Submission to the Gas Industry Company on its consultation on Transmission Pipeline Balancing Issues: August 2008

From

Contact Energy Limited

12 September 2008

Introduction

Contact Energy Limited ("Contact") welcomes the opportunity to provide feedback to the Gas Industry Company ("GIC") on Transmission Pipeline Balancing Issues.

Contact has advocated for some time now that balancing tools are essential to the ongoing efficient and effective running of New Zealand's Transmission Pipelines and that pipeline balancing should be managed on a daily basis.

In line with the ERGEG gas balancing guidelines Contact believes that there are a number of principles which underpin effective and efficient balancing arrangement including:

- users having the primary responsibility to balance their own position
- access to tools that allow users to effectively manage balancing
- transparent balancing rules
- daily balancing
- access to sufficient, timely, and reliable information and in a format that is meaningful
- balancing costs charged to causers of imbalance
- compatible balancing regimes across interconnected transmission systems

As outlined further in the attached submission Contact believes the correct approach to developing a successful balancing regime that addresses balancing issues is through incremental change rather than through one-off regulation. The issues are complex and the most effectively means of addressing the issues is through the ongoing collaborative and detailed input of industry participants.

For any questions related to this submission, please contact:

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Contact's responses to discussion questions

Discussion question	Comment
Question 1: *Do you agree that the ERGEG guidelines are appropriate to use as a framework to evaluate alternative balancing market design options for New Zealand? If not, which of the principles do you think are not appropriate and why?*	Contact notes that the ERGEG published a final version of its guidelines in "Gas Balancing: ERGEG Guidelines 2006 , E06-GFG-17-04, 6 December 2006". There is some additional material included in the final version of the guidelines that was not included in the 20 April 2006 draft. The additional material appears relevant to New Zealand. Contact considers the ERGEG guidelines are relevant to evaluating alternative balancing market designs and believes it appropriate to include all the principles. However, the guidelines and much of the underlying explanation is set at a high level. Caution should be taken in evaluating the New Zealand arrangements against these guidelines. The industry has developed to a state that means a fundamental change in direction in response to a high level evaluation would incur substantial costs that are likely to outweigh the benefits. There is now significant investment in the New Zealand balancing arrangements, particularly the MPOC arrangements. The investment is in the form of legal agreements, information systems and human resources such as training and operator experience. With the removal of Maui Legacy arrangements from the MPOC and the implementation of more effective balancing arrangements that investment is likely to significantly increase. Contact believes that effort should now focus on addressing the faults and deficiencies in the established balancing arrangements. There is now close to three years MPOC operating experience. Contact believes that there is reasonable agreement on issues requiring attention. Those issues should be addressed rather than spending scarce resource on more wide ranging debate.

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<tr><th>Discussion question</th><th>Comment</th></tr>
<tr><td><u>Question 2:</u> Are there key issues that are not identified in Chapter 6? How would you prioritize the Chapter 6 issues?</td><td>Contact believes that there are a number of additional issues not covered. These are as follows:
• Code change request process discourages development of balancing arrangements
- There has been negligible development of balancing arrangements despite CR process available
• Lack of supporting tools
- Most overseas regimes are supported by spot market that provides access to gas at short notice
• No communication standards
- Lack of standardization of electronic communication inhibits development of IT systems necessary to manage imbalance
• Poor access to balancing tools
- MPOC makes tools available that Vector is unable to utilise because of the impact on its shippers
• Timely balancing information unavailable
- no user friendly information available real-time for whole pipeline
• Two balancing regimes
- Having two regimes on the two systems increases complexity, increases costs, confuses responsibility and accountability for balancing, and reduces effectiveness of balancing tools
• Imbalance cost allocation poor
- VTC allocated costs in proportion to mismatch which means costs incurred depend on each other shippers mismatch
• Running records increase complexity
- Maintaining records of running imbalances and running mismatch increases the complexity of records and the ability to correct past errors
• Misleading notifications
- Corrections are included in notification by either over or under notifying gas requirements leading to incorrect gas flow signals to pipeline schedulers</td></tr>
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Discussion question	Comment
Question 2 continued:	It is difficult to prioritise the identified issues as the issues are interrelated and all need progressing. Contact suggests that those issues easiest to progress and with greatest impact should be progressed first. Contact considers changes that can be progressed through code change requests should be most easy to achieve with changes achieved through industry arrangements and regulatory intervention increasingly difficult to achieve or taking more time to achieve. Contact also believes there is benefit in first progressing issues that have direct operational impact. Using this approach Contact has grouped the issues under three main headings and two sub-headings below. Contact suggests that those issues listed under the first heading have highest priority. 1.Changes achieved through code change requests 1.1 Direct operational impact Multi-day balancing and pricing period Poor access to balancing tools Misleading notifications Running imbalances and running mismatches increase complexity Inappropriate tolerances 1.2 Indirect operational impact Poor information on balancing status Poor transparency Role of balancing agent unclear Imbalance cost allocation poor Poor allocation of positive imbalance costs High transaction costs Inefficient user incentives Insufficient TSO incentives 2. Changes achieved through new industry arrangements No communication standards Lack of supporting services 3. Changes achieved through regulatory intervention Poor governance Two balancing regimes Competing balancing agents Code change request process inhibits development of balancing arrangements Inability to perform

