



**Submission to the Gas Industry Company
on its Transmission Balancing
Options Paper**

From

Contact Energy Limited

13 March 2009

Introduction

Contact Energy Limited (“Contact”) welcomes the opportunity to provide feedback to the Gas Industry Company (“GIC”) on its December 2008 *“Transmission Balancing Options Paper”*.

Contact supports the GIC’s proposal because it provides a way forward that offers the potential to address most of the identified balancing issues. The approach the GIC has adopted of identifying well defined issues is good. The GIC proposes to address the identified issues in ways that are consistent with the evolution of more developed overseas regimes. That should increase industry participant confidence that the GIC proposal is correctly directed.

However, the GIC should address a number of issues identified in this proposal.

The GIC should adopt a more consistent approach to evaluating options. That approach should use the objectives set out in the Gas Act and the Government Policy Statement. Also it is appropriate to include the status quo in evaluations as that option usually will have the advantage of the lowest cost.

It should be made clear that the studies and investigations the GIC proposes to undertake are to implement an improved balancing regime rather than just to provide more views on balancing arrangements. Studies and investigations should not be an end in themselves.

The GIC should take care that previously identified concerns with balancing arrangements are addressed and not lost. For example, it would have been helpful for the GIC to show how the issues identified in submissions on its August 2008 paper *“Transmission Pipeline Balancing Issues”* are addressed in its proposal.

Inevitably costs will be incurred in making changes to balancing arrangements. Some aspects of the GIC’s proposal are likely to create substantial costs, particularly those aspects that require IT development. It is important that the GIC determines the cost/benefit of its proposals at an early stage and that those cost/benefit determinations are updated as new information becomes available. This will prioritise the work programme and avoid any waste of effort and resources on proposals that

are unlikely to provide adequate benefit. The GIC should also develop a clear understanding of how developments will be funded.

As part of its work programme the GIC should identify means that will allow timely implementation of its proposal at least cost. Implementation should be coordinated with significant industry developments such as the implementation of the new VTC scheduled for October 2009.

Contact's answers to the GIC's questions follow using the suggested format.

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Discussion Paper Questions

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>Contact finds this question confusing. Section 2 refers to two “<i>key principles</i>”. In section 2 the GIC also says that for assessing balancing options it has formed the view that Gas Act and GPS objectives fall into two groups. The GIC doesn’t justify that. The GIC then proceeds to discuss some of the Gas Act and GPS objectives and attempts to explain how they relate to balancing. However, section 2 does not seem to identify the objectives that the GIC proposes to use for its analysis of balancing options.</p> <p>At the end of section 2 the GIC refers to the assessments of balancing options set out in section 5 and section 7.</p> <p>Section 5 attempts a cost /benefit analysis of the merits of having an independent Balancing Agent but does not seem to draw on any objectives identified in section 2 for assessing balancing options.</p> <p>Section 7 assesses:</p> <ul style="list-style-type: none"> – balancing gas procurement options in section 7.1; – daily allocation options in section 7.2; and – extended nomination options in section 7.3. <p>In section 7.1 the GIC states a summarised version of the “<i>key principles</i>” stated in section 2 and states that these were the “<i>relevant key objectives</i>” identified in section 2. That does not seem to be correct. In section 7.1 having stated the “<i>relevant key objectives</i>”, the GIC then proceeds to use a set of “<i>criteria for efficient markets</i>” to assess balancing gas procurement options. It’s not clear to Contact how the “<i>criteria for efficient markets</i>” relate to the “<i>relevant key objectives</i>” stated in section 7.1.</p> <p>In section 7.2 objectives seem to be ignored and the daily allocation options are assessed on the basis of relative cost.</p> <p>In section 7.3 the objectives are again ignored and instead some issues requiring further consideration are identified.</p> <p>The Gas Act and Government Policy Statement (“GPS”) set out objectives that the GIC must address in recommending regulations and rules. Contact believes these objectives are the appropriate objectives to use to assess balancing options. These objectives include matters relevant to assessment of balancing options that do not appear to be included in the assessments included in the “<i>Transmission Balancing Options Paper</i>”. Examples include:</p> <ul style="list-style-type: none"> – promotion of on-going supply; – minimisation of barriers to competition; – enhancement of incentives to invest in gas infrastructure; – delivered costs subject to downward pressure; – efficient management of security of supply risks; – resources are used efficiently; – full cost of producing and transporting gas are signalled to users – the trade off between quality and price should reflect customer’s preferences. <p>It is desirable that the GIC uses the same set of objectives to evaluate all its proposals. That is more likely to lead to consistent outcomes.</p> <p>If the GIC wishes to assess balancing options against different objectives then it should explain the reasons for that and clearly show how the different objectives relate to the objectives set out in the Gas Act and in the GPS. The GIC should clearly demonstrate that the objectives used are a subset of the Gas Act and GPS objectives and that it has only</p>

