Contact Response to Gas Industry Company Limited Consultation Paper "Concept Design for Wholesale Gas Market, March 2006"

Introduction

The following is Contact Energy's response to the Gas Industry Company Limited (GIC) consultation paper "Concept Design for Wholesale Gas Market, March 2006.

The format of Contact's response follows GIC's recommendations.

Summary

The following list summarises the main points of this submission.

(i) Contact is in broad agreement with the Consultation Paper.

(ii) Adaptability and flexibility are important criteria for evaluating market design.

(iii) Open access arrangements, particularly MPOC arrangements, provide a useful foundation for establishing a more formal trading market. That foundation, including OATIS, should be fully exploited.

(iv) The small size of the New Zealand market means it is relatively easy to gather information about trading opportunities before embarking on bilateral negotiations. That means the current informal market has many of the characteristics of a platform bilateral market. The MPOC arrangements also give it some of the character of a net pool.

(v) Because MPOC transportation costs on the Maui pipeline are simple to calculate and very transparent selection of trading points is less important than suggested in the Consultation Paper.

(vi) There will always be a need for bilateral contracts arranged outside a formal market to manage risks associated with particular investments. Traders should not be restricted to trading through a formal market.

(vii) Maui receipt points and NGC delivery points are natural trading points. We do not think interconnection points are natural trading points. Restricting trading points to the Rotowaro and Frankley Road interconnection points is likely to significantly reduce the usefulness of the formal market and generate unnecessary transportation costs.

(viii) A requirement that traders should meet a minimum credit rating standard is the best means of establishing credit worthiness.

(ix) Establishing a standard trading contract is a good means of providing the tools to allow a more formal market to develop.

(x) A phased development of a more formal trading market may be the best means of meeting industry and government requirements. That will avoid loading unsustainable costs on market participants to the detriment of market development. Those phases could consist of the following steps:

- Phase 1, offer of a standardised contract;
- Phase 2, provision of a website to informally offer trades;
- Phase 3, provision of a formal market.

(xi) NGC open access arrangements stifle trade. The arrangements should be amended so that they are consistent with the MPOC, to encourage and support trade.

Response to Consultation Paper Questions

Q1	Do submitters agree with the objective defined for this work stream? If not, how and why would you change it?	Contact believes the overriding objective of the workstream should be to develop a least cost mechanism to identify the highest value end-use for gas. This is consistent with the objective stated in paragraph 4.

Q2	Taking into account the conceptual nature of the options at this stage, do submitters agree that these criteria reflect the key measures of suitability of a trading mechanism in the New Zealand wholesale gas market? If not, what criteria would allow a better evaluation of proposed mechanisms?	Contact agrees that the evaluation criteria listed in paragraph 5 reflect the key measures of suitability. Consideration of other gas trading regimes is a useful tool to employ in designing a market but that should be covered by the listed criteria (e.g. under practicality). We note such an assessment has been undertaken in Appendix 4 but has not been used in the body of the report. It would also be useful to consider how those markets developed to help determine a model for development of a New Zealand market. Use of evaluation criteria such as "relevance to market characteristics" may assist. The discussion in Appendix 3 heads in this direction although the design options are not evaluated in this context. This could also include more evaluation of how existing mechanisms such as the balancing mechanism of the MPOC could be exploited to help deliver an effective market. Adaptability and flexibility are important evaluation criteria. Establishing detailed prescriptive arrangements which are difficult to adjust as circumstances change is not desirable. Contact believes that it is essential that following evaluation of submissions on this Consultation Paper that the GIC quantifies the costs and benefits of establishing a more formal market.
Q3	Do submitters agree with the characterisation of existing long-term contracts outlined in this section, or are there additional important contract features that should be considered?	The MPOC arrangements have very substantially standardised the terms and conditions of gas trades made on the Maui pipeline. Effectively only matters such as term, price, volumes and responsibility for notification need to be covered in trading agreements as the MPOC addresses all other issues. The analysis does not recognise the foundations provided by the MPOC to establish an environment conducive to increased trade.
Q4	Do submitters agree that there is both a theoretical and practical need for long-term contracts in the wholesale gas market? If not, why not?	Contact agrees that long-term contracts are necessary to secure large investment in production, transportation and end-use.

