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Dear Ian

WHOLESALE MARKET DESIGN - FURTHER CONSULTATION

Introduction

1. Thank you for the opportunity to comment on the Gas Industry Company's (GIC's) consultation paper "Feedback on Wholesale Market Design – Further Consultation" dated December 2006 (Consultation Paper).

2. No part of our submission is confidential and we are happy for it to be publicly released.

Mighty River Power's views

3. Mighty River Power supports the vast majority of design preferences identified by the GIC in respect of the development of a trading platform.

4. Before going on to answer the specific questions provided by the GIC, we highlight the following points:

a. We are unable to support the proposal to adopt a virtual trading point without further discussion on the mechanism by which transmission costs will be determined. We raised this issue in our earlier submission[1] in response to the GIC[2] asking whether the platform should allow participants to nominate their preferred location for making offers or bids. Mighty River Power suggested that the origin of the gas would need to be disclosed on some level to factor in transmission costs. We noted that:[3]

[1] Mighty River Power submission to GIC entitled "Submission on Wholesale Market Design" dated 3 November 2007 at response to GIC question 23.
[2] GIC, Wholesale Market Design consultation paper, September 2006.
[3] Mighty River Power submission to GIC entitled "Submission on Wholesale Market Design" dated 3 November 2007 at response to GIC question 23.

> If gas from Maui is sold at Rotowaro and the purchaser is delivering that gas to Frankley Rd the physical gas would not be transported to Rotowaro and then back to Frankley Rd. It makes sense to only pay for transportation between the origin and the delivery point and no further. Note that gas cannot be on-sold at Oaonui because it is currently only a receipt point.

We do not consider that the GIC has addressed this concern. Question 14 in the Consultation Paper asks whether participants support a virtual trading point. This begs the question: how are transmission costs determined? If a trade occurs at a specific or virtual point but both buyer and seller wish to buy and sell at, and from, points downstream or upstream of the virtual point, it doesn't make sense for the seller to deliver the gas to the virtual point and then for the buyer to ship it back again.

Mighty River Power requests that the GIC clarify how it sees transmission costs being determined under a virtual trading point system.

As an aside, Oaonui is currently only a receipt point (and not a delivery point), which means gas cannot be traded at this point. Given a large quantity of gas goes through this point, Mighty River Power suggests that the GIC look into the rationale behind why gas cannot be on-sold at Oaonui.

b. Mighty River Power also seeks clarity in relation to what is meant by the term "balancing price" in rows 1 and 2 of table 2 in the Consultation Paper. If the balancing price is the price that comes from a tender process when a welded party accumulates an operational imbalance and goes to tender for gas, then there are two issues. First the balancing price would depend on whether the tender process was to buy or sell balancing gas. Which one applies in the table is unclear. Second, there may not be a tender at the time a buyer or seller fails to nominate. What is the price in this circumstance? If the balancing price refers to the "mismatch price" in the Maui code (currently $15/GJ), then the first formula will likely result in a negative payment. This needs to be explained further.

c. In respect of rows 4 and 5 in table 2, where a nomination is correctly carried out and either the buyer or seller fails to uplift the gas, there should not be a payment between buyer and seller. As long as a nomination is correctly carried out, the party failing to either inject or uplift gas will accumulate a mismatch position and there are remedies under the Maui Code to address this. No additional remedies are required because the party acting in accordance with the nomination will not be affected unless a contingency results and there are also remedies for this in the Code.

Concluding remarks

5. If you would like to discuss this matter directly with Mighty River Power, please do not hesitate to contact either me (on 09 308 8202 or john.gilkison@mightyriver.co.nz) or Duncan Jared (on 09 308 3290 or duncan.jared@mightyriver.co.nz).

Yours sincerely

John Gilkison
Regulatory Counsel

APPENDIX: RESPONSES TO THE GIC'S QUESTIONS

Q1:	Do you agree that user pays is the preferred option for funding the establishment and ongoing operation of a wholesale market for gas? If not, what funding mechanism do you consider most appropriate and why?	Yes.
Q2:	Do you support the proposed approach to admission? If not, what alternative would you want and why?	Yes.
Q3:	Do you support the proposed approach to suspension? If not, what alternative would you want and why?	Yes.
Q4:	Do you support the proposed approach to user controls? If not, what alternative would you want and why?	Yes. Further suggestions for controls are: • Each trader within a company should have a different log-in so that the system can identify the trader who completed any given trade. • It would be a good idea to allow differences between "per deal" prudential limits and periodic prudential limits (when a counter party pays their bill the prudential requirements related to those trades is alleviated).
Q5:	Do you support the proposed approach to display of bids/offers? If not, what alternative would you want and why?	Yes. In respect of prudential cover, a penalty interest rate for late payment should be sufficient to encourage timely payment in most cases.
Q6:	Do you support the proposed form of prudential criteria? If not, what alternative would you want and why?	Yes. Mighty River Power supports gross limits between counterparties for both buying and selling.

Q7:	Do you support the proposed approach to adjusting prudential criteria? If not, what alternative would you want and why?	Yes.
Q8:	Do you support the proposed provision of an override? If not, what alternative would you want and why?	Yes, although overriding prudential requirements is not a decision to be taken lightly. The system would need to have the ability to recognise that the person overriding the prudential requirement had sufficient authority to do so. As an aside, the GIC should consider displaying, perhaps in aggregate, the total trades/volumes in the market that exceed the prudential requirements of each party. This may give parties an incentive to re-adjust prudential requirements.
Q9:	Is your use of a platform likely to be significantly affected by whether the market operated on a blind basis or not? If so, in what way?	No, not with white-listing in place. However, if white-listing was not in place, our use of a platform is likely to be affected by operation of the market on a "blind" basis.
Q10:	Do you support the underlying philosophy in relation to the nature of the rights and obligations associated with a trade? If not, what alternative would you want and why?	Yes.
Q11:	Do you support the proposed provision of buy and sell offers? If not, what alternative would you want and why?	Yes.

Q12:	Do you support the proposed use of 0.1 TJ/day as the basic trade unit? If not, what alternative would you want and why?	Yes. The trade unit should be low enough to be compatible with the smallest trader's incremental requirements - 0.1 TJ/day is sensible.
Q13:	Do you support the proposed ability to indicate whether partial acceptances will be permissible? If not, what alternative do you prefer and why?	Yes, although this may add more complexity than first thought. For instance, a generator wanting to sell part of a days gas, that would otherwise be used at their plant, may be able to sell half the gas (and generate using the other half), but may not be able to sell three quarters of the gas because of minimum running requirements at the plant. The complexity arises because there may be a reasonable amount of additional detail required regarding the conditions/parameters for partial sale.
Q14:	Do you support the proposal to adopt a virtual trading point? If not, what alternative do you prefer and why?	This begs the question: how are transmission costs determined? For instance, if a trade occurs at a specific or virtual point (call it the "*point of contract*") but both buyer and seller wish to buy and sell at, and from, points downstream or upstream of the "point of contract", it doesn't make sense for the seller to deliver the gas to the "point of contract" and then for the buyer to ship it back again. This was mentioned in our last submission but does not seem to have been addressed.
Q15:	What sort of information would your organisation want from a platform for trading purposes?	Current and historic bid and offer ranges; current and historic final prices; and traded volumes and periodic volume weighted prices.
Q16:	What sort of information would your organisation want from a platform for billing, reporting and governance purposes?	Volume, price, total value, trade date, trader and the identity of the counterparty for each trade. A separate periodic report of prudential limits is probably not required if the information can be viewed in the system.

Q17:	What sort of information should a platform provide for general dissemination to stakeholders?	See 15 above.