QUESTION	COMMENT
	<p>discarded the Gas Act and GPS objectives to the extent that the discarded objectives are clearly irrelevant to the particular assessment.</p> <p>Section 2 of the paper <i>“Review of Vector Capacity Arrangements, A Research Paper”</i> dated January 2009 and recently released by the GIC provides an example of how this can be achieved.</p> <p>These comments are not intended to suggest that the evaluations of balancing options included in the <i>“Transmission Balancing Options Paper”</i> are valueless or that the recommendations are wrong but are only to suggest that other objectives should be included in the assessments and that the GIC needs to show more clearly how its assessments relate to the objectives of the Gas Act and the GPS.</p>
<p>Q2 Do you agree that it is necessary to review tolerances as described in Section 3.1?</p>	<p>Contact agrees that a review of tolerances is required. Setting tolerances at a level that provides more leeway than inherent in pipeline flexibility will result in socialisation of balancing costs. That is undesirable. MDL has claimed that at the current level, tolerances do exceed pipeline flexibility. At this stage Contact is not convinced that MDL’s claim is correct. MDL’s claim seems inconsistent with recollections of how tolerances were determined.</p> <p>There are also issues associated with the allocation of tolerances. Under the VTC, tolerances at Maui delivery points that interconnect to Vector transmission pipelines are allocated to Vector transmission pipeline shippers, on a day when a cash out occurs, in proportion to shipper mismatches in the same direction as the imbalance that caused the cash out. This is inefficient as those with the greatest mismatch receive the greatest allocation of tolerance. The allocation should be made on a basis that rewards those who have managed imbalance rather than those who have not. An allocation in proportion to approved nominations at the delivery point on a day with ability to trade tolerances would provide that appropriate reward.</p> <p>In addition to improving the use of tolerances other action is also required to ensure that pipeline flexibility is available to shippers. For example, physical action is only required to correct pipeline net imbalance. Contrary to this principle, under the MPOC balancing charges can arise on a day from offsetting positive and negative imbalances as cash outs are calculated at welded points without regard to overall pipeline imbalance. The MPOC includes a mechanism that allows welded parties to trade offsetting imbalances but that trade is prevented at most Maui delivery points because of the different mix of shippers at Maui delivery points interconnected with Vector transmission pipelines. Allocation of balancing obligations to individual Vector shippers using such delivery points would overcome this problem.</p>
<p>Q3 Do agree that it is necessary to consider MPOC changes as described in Section 3.2?</p>	<p>Section 3.2 of the <i>“Transmission Balancing Options Paper”</i> appears to propose three changes to the MPOC:</p> <ul style="list-style-type: none"> – a shortening of the time period for ILON correction; – adjustment of balancing prices, day in advance, on every day to better reflect the cost of balancing gas; and – provision of a liquidated damages regime to compensate producers unable to inject gas. <p>This short list of proposed changes causes the concern that other changes to the MPOC that could improve balancing have been overlooked. For example all of the following would seem to require extensive MPOC change:</p> <ul style="list-style-type: none"> – more appropriate use of tolerances; – better definition of the role of the Balancing Agent; – implementation of a single balancing regime; – improved access to balancing tools;