Q5	Do submitters agree that auctions, negotiations and posted prices represent the range of contracting mechanisms available for long-term contracting in the New Zealand wholesale gas market? If not, what other options should be considered? Please provide a brief outline of the suggested mechanism.	Most negotiations follow informal information gathering about quantities of gas available for trade and the likely terms and conditions of trade. The small size of the NZ market makes it relatively easy to canvass most trading opportunities at little cost. The only exception to this is when gas is required at short notice and there is very limited opportunity to canvass the market. Negotiations therefore, informally, encompass most of the characteristics of auctions, tenders and posted prices.
Q6	Do submitters agree that the key features of each of the mechanisms are captured in this section? If not, what features have been excluded and what impact would they have on the evaluation of the options below?	See response to question 5. Contact's preference is not to purchase bundled gas and transmission services. A diversity of gas supplies and end-uses provides opportunity to optimise transport arrangements particularly if transport through NGC pipelines is required. In addition, the importance of MPOC Approved Nominations to quantifying gas trades means most traders trading gas on the Maui pipeline are unlikely to want to leave shipping on the Maui pipeline to a third party.
Q7	Do submitters agree that posted prices should not be considered further? If not, what features of posted prices have not been considered that lead you to this conclusion?	Contact agrees that posted prices are not relevant to long term contracts. The rigidity of posted prices is the antithesis of long term stable prices, attuned to particular circumstances, which are sought through long term contracts.
Q8	Do submitters agree with the evaluation of the options outlined above? If not, why not? Please explain what your argument would mean for the conclusions.	The analysis overlooks the usual preliminary information gathering phase of negotiation. It is unlikely that either a seller or purchaser of gas would embark on final negotiation with a selected trader without having gathered information on what is potentially available from a range of traders. That information gathering could involve informal contact with potential traders or involve more formal contact through a tender. The analysis probably overstates the cost of a tender/auction process compared to negotiation. Negotiation of contract terms can be time consuming and expensive. The overriding problem with an auction process is that it is unlikely to deliver the tailored outcome usually being sought in a long-term contract.

Q9	Do submitters agree that there is prima facie no net benefit to be had from formalising or mandating the form of auction by which long-term contracts are established? If not, what benefits of formalisation or mandating, or costs of the existing auction form have not been accounted for?	Contact agrees with the conclusion that mandating the form of long-term contracts is unlikely to yield a net benefit.
Q10	Do submitters agree that the mechanisms listed above cover the range of options for short-term trading mechanisms in the wholesale gas market? If not, what other mechanisms are available?	Contact agrees that the listed mechanisms cover the range of short-term trading options. It should be noted that there are currently arrangements in place that have much of the character of a platform bilateral market (Maui ROFR arrangements).
Q11	Do submitters agree that the analysis above accurately reflects the applicability of anonymous/known counterparty and compulsory/voluntary participation to the mechanisms identified? If not, what relevant factors were not identified?	The analysis overlooks the effect of open access arrangements on risks associated with trades. The MPOC addresses many trading risks such as those associated with gas quality, measurement, prudential requirements, failure to deliver, etc. The MPOC, and to a lesser extent NGC open access, give existing trading arrangements much of the character of a compulsory pool and a clearing house. The market arrangements in place do not fit neatly into one of the listed short-term mechanisms.
Q12	Do submitters agree with this outline of the key effects of the characteristics of the gas market on mechanisms for short-term trading? If not, what other factors should be considered and how do they affect the viability of the options?	Section 13 overlooks the potential impact of open access arrangements, particularly the MPOC, on the market. Those arrangements give the market some of the character of direct bilateral, platform bilateral, compulsory pool market, and clearing house although not in relation to price. In relation to price the current market largely has the character of a direct bilateral market although there are arrangements within the current market (Maui ROFR) which have the character of a platform bilateral market. Under the MPOC charges payable for transport are simple to calculate and completely transparent. In such circumstances it seems unnecessary for a pool market to require all trades to occur at the same point. That is likely to create allocative and productive inefficiency by requiring payment of charges for notional transport.

Q13	Do submitters agree that both the clearing house and gross pool options are not likely to be practical mechanisms for short-term trading in the New Zealand wholesale gas market and should not be considered further? If not, please explain your reasoning.	The existing market is a hybrid of the various types of markets described in the consultation paper. As a general principle open access arrangements should be reviewed and amendments encouraged if they are required to support trading and market transparency.

