – TSOs would be incentivized to manage costs, develop an efficient balancing plan and apply good governance principles; why? Because they're liable for a fixed % of the costs – otherwise they can do what they like as the users will pay for it all.

2) The ability of TSOs to pass on the [100% or 50% or 65%] cost of any fees payable under these rules could be a positive point but it's not quite there yet. How is 'fee' interpreted? If it's strictly the fee payable by the TSO to the Balancing Agent, for example, then is this too narrow? Should it also cover internal costs associated with getting the rules up to speed – say specific costs, not human capital etc, but, say the cost of complying with clause 8.1 if the wording is 'best endeavours'? Here's a good angle for TSOs to push through provision of data on non-Business Days *and* an angle for them to recover those costs under this mechanism (even though provision of this data could be argued to be outside the scope of the rules as they're currently written). We need some positive wins and this should be explored as an option.

3) Clarification is also needed as to whether 'fees' will include trading losses by the Balancing Agent and other such incidentals that TSOs may look to pass on.

4) …'in proportion to gas transmitted by that user through the TSO's pipeline' – if this approach is to be used then the industry should be clear about interpretation. E.g. on the Vector system, can Vector double or triple count the same quantity of gas depending on the number of individual pipelines it passes through? There's also a potential issue if this is based on deliveries. Currently, SKF BPP deliveries double count the receipt nomination as a delivery along the Frankley Road pipeline. Therefore if a delivery basis is to be used, those who transport gas to the SKF BPP pool will be proportionately disadvantaged compared to those who do not. Either the words should be tidied up somehow or the intention should be clear and fair.

5) But the major problem with this clause is that it ignores the financial & economic matching principle. The gas registry is funded by a user's % share of ICPs – is this fair? Yes, because payment matches usage. M-co is funded by a user's % of deliveries (or a fixed fee per GJ of gas transported) – is this fair? Yes, because payment matches usage. However, proposing to fund the Balancing Agent by a user's % of gas transported is only the 2nd best solution – is this fair? No – there's no matching. Root cause of the Balancing Agent performing its function is not related to the quantity of gas transported – you could get a shipper transporting 50TJ of deliveries and putting in 50TJ of nominations, or you could get a shipper transporting 5TJ of deliveries and putting in 0TJ of nominations. Who caused the need for a cash-out & who was cashed-out – the little shipper. Who pays for 90% of the operating costs of the Balancing Agent – the big shipper. Payment of operating costs and fees, set up and ongoing costs of the Balancing Agent (if passed on by TSOs) should be in proportion to a user's contribution of the need for the Balancing Agent to buy/sell balancing gas. The way to do this might be based on the proportion of a user's GJ quantity of cash-outs in the prior gas year (or calendar year, or rolling calendar year) compared to the total cash-outs for the same period. There could also be a wash-up/correction for errors and reallocations etc. It's a little more complicated but the opportunity cost is a system that is inefficient. The way I see it, if costs are to be passed onto users, then the incentives should be in the right place. And the best way of doing this is to incentivise users to keep their contribution to cash-outs low otherwise they'll be hit with a greater proportion of the Balancing Agent operating costs (because they caused the need for the cash-out & balancing action services. We would also need a funding option to cover the unlikely event that there were no

cash-outs in a year – perhaps then it could revert to % of delivery funding or sole funding by TSOs…

- Same comments on tolerances as per SOP submission – will likely be a key test of the Balancing Plan

Cheers
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