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	<ul style="list-style-type: none"> - development of an extended nominations regime; - introduction of IT communication standards; - increased balancing transparency; - a more effective Code Change process; and - identification of notifications made to correct imbalances. <p>This list does not necessarily include all the changes that may be required or are desirable to improve balancing. There is no list of changes that could be incorporated in the VTC to improve balancing. The VTC requires extensive changes to address balancing issues. Ideally those changes should be included in the new VTC that is scheduled for implementation on 1 October 2009. It will be more difficult to implement changes once the new VTC is in place.</p> <p>Shortening of the time period for ILON correction</p> <p>The time period for ILON correction cannot be driven by the need to physically balance the Maui and Vector pipelines. The Maui pipeline operator has clearly indicated the need to balance arises over short periods within a day. Apart from receipt points where gas is injected by a single large producer or delivery points where there is a single large consumer, Maui welded parties do not have the information necessary to balance within the day of gas delivery.</p> <p>At Maui delivery points that are connected to the Vector transmission system, Vector shippers primarily manage balancing through their nominations and downstream offtakes at delivery points on the Vector transmission system. Vector indicates it does not manage gas flows at those points although in reality that appears incorrect in some circumstances.</p> <p>Under the VTC unvalidated metering information for larger receipt points and delivery points is not provided until 10 am on the following business day and validated information until 2pm on the next business day. This means that at best a shipper using the Vector transmission system cannot make a meaningful estimate of its imbalance any earlier than about noon on the day following the day of gas delivery. For smaller receipt points and delivery points not equipped with SCADA or telemetry metering, information may not be available until after month end. Vector shippers require at least 24 hours to provide a reasonable opportunity to source balancing gas and to make adjustments to nominations to allow for balancing. All of this means that about 48 hours are required from the end of the day of delivery if users are to be allowed the opportunity to return or take gas to correct imbalances. When the day of delivery is not a business day and is followed by days that are not business days a longer period is required.</p> <p>The above means that if shippers are to have the opportunity to correct their imbalance then there is no opportunity to shorten the time period for ILON correction.</p> <p>MDL has recognised that information flows are too slow and nomination cycles too limited to allow welded parties to correct physical pipeline imbalance. Those limitations mean only the pipeline operator is able to respond sufficiently quickly to maintain pipeline balance. That has led to the identification of the need for management of immediate physical imbalance through an operational imbalance service and for a secondary imbalance service to allow shippers to correct imbalances. MDL currently proposes to recover the cost of operational imbalance through funds available from the incentives pool and any remaining cost through the tariff.</p> <p>Providing MDL uses the operational balancing arrangement to maintain pipeline pressure around the mid point of the upper and lower target</p>

QUESTION	COMMENT
	<p>pressures the operational balancing regime should operate as a borrow and loan facility for shippers. As imbalances are determined on the day and responsibility allocated to welded parties and shippers on that same day causers do bear the responsibility for the imbalance they cause. The suggestion in the "Transmission Balancing Options Paper" that this is not the case seems incorrect.</p> <p>However, the arrangements proposed by MDL do raise some issues that should be addressed. If there are insufficient funds in the MPOC Incentives Pool to cover the cost of the operational balancing arrangement then the excess costs are currently recovered through the tariff. This results in some socialisation of some balancing costs. A replacement mechanism that directs these costs to the causer is required.</p> <p>There is an issue of how title to operational balancing gas is tracked. Currently title to gas injected into the Maui pipeline or taken from the Maui pipeline is determined solely from Approved Nominations. The times at which those nominations can be made are restricted and will not necessarily coincide with the timing of physical balancing needs. There are also associated issues of how operational balance is calculated when operational balancing gas flows occur. These issues could be resolved by allowing operational gas flows to be nominated at any time but in advance of the gas flow associated with the nomination.</p> <p>The arrangements proposed by MDL are complex, difficult to describe and difficult for shippers to operate. For large shippers they require considerable investment in IT to estimate their imbalance. However, the arrangements do encourage competition amongst shippers and utilisation of lower cost balancing gas. The alternative to these arrangements is to close off balances at the end of a fixed period and to cash out all imbalances at that time. Usually the fixed period chosen in open access regimes is the day of delivery and imbalances are cashed out at the end of the day of gas delivery. This enforced rebalancing at the end of a fixed period may reduce competition and increase the cost of balancing to some extent as shippers are less able to draw on pipeline flexibility and the flexibility they have available under their individual arrangements. On the other hand such an arrangement could simplify imbalance management and reduce barriers to competition such as the need to establish systems to manage balancing risk.</p> <p>Assuming MDL's proposal to introduce operational balancing works effectively there is no need to shorten the period available to correct ILONs.</p> <p>Adjustment of balancing prices</p> <p>Contact agrees that MPOC balancing arrangements would be more efficient if balancing prices were adjusted on a daily basis and advised on the day prior to the day to which they apply.</p> <p>Damages for over pressurisation</p> <p>Contact agrees that the MPOC should be changed to provide liquidated damages to allow compensation to be paid to producers unable to inject gas to approved nominations as a result of another party causing an increase in pipeline pressure by taking a quantity of gas less than approved nominations or injecting gas in excess of approved nominations.</p> <p>Other changes</p> <p>The MPOC makes a number of tools available to welded parties to allow them to manage imbalance. However, because of differing shipper interest in imbalances at welded points that are interconnected points with Vector transmission pipelines, it is inappropriate for Vector to exercise</p>