Q14	Do submitters agree that a party-specific limit on the net trading position of participants is sufficient to manage the risk of default? If not, are there other risk management mechanisms that would allow anonymous trading?	The risk associated with trading encompasses the following: • credit worthiness in relation to potential financial exposures (e.g. payment for delivered gas, payment of ordinary and liquidated damages); • ability to deliver or take delivery of an agreed volume of gas; • gas quality; • likelihood of disputes. While setting an upper limit dollar value on each trade may largely address credit worthiness it does not address the other matters. A net trading limit is also a poor means of managing credit worthiness. The trader may be involved in a number of markets. It will be difficult to ensure that the trading limit at all times reflects the standing of the trader in all those markets. In addition there is no objective means of establishing the trading limit. Further, a net trading limit in the market does nothing to protect a party exposed in a bilateral arrangement. For bilateral arrangements the value of each trade is the critical issue since that is the counterparty's exposure – the fact that there is a netting off transaction with a third party does not reduce the risk to the original counterparty. Accordingly there must be objective external measure of creditworthiness, which provide continuing assurance of financial capability. As noted in the Consultation Paper the MPOC deals with credit worthiness and delivery of gas. It does not seem necessary to have additional requirements related to trading on the Maui Pipeline. Those arrangements contemplate that parties without a credit rating provide financial support in the form of letter of credit or similar. If this regime was utilised a critical issue would be the level of any letter of credit. It would have to sufficient to cover the maximum potential exposure under transactions to be entered into. Under NGC TSAs, NGC has discretion to ask a Shipper to establish its credit worthiness. A requirement for every trader to meet a minimum credit rating is a better means of establishing credit worthiness than establishing an upper trading limit.

Q15	Would submitters prefer a net sell position based on an ability to pay for an underlying quantity of mismatch gas or a pure volume measure? Please explain your preference.	Because the value and cost of gas can vary significantly through time we think the ability to pay for a quantity of gas is preferable to a pure volume measure. Also net positions are not appropriate in bilateral arrangements since by definition the contracts are between two parties with no sharing of the exposure which would occur in a clearing house for example.

Q16	Do submitters agree with the assessments of the relative advantages of trading at a hub and trading at all welded points outlined above? If not, what other factors should be considered, and how does your argument affect the conclusion?	Contact believes that it is unnecessary to locate gas trades at a hub and to insist on this may be detrimental to the market development. The cost of transportation on the Maui pipeline is transparent and easy to calculate. It is straightforward to convert gas trades at different delivery Maui delivery points or receipt points to compare gas prices on a common basis. A requirement to trade at a hub is likely to impose a requirement to pay unnecessary transport costs and to avoid such costs parties will trade outside the market. The cost of transportation on NGC's pipelines is more complex because of the requirement to make annual Capacity Reservations. NGC's requirements stifle short-term trades. Short-term trades are only likely to take place on NGC's pipelines if transportation capacity can be transferred with the traded gas. In any event we note that NGC's TSAs specifically exclude trade as its TSAs include provisions which prevent trade such as: *"Shipper shall use reasonable endeavours to ensure that, for each Day, the total quantity of Gas received from the Shipper at a Receipt matches the total quantity of Gas taken by the Shipper at Delivery Points."* Because of the risks associated with transportation and because MPOC Approved Nominations establish title to gas traded on the Maui pipeline, Maui receipt points are the logical trading points for trade of large gas quantities on the Maui pipeline. Where the gas quantity traded is small the purchaser may not want exposure to transportation risks. In such circumstances trade at delivery points will be preferred/required. Whilst transportation costs associated with trading gas through a hub may be low compared to the overall gas prices these costs are not low compared to margins taken by the wholesaler. Requiring market trades at a very limited number of fixed points is likely to force trades outside the market. The contractual requirement that Maui Legacy Gas must be delivered to a Maui delivery point does not seem to be a valid reason for postponing trade at a virtual point until Legacy Gas becomes less significant unless it is contemplated that allowing trade at a virtual point would prevent trade at other points. We assume that is not contemplated and if it was Contact would object most strongly to such a restriction. Contact believes that there are reasons for establishing a virtual receipt point/delivery point for the Maui pipeline. A virtual point would (for example) allow delivery of gas into the pipeline for use as compressor fuel and balancing and would also allow a shipper to prioritise gas deliveries in the event of a contingency. Contact considers that the costs of amalgamating a number of delivery points are overstated.