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<tr><td><u>Question 2 continued:</u></td><td>One of the main areas of concern for Contact and therefore one which should remain a high priority for the industry, with the assistance from the GIC in the form of facilitated work groups, is the implementation and operation of daily balancing. The industry has already progressed downstream reconciliation and this could be further developed to incorporate upstream daily reconciliation/allocation. This should provide a more efficient mechanism to determine user's positions and may also encompass the role of the Gas Transfer Agent and the Gas Transfer Agreements, a role that Vector has long been trying to extricate itself from. It would also provide an independent agent which may alleviate some of the resistance experienced to date with such a proposal.</td></tr>
<tr><td><u>Question 3:</u> Are there any additional design elements, not identified in Chapter 7, which you consider should be addressed?</td><td>Other additional design elements that should also be considered are:
Access to balancing tools including balancing notifications which distinguish a notification to correct or balance a user's position against a notification for the users actual demand.
Supporting services
- Spot market development that offers additional access to balancing resources at short notice for those users who don't have flexible gas contracts
- Centralised allocation service to provide an independent daily allocation service that would provide certainty to parties of their imbalance position
Communication standards that provide direct machine to machine access to information
Consideration of the impact of associated arrangements such as the Gas (Downstream Reconciliation) Rules and the Gas Governance (Critical Contingency Management) Regulations have on Balancing and how these may be further utilised or leveraged to aid balancing.</td></tr>
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Discussion question	Comment
Question 4: Are there any balancing regime options which you consider Gas Industry Co should include in its forthcoming options analysis work?	As indicated in its response to question 1, Contact considers that the focus of effort should now be directed towards developing and improving the existing arrangements. The industry participants individually and collectively have invested substantially in these arrangements and there is now reasonable consensus on what is required to develop and improve them. It was always envisaged that the pipelines codes, including balancing arrangements, would evolve and develop over time as issues surfaced. The arrangements are too complex to address in a single hit. As indicated above one of the problems with the existing arrangements has been ineffective governance and a change process that seems to have discouraged development and evolution of the arrangements. It is highly unlikely that abandoning the existing arrangements and starting afresh would achieve an outcome that avoids the need for evolutionary change. Contact believes there is no fundamental reason why the existing arrangements cannot work. The fundamentals of the Maui arrangements are similar to the fundamentals of many overseas regimes and provide a reasonable foundation for evolutionary development. Contact believes the GIC could be more active in encouraging change. It could adopt a more active role in facilitating and identifying constructive change and implementing change through the code change processes. Contact has doubts that progressing regulation of an area as operationally complex as pipeline balancing is wise while there is substantial scope and need for evolutionary change and it is not clear where that evolutionary change may lead. Regulation that is developed too early has the potential to inhibit and limit constructive change to the determent of the industry. Contact believes at this stage the industry would derive most benefit from improvement of existing codes and that is where the scarce resources of the industry should be focussed.
Other comments	