QUESTION	COMMENT
	<p>these tools. This increases the likelihood that MDL will unnecessarily cash out offsetting positive and negative imbalances on the same day.</p> <p>The MPOC should be amended so that shippers with rights at Maui delivery points that are interconnected points with Vector transmission pipelines are able to exercise available balancing tools independently of Vector. This would help reduce transmission costs and improve the efficiency of gas transport arrangements. Examples of these tools include:</p> <ul style="list-style-type: none"> - the rights to trade imbalances at other welded points; - the right to exercise the FM provisions of the MPOC. <p>Introducing a single balancing regime and requiring nominations and Vector delivery points would make these balancing tools available to Vector shippers. Vector's proposal set out in Appendix C of the "Transmission Options Balancing Paper" makes some provision for this.</p> <p>These changes would also require extensive changes to both the MPOC and the VTC.</p>
<p>Q4 Do you agree that the primary balancing obligation should remain with pipeline users?</p>	<p>Requiring those creating imbalances to bear the cost of imbalance should result in increased efficiency and reduced transportation costs. <i>A priori</i> those responsible for creating imbalance are those who inject gas and those who offtake gas. Not only the ability to manage injections and offtakes should be available to those parties, but also other balancing tools such as the rights to trade imbalances and the right to exercise the FM provisions of the VTC and the MPOC.</p> <p>The MPOC arrangements follow those principles but ignore the linked VTC arrangements.</p> <p>Under the MPOC and the VTC at Maui delivery points that are points of interconnection with the Vector transmission system the balancing provisions, incentives to balance and tools to manage balancing are not well directed so that those in control of physical balancing bear the consequences of imbalance they create. For example, it is difficult for an entity or person taking gas at a delivery point on the Vector transmission pipeline to determine its contribution to imbalance on any day and tools such as the ability to trade imbalances or to seek relief from imbalances in the event of a FM event are not available.</p> <p>The GIC does not make the identity of "pipeline users" clear. Under the MPOC and the VTC "pipeline users" seems to include welded parties (entities or persons with facilities connected to transmission pipelines able to inject gas into or take gas from transmission pipelines), and shippers. Under the VTC "pipeline users" would seem to include shippers and interconnected parties which are akin to MPOC welded parties. Under the MPOC welded parties and not shippers are responsible for balancing and that seems appropriate. Less appropriately under the VTC, shippers and not welded parties are responsible for balancing.</p> <p>The paper "Review of Vector Capacity Arrangements, a Research Paper" on page 5 takes care to define the term "user". The GIC should adopt this approach.</p> <p>A statement that balancing should be the responsibility of those injecting and offtaking gas provides a more accurate statement of where the responsibility for balancing should reside. That is consistent with ERGEG Principle 1.</p> <p>Contact also has misgivings about the statement "... Gas Industry Co's belief that pipeline balancing is primarily a community of users issue, ...". That statement could be taken to mean that the GIC believes users should share the cost of balancing through a mechanism such as a tariff charged for the volume of gas shipped on a day. Such an approach</p>