Q17	Do submitters consider that the other options identified represent the range of potential solutions and that the assessment of them is accurate? If not, please elaborate.	As indicated Contact considers that the Consultation Paper overstates the costs and difficulties of allowing trade at any receipt and delivery point. Restricting the trading point will limit the relevance and potential liquidity of the market.
Q18	Do submitters agree that Frankley Road and Rotowaro should be specified as hubs? If not, where do you consider a hub should be and why is it more advantageous than Frankley Road and Rotowaro?	It is assumed that the use of hubs in the question means trading points. Rotowaro and Frankley Road may not be very useful trading points because transmission costs are payable both upstream and downstream of these points. It is likely a trader will either want to pay all transportation costs or no transportation costs. Traders are likely to want to trade gas at Maui receipt points or at NGC delivery points chosen to minimise transportation costs. Contact does not agree that trading points should be restricted to Rotowaro and Frankley Road. Restricting trading points to Rotowaro and Frankley road is likely to limit the liquidity of the market and create unnecessary transportation costs.

Q19	Do submitters agree with the characterisation of disputes processes, information disclosure and contract standardisation outlined above? Are there any other factors that should be considered?	Contact does not accept that a standardised dispute resolution process is always appropriate. The analysis does not identify a preferred standardised dispute resolution process. Broadly there are three types of dispute resolution processes: • expert determination; • arbitration; and • litigation. Expert determination is appropriate in circumstances where the issue is well defined and technical in nature. Arbitration seems to offer no advantages over litigation. Litigation is appropriate where the issues are not well defined and not technical in nature. More detailed consideration of this issue should be undertaken. However, if contracts are short term the likelihood of dispute should be small as the trading arrangements can be simple and relevant to the circumstances of the trade. Disputes related to such agreements should be well defined and in most circumstances expert determination is likely to be appropriate. The MPOC and NGC transmission arrangements provide for disclosure of information about gas flows, line pack and the consequences of imbalance. Management of open access risks requires a significant level of information disclosure about shippers' intentions to flow gas, actual flows and balancing risks. Disclosure of this type of information does not create opportunity for commercial advantage as interaction between market participants means the gas requirements of most participants are well known. Contact agrees that development of a standardised contract is an important precursor to the establishment of a more formal market. Development of a standardised contract should be based on the foundations inherent in open access arrangements, particularly the MPOC. The MPOC requires and promotes standardisation of trades..

Q20	Do submitters agree that the characterisation of the contract terms and features of direct bilateral trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?	For a trade that occurs on the Maui Pipeline the MPOC has made knowledge of a counterparty's financial and physical conditions less important. The MPOC requires Shippers and Welded Parties (except NGC) to meet prudential standards defined in the MPOC. The MPOC also protects Welded Parties and Shippers if a counterparty to a trade fails to deliver in accordance with an Approved Nomination. A bilateral contract provides a better outcome than a standardised contract in some circumstances particularly where one of the parties, because of its particular circumstances such as its diversity of requirements, is willing to accept risk that is not contemplated in a standardised contract. There is no reason why trading at a hub and at Welded Points cannot occur. The market design should not lead to increased costs by, for example, restricting trading points and increasing transportation costs. Contact believes receipt points for major gas fields will be the location of most trades. We think that traders will either want to be responsible for all transportation costs or no transportation costs. For that reason interconnection points such as Rotowaro and Frankley Road are likely to be less important trading points. There is no mention of trade at virtual points which may offer advantages in some circumstances. The only argument against allowing trading point flexibility seems to be that prices would be less comparable and agreements would be less standardised. The transparency of shipping costs means that view is of no concern. The small size of the New Zealand market and limited uncommitted supply makes information gathering straightforward. Open access and the MPOC has forced a high level of standardisation on contracts. The industry has been slow to recognise and build on that. Bilateral contracts could draw on a standardised dispute resolution process to address the majority of disputes. For example, most traders are likely to be exposed to the MPOC dispute resolution process and that process could be used to standardise the dispute resolution process in trading contracts.