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	<p>would be inconsistent with GIC objectives such as efficiency, encouraging competition and signalling costs to consumers. Instead ERGEG Principle 1 provides a better statement of where primary responsibility for balancing should reside. That statement doesn't require further embellishment.</p> <p>The pipeline owner also has a clear and very direct interest in balancing. Both Vector and MDL claim title to line pack. Pipeline balancing arrangements preserve that interest. Additionally it is extremely difficult to envisage how the commercial arrangements of an open access pipeline would work in the absence of effective balancing. In the absence of effective balancing a party injecting gas could have no confidence that gas would be delivered. Pipeline balancing is therefore fundamental to the pipeline owner earning revenue from its pipeline assets.</p> <p>It doesn't seem necessary for there to be a gross pool with all gas traded through that pool for there to be a market to cover imbalances. Contact does not support an outcome that would require all gas to be traded through a gross pool. Forcing such an outcome seems inconsistent with the GIC's objectives indicated in the previous paragraph. As suggested by the GIC, that would seem an inappropriate intervention in the market. Instead a better approach would be to encourage and facilitate development of a spot market to allow trade of imbalances and gas on a short term basis. This would seem to provide the advantages of a trading pool without limiting balance management to that arrangement. Encouraging and facilitating development of a spot market provides another means of managing imbalances without excluding other options such as individuals managing imbalances through their own contractual arrangements. Of course development of a spot market should only proceed if it is demonstrated that the benefits exceed the development costs.</p> <p>The GIC states that from its discussions with the TPBAG that it understands that there would be no support for a gross pool from industry participants. Whether or not industry participants support a particular outcome should not be an overriding concern for the GIC. It would seem better for the GIC to evaluate options against the Gas Act and GPS objectives.</p>
<p>Q5 Do you agree that there should be a single independent Balancing Agent?</p>	<p>Contact agrees that there should be a single Balancing Agent. It's not difficult to demonstrate that if there are two Balancing Agents they could take opposing balancing action and that would create unnecessary costs. That is clearly inconsistent with the GIC objectives.</p> <p>The GIC in the "<i>Transmission Balancing Options Paper</i>" does not make the scope of the role it envisages for the Balancing Agent clear. The GIC should clarify whether it considers the role of the Balancing Agent would be limited to procuring balancing gas or would extend to managing the operation of transmission pipelines.</p> <p>The Balancing Agent's actions should not be influenced by its own commercial interests such as interests in gas production, gas use or making a profit from balancing arrangements. If those matters influence the actions of the Balancing Agent the cost of balancing is likely to be greater.</p> <p>On the other hand the GIC has not convincingly demonstrated that a TSO or a party with interests in gas production or gas use should not be allowed to be the Balancing Agent. That restriction would seem to exclude a wide range of parties that could admirably perform the role of Balancing Agent. The restriction would also seem to require establishment of yet another party to play a role in operating the transmission system. Inevitably that would seem to create additional cost and another layer of complexity without demonstrated benefit.</p>

QUESTION	COMMENT
	<p>In the “<i>Transmission Balancing Options Paper</i>” the GIC calculates the cost of balancing is large then assumes a small percentage improvement as a result of the Balancing Agent being independent of the TSO would justify the added cost of independence. This calculation does not adequately demonstrate the point that the GIC seeks to make.</p> <p>The benefits of having an independent Balancing Agent could be achieved by selecting the Balancing Agent through competitive tender, establishing minimum performance standards for the Balancing Agent and establishing minimum disclosure requirements. This would avoid excluding persons from the role well able to perform the role at less cost. The GIC should try to create the environment that would lead to the desirable outcome rather than making judgements on who should not perform the role.</p> <p>Selecting the Balancing Agent through competitive tender, establishing minimum performance standards and minimum disclosure requirements will be necessary even if TSOs are excluded from performing the role.</p>
<p>Q6 Do you agree with the section 7.1 preliminary assessment of balancing procurement options?</p>	<p>As indicated in the response to question 2 it would be better to use the objectives set out in the Gas Act and the GPS to assess balancing procurement options rather than to develop a special set of assessment criteria.</p> <p>In assessing balancing options it would seem appropriate to undertake the same assessment for the status quo. The status quo is likely to have the advantage of lower cost and that should be recognised and considered.</p> <p>The analysis of “<i>portfolio of contracts</i>” and “<i>spot market</i>” set out in the “<i>Transmission Balancing Options Paper</i>” is very simplistic. For example, under the analysis all the evaluation criteria carry the same weight. Criteria that unlock flexibility and provide appropriate pricing signals would seem more important than some of the other criteria. However, there is little doubt that a balancing market that maximises the use of available flexibility, minimises investment in new flexibility and sends accurate price signals would better meet Gas Act and GPS objectives.</p> <p>It is not clear why the Balancing Agent should be limited to either one of procuring gas through a portfolio of contracts or a spot market. Those options do not appear mutually exclusive. A mix of both options would seem to offer a better chance of achieving balancing at lowest cost and would seem to best meet the required objectives.</p> <p>The arrangements that MDL has largely established allow balancing gas to be offered for part days and for much longer periods. Whilst some detail of the MDL arrangements requires resolution, the arrangements seem to provide a good basis for procuring balancing gas. The main issues requiring resolution are:</p> <ul style="list-style-type: none"> – the liability of the provider of the balancing gas in the event a welded party fails to confirm nominations; and – how an immediate need for balancing gas can be satisfied when provision of that gas is determined through nomination cycles. <p>Given the effort that has been expended on developing the MDL arrangements and the reasonable match they provide with desired objectives the arrangements justify further development.</p>
<p>Q7 Do you agree with the section 7.2 preliminary assessment of daily allocation</p>	<p>The GIC describes two approaches to daily allocation. The first approach requires the allocation agent to obtain metering information for gas deliveries to all consumers on the day following the day of delivery and determine the allocations on that same day. The second approach requires data collection limited to TOU customers and developing</p>

QUESTION	COMMENT
options?	<p>algorithms to determine allocations for the remainder of the market.</p> <p>It is clear that, as argued by the GIC, providing daily allocations for delivery points without daily metering, on the day following each day of gas delivery, determined from daily data submissions by retailers is unrealistic and infeasible.</p> <p>However, it is not unrealistic to determine daily allocations for these delivery points from agreed algorithms with forward correction for differences between calculated allocations and allocations determined from updated metering information as that information is submitted. It should be noted that existing monthly allocations to retailers are based on these principles as it is simply not possible to read all consumer meters over a period of four days at month end.</p> <p>In June 2007 a proposal was made to the <i>“Maui Overpressure Industry Forum”</i> to evaluate centralised daily allocation. If that evaluation had been progressed at that time the evaluation would have been completed before industry participants made investment in substitute processes.</p> <p>Unfortunately, at least some larger retailers are known to be investing in systems and data collection arrangements that to a large extent replicate the processes and procedures of centralised data gathering supporting daily allocation. As this investment grows and the quality of the estimated daily allocations improve retailers will see their processes as a potential source of competitive advantage and will be increasingly reluctant to pay the cost of establishing centralised data gathering and daily allocation. From Contact’s experience it is necessary to separate out larger TOU daily gas take before algorithms can be run to make daily allocations. The demand of larger TOU customers tends to be driven by factors particular to each TOU customer. These factors do not correlate well with readily available information and are therefore difficult to address in a generic algorithm. Contact believes centralised daily allocation will require some daily collection of metering information. However, that should not present any significant difficulty because that information is already largely available.</p> <p>When the merit of centralised daily allocation has been discussed by industry participants concerns have been raised about how the cost of providing that service should be allocated. That issue has usually ended the discussion. Clearly the GIC must consider the issue of recovery of the cost of the service.</p>
<p>Q8 Do you agree with the section 7.3 preliminary assessment of the extended nominations options?</p>	<p>The proposal presented by Vector is a complex variant of having a single balancing agent and introducing a nominations regime for receipt points and delivery points on Vector transmission pipelines.</p> <p>The following aspects of the Vector proposal seem unnecessary or undesirable:</p> <ul style="list-style-type: none"> – six balancing zones rather than a single balancing zone; – the high cut-off point of 5000 scm/hr (approx 4.8 TJ/day) for delivery points that do need to nominate; – the GIC contracting the Balancing Agent; – the small station exemption from balancing charges ; – the requirement to provide nominations at interconnection points between the Maui and Vector pipelines; – shippers rather than welded parties being responsible for balancing; – the absolute obligation to balance rather than facing risk of cash out for imbalances; – the allocation of balancing costs first to Large Stations; and – the imposition of balancing penalties on Large Stations.