Q21	Do submitters agree with the assessment of the direct bilateral trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.	No evidence is provided to demonstrate that gas has not gone to the highest value use in the past. The small size of the NZ market and the limited supplies of uncontracted gas make it relatively easy to discover trade opportunities. Disclosure of prices under long-term contractual arrangements may not provide useful information because prices under such agreements usually reflect a high level of risk allocation unique to each particular agreement. In addition prices under such agreements are often high during the early years of the project and low in the concluded years of the contract and may not be indicative of prevailing market prices. Maui is an example of that. Increased competition in the exploration and production markets as a result of electricity generator participation should be encouraged as that should increase supply competition and reduce prices. Less flexible rights under new gas contracts may not stimulate increased trade in short-term contracts. For that to happen gas users would have to be prepared to expose their short term requirements to uncertain gas supply. We think that is unlikely and instead those users will seek energy supply certainty through arranging backup supplies such as diesel or coal supplies to cover peak requirements. Gas users will also make arrangements to flatten their gas requirements consistent with their fixed obligations under gas supply contracts. These adjustments will increase the cost of energy and decrease trading opportunities. As indicated above we think the analysis overstates the costs of researching the market prior to pursuing a particular bilateral arrangement. Taking into account all factors it is not clear whether concentration on bilateral trade has resulted in sub-optimal outcomes. The Consultation Paper concludes that but provides no supporting evidence. Contact considers that the costs associated with researching the market are minimal. Developing a standard contract that the parties to a trade could use if they wished could reduce the costs of trading. It is not correct to conclude that larger players are more likely to be approached for a potential trade. Who is approached is more likely to depend on the gas volume to be traded and capacity to assimilate that trade. Only larger players could undertake large trades whereas there will be a greater number of players able to trade smaller quantities. It is relatively easy to construct an accurate view of gas contracts, gas demand and gas supply. There is a wealth of information available from sources such as Energy Data File, regulatory decisions and company annual reports. We agree that beyond the end of the decade supplies appear short but it is not necessarily correct to assume that applies for the next 5 years or so.

Q21 continued		Most traders have at times been frustrated by the effort negotiation of trades requires. Because of that and the standardisation enforced by the MPOC a well-constructed standard contract may find ready use. Some of the Maui trading arrangements have already established arrangements for trading standardised contracts. In Contact's view a bilateral trade leads to efficient outcomes and in New Zealand works well as it does overseas. More information concerning trades is available than the Consultation Paper suggests. There is an opportunity to develop a standardised contract, particularly for short-term trades. A platform could easily be developed to offer trades under the standardised contract. The MPOC has forced much of the character of platform bilateral trade on the market.
Q22	Do submitters agree that the characterisation of the contract terms and features of platform bilateral trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?	Current arrangements offer many of the characteristics of platform bilaterals without having to negotiate with unknown parties and take on unknown risks. Trades made under MPOC arrangements may not entail that risk because of the prudential and other requirements of the MPOC. In any event Contact's view is that it should be possible to have a platform bilateral market such that counterparties to the trade are identified prior to entering into any bilateral negotiations. For the reasons stated above limiting the market to no more than a few or possibly a single trading point would substantially limit the usefulness of the market. One of the reasons for proposing a formalised market was to generate more market information. Price is fundamental market information. To restrict disclosure of price information means the market will be little different to the current informal market. In Contact's view some market participants are overly sensitive to the disclosure of pricing information. Traders could camouflage their offers by splitting gas offered into several tranches. There is a third option for disclosure of pricing information. Disclosure could consist of: • buy price offers; • sell price offers; and • prices of consummated trade. Volumes for each category would also be disclosed.

Q23	Do submitters agree with the assessment of the platform bilateral trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.	The analysis suggests that under a Platform Bilateral market the party with the greater power could hold out until the last minute to force higher prices. In Contact's view it would seem unlikely that the market would survive in such unbalanced circumstances. Surely the weaker party would secure its requirements outside the market if the market was causing it to pay higher prices. As indicated above Contact does not believe that there is a supply shortage over the next 4 or 5 years. Also, as indicated above, Contact strongly disagrees that points of interconnection such as Rotowaro and Frankley Road are key trading points. It is more likely that producer receipt points and end of transmission delivery points would be key trading points. In developing a more formal market the foundations established by MPOC, OATIS and the agreed protocols for exchange of gas industry information should be utilised as far as possible to avoid unnecessary costs. The ownership of the trading platform will be an important matter to address. Contact strongly disagrees with the assessment of prudential risk. A platform bilateral results in a bilateral arrangement between two parties. Consequently the relevant measure is not the "total exposure to the market". It is the sum of all commitments whether they are sales or purchases. The fact that a defaulter may have a low net total exposure across all transactions does nothing for a party exposed to the default in a bilateral trade. Accordingly Contact's view is that parties must meet externally measured prudential standards which provide an objective measure of that parties financial commitments. There will be costs associated with establishing the platform. There must be doubts whether a formalised market will succeed given the expected thinness of trades. We think the method of implementing the market will be important to ensure traders are not swamped by costs before the market has a chance to grow. Perhaps a phased introduction is possible along the following lines: • Phase 1, offer of a standardised contract; • Phase 2, provision of a website to informally offer trades; • Phase 3, provision of a formal market. Each phase should only be commenced if there is sufficient support at the previous phase. Market share issues can be addressed by forcing the holder of the large share to market gas as a number of separate tranches.