QUESTION	COMMENT
	<p>Nevertheless, Contact supports the fundamental aspects of Vector's proposal that the Maui nominations regime should extend to Vector gate stations and that there should be a single balancing agent.</p> <p>Sadly Contact suspects that the introduction of such an extended nominations regime would require significant changes to OATIS and that would generate substantial costs. If the changes replicated the welded point nomination arrangements of the MPOC with no introduction of new features that would limit the changes to the addition of new delivery points and so should limit the required changes to OATIS. It should be recognised that shippers using the Vector transmission system are already required to notify their gas usage because of the requirement to notify at interconnection points between the Maui and Vector pipelines.</p> <p>Most of the key issues of Vector's nomination proposal could be achieved by allowing those gate stations on the Vector pipeline with access to daily metering data to act as if they were delivery points on the Maui pipeline for the purposes of balancing. This seems readily achievable and would provide those parties with access to the full range of balancing tools currently available.</p> <p>The GIC indicates that it intends to undertake further analysis of the Vector proposal and that it intends to approach Vector and MDL to request their help in doing that. The implication that the GIC may only seek Vector's and MDL's assistance in evaluating the proposal is inappropriate. Neither Vector nor MDL have any interest in whether the balancing regime meets many of the objectives the GIC is required to observe such as:</p> <ul style="list-style-type: none"> - increased efficiency; - minimisation of barriers to competition; - delivered gas costs are subject to sustained downward pressure; - costs are signalled to gas consumers; - resources are used efficiently; - competition is facilitated; and - the trade off between the quality of gas services and price reflects customer preferences. <p>As owners of assets that are not easily replicated, Vector's and MDL's main interest is likely to be to ensure that they are able to pass on the cost of any services they provide. Cost of providing the service and quality of service are unlikely to be of much interest to Vector and MDL.</p> <p>The GIC should evaluate an extended nominations regime and how that might be easiest and best implemented. The GIC should seek input to that analysis from those likely to be impacted by such a change rather than just seeking input from MDL and Vector.</p>
<p>Q9 Do you agree with the hybrid approach proposed?</p>	<p>Contact largely supports the GIC's recommendations although it suggests some modifications indicated below.</p> <p>The GIC's approach of identifying well defined key balancing issues is good. The GIC's proposal to develop these issues in a manner that is consistent with the way these issues have evolved in more developed overseas open access regimes should give industry participants confidence that the direction of the GIC proposal is correct.</p> <p>Inevitably the work and the outcomes proposed by the GIC will create additional costs for the industry. Before embarking on the work the GIC should provide a cost/benefit analysis for each significant aspect of the proposal. As the work proceeds the GIC should update and republish these cost/benefit analyses. That will help ensure that resources are not wasted on proposals that do not provide appropriate benefit.</p>

QUESTION	COMMENT
	<p>In addition, the GIC should provide an analysis showing that the work proposed is consistent with the GIC's objectives. The changes to the GIC's proposal indicated below are designed to ensure that approach is followed.</p> <p>Preferably development proposals should build on existing arrangements as far as possible and in a way that minimises the costs of change.</p> <p>There is no point in carrying out investigations if that work does not lead to implementation of improved balancing arrangements. The suggested changes to the GIC's proposal below are meant to make it clear that if the investigations undertaken by the GIC show a part of the GIC's proposal meets the GIC's objectives better than the status quo then that aspect of the GIC's proposal will be implemented. The GIC also should consider and develop a plan to implement the beneficial aspects of the proposal at least cost and to provide timely outcomes.</p> <p>The following changes to the description of the proposed hybrid approach would capture these additional matters (additions are underlined and deletions are struck through):</p> <ul style="list-style-type: none"> - Establishing <u>performance standards, meeting the GIC's objectives set out in the Gas Act and the GPS, for the an independent Balancing Agent function involving a daily tendering approach for sourcing balancing gas to maximise balancing flexibility and to minimise the cost of balancing, possibly developing into a spot market platform;</u> - <u>Implementing changes to pipeline tolerances consistent with the GIC's objectives set out in the Gas Act and GPS and based on an independent expert review of pipeline tolerances addressing the quantum of tolerances and how tolerances are allocated;</u> - <u>Implementing MPOC and VTC changes consistent with the conclusions from this proposal and to introduce effective daily balancing, allow for real time balancing costs, and establish a damages regime for "over-pressure" situations;</u> - <u>Implementing a daily allocation option if investigating the feasibility of daily allocation options shows that would better meet the GIC 's objectives set out in the Gas Act and the GPS than the status quo; and</u> - <u>Implementing an extended nomination option if investigating the feasibility of extended nomination options shows that would better meet the GIC's objectives set out in the Gas Act and GPS than the status quo-; and</u> - <u>Develop a mechanism to ensure timely implementation, at least cost, of the beneficial parts of the proposal.</u>
<p>Q10 Do you agree with the proposed work programme?</p>	<p>At the end of section 6 of its August 2008 "<i>Transmission Pipeline Balancing Options Paper</i>" the GIC identified a list of issues that it believed were the main balancing issues. In its submission on that paper Contact and probably other submitters identified in their responses to question 2 other issues not addressed in the GIC list of main issues. It is appropriate to consider whether the GIC's proposal has captured those issues and whether the issues are still relevant. Very little has changed since those submissions were prepared and it is therefore likely those issues remain relevant.</p> <p>It would have been helpful for the GIC to explain in its "<i>Transmission Options Balancing Paper</i>" how the identified issues are addressed in the GIC's proposal. Nevertheless, it seems the issues identified by the GIC and Contact are largely either directly or indirectly addressed by the GIC proposal apart from the following which also should be addressed:</p> <ul style="list-style-type: none"> - existing balancing provisions are unclear or hard to enforce; - it is unclear how balancing costs are incurred and how balancing

QUESTION	COMMENT
	<p>prices are set;</p> <ul style="list-style-type: none"> - the Code Change request process inhibits incremental improvement to balancing arrangements; - lack of standardisation of electronic communication inhibits development of IT standards necessary to manage imbalance; and - notifications made to correct imbalances should be distinguished from notifications intended to result in physical gas flows. <p>In addition and as indicated in Contact's response to question 9, the work programme should explicitly state that all changes will be subject to a cost/benefit analysis and evaluation against the Gas Act and GPS objectives. It should also be clear that the purpose of the work programme is to implement changes that meet appropriate cost/benefit criteria and the Gas Act and GPS objectives rather than to just carry out studies.</p> <p>There are a number of ways that changes to balancing arrangements could be implemented. The work programme should evaluate those options and identify the method of implementation that best builds on existing arrangements and minimises implementation costs.</p> <p>The GIC indicates that some of the change could be implemented through code change requests. From its attempts to use the Code change request procedures Contact has concluded that the processes as they stand are unlikely to yield any significant change. It is now apparent that Vector and MDL are able to prevent any change by claiming that they will incur increased costs as a result of implementation of the change.</p> <p>There is doubt that the implementation timelines proposed by the GIC are realistic. From experience implementation of changes that involve IT developments will require significantly more time than estimated by the GIC. The ability to implement the change is also likely to be significantly determined by the development of a replacement VTC. That development will not be completed before the end of September 2009.</p> <p>It is important for the GIC to develop and agree the detail of each aspect of the proposed work programme. If the detail is not carefully developed some important issues could be overlooked.</p> <p>The GIC should seek to make changes that encourage innovation and create the environment and incentives for change rather than prescribing particular outcomes. For example, in respect of the Balancing Agent it would be better for the GIC to create performance standards for the Balancing Agent rather than attempt to prescribe the detail of how the Balancing Agent should act or limit the parties who can act as the Balancing Agent.</p> <p>Subject to these comments Contact supports the work programme proposed by the GIC.</p>