Q23 cont'd		Contact believes that in reality a pure direct bilateral market is unlikely to exist. Direct bilateral is likely to be associated with an informal platform as is the current market. Therefore Table 4 scores direct bilateral too lowly. Ultimately the only real distinction between Platform Bilateral and Informal Bilateral is likely to be the costs of running the formal platform which may be offset by improved market information and some increased efficiency
Q24	Do submitters agree that the characterisation of the contract terms and features of net pool trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?	The analysis does overlook that the MPOC has forced many of the requirements of an open pool market on traders. See earlier comments regarding prudential requirements. Contact firmly believes that there are sound, legitimate reasons for prudential requirements which adequately protect all participants. Markets should not be structured to maximise participation if that exposes other participants to unnecessary risk of default. This will result in parties who are able to, choosing to bypass the market.
Q25	Do submitters agree with the assessment of the net pool trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.	Contact largely agrees with the analysis. The main problem with an open pool seems to be the high cost of implementing and running the pool compared to the costs of running the other market options. That is particularly a problem if there are very few trades through the pool. Perhaps developing a pool should be further considered after the response to an environment conducive to more open trading (development of a standard contract and website notifying trading opportunities) has been evaluated. The MPOC Commercial Operator has advised Contact that he is contemplating running a pool for Maui Balancing Gas. As indicated above Contact believes that there is an opportunity to implement one of the more formal trading mechanisms following evaluation of an informal market conducive to open trade (development of a standard contract and website notifying trading opportunities). If after a defined period little use is made of those tools that may indicate that little benefit would result from implementing a more expensive and more formal arrangements. If more open trade does eventuate the experience gained will allow development of a formal structure more attuned to actual market requirements.

Q26	Do submitters wish agree that both these options require further consideration? If not, why not?	Appropriate legal advice should be obtained on whether authorisation from the Commerce Commission should be sought. Further analysis is required as to the most appropriate means of implementation.
Q27	Do submitters agree that issues with gas allocation can be resolved separately from the establishment of a trading mechanism? If not, why not?	Allocation arrangements pertaining to NGC delivery points need to be fixed for the purposes of allocating Maui pipeline imbalance and determining usage of NGC pipelines including allocation of NGC imbalance. This issue should be resolved separately from the establishment of a trading mechanism. The resolution should not impact on selection of an appropriate trading mechanism.
Q28	Do submitters agree that these issues should be considered further but need not delay the development of the wholesale market? If not, what factors have not been considered that lead you to this conclusion?	There has been considerable misunderstanding about the reasons why NGC requires trades at its interconnection points to hold a Transmission Services Agreement with NGC. This is necessary to ensure that Maui Operational Imbalance allocated to NGC as the Maui Welded Party and NGC's balancing gas transactions are fairly allocated to NGC shippers causing Maui Operational Imbalance and other balancing costs. Contact understands that it may be possible that some NGC shippers may escape that net and believes that is inappropriate. All shippers must have the same balancing arrangements in their TSAs. Codification of NGC's TSAs would ensure that and remove the impression that NGC was exercising some control over who can trade at interconnection points. In addition, the NGC TSAs appear to prevent trade anywhere on NGC's pipelines. Contact believes that NGC's requirement that capacity should be booked on an annual basis is a considerable barrier to open access and inhibits gas market development. It is not clear why NGC requires this and MDL does not. Most overseas pipeline regimes do not restrict pipeline access in this way. In Contact's view NGC should offer pipeline capacity on a daily basis, subject to higher priority term capacity reservations. .

Q29	Do submitters believe that the summary of the suitability of the mechanisms above accurately reflects the relative strengths and drawbacks of each of the options as considered? If not, which factors not considered would alter the relative merits of the options?	Practically, because of the informal process traders undertake prior to direct bilateral negotiations, the difference between a direct bilateral market and a platform bilateral market is much less than indicated by table 4. The main distinction between the options is the likely higher costs associated with a net pool and whether there are a sufficient number of trades to support such costs. By undertaking a phased introduction of platform bilateral that can de tested. Contact sees a natural progression from direct bilateral through platform bilateral to net pool with implementation of more complex arrangements only occurring if that appears justified by the volume of activity. Finally, these alternatives are very difficult to evaluate in the absence of information about cost and no sense of likely utilisation. Therefore it may be preferable to start with a mechanism which can "test" the extent of the utilisation but allow for further development later.