contact

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By email: John.bright@gasindustry.co.nz

Dear John

Draft Recommendation: VTC CR Appeal 27 November 2012 – Cross Submission.

Contact Energy Limited (Contact) welcomes the opportunity to provide a submission on the GIC's draft recommendation in respect to the VTC CR Appeal of 27 November 2012 (Change Request).

Contact does not support the draft recommendation provided by the GIC. While Contact agrees there are two technical issues within the Change Request that submitters are somewhat comfortable with the third issue was rejected by all submitters and has the ability to substantially affect submitters. The GIC has failed to recognise the consensus views of the industry.

Contact has made previous comments on the merits of Vector's change requests containing more than one issue, where one issue is contentious with industry presented among other issues that are not. This seems to be done with the explicit intention of passing through the contentious issue. The GIC should reject these types of change requests.

Contact would also like to highlight the point made by Genesis in their submission that *'the change request does not effectively allocate balancing costs in a way that accords with the causer pays objective underpinning the new B2B balancing arrangements'*. It appears that the change request proposed by Vector has been done with minimal consideration of the real issues and more focus on how to pass through liability.

Further explanations of the above are set out below.

Limited Scope for disputing invoices

The issue Contact and other industry submitters do not support is the limiting of scope for disputing invoices. Vector state the part of the change request limiting the dispute of an invoice to manifest errors only is necessary to maintain the efficiency benefits of B2B balancing. Cleary this is also not supported by both the NERA analysis provided by Vector and the GIC (Contact refers to the discussion section of section 2.3). Furthermore the GIC says it does not believe that Vector could assure accuracy in apportioning balancing invoices.

Cash-outs of balancing gas

Contact agrees with Genesis that the allocation method currently used by Vector no longer lines up with the new daily B2B balancing arrangements proposed under the MPOC CR. Currently the cash-outs are tied to ILON's not met. There is little connection between actual balancing gas transactions. Under the new regime MDL will monitor the pipeline as a whole and balance where it falls outside certain parameters. Welded points will only be cashed out if balancing gas has been purchased or sold and where the welded point's position is in the same direction as the balancing gas transaction. A welded point in the opposite direction us not cashed out as it is seen as aiding the overall pipeline balance position.

However Vector when receiving a cash-out at a Welded Point will only pass the charges on to those at that welded point causing the imbalance position at that point. There may be shippers who have contributed to the overall Maui pipeline imbalance at other Welded Points that avoid penalty.

The GIC suggests in its draft recommendation that shippers are currently required to use reasonable endeavors to ensure that their Receipt Quantities meet their Delivery Quantities for each pipeline. In order to ensure that this is better adhered to it is preferable that costs are attributed to causers as this will be the only penalty under the new B2B regime where MDL is balancing on an entire system basis.

Gas Act and GPS objectives/outcomes

The GIC in section 3 sets out the various objectives and outcomes under the Gas Act and GPS that the GIC must have regard to when making recommendations on VTC appeals.

In respect to the invoice dispute limitation the GIC refers to 'gas governance arrangements are supported by appropriate compliance and dispute resolution processes'.

There is already appropriate compliance and resolution processes in place under the VTC to deal with disputes. To dismiss this in favour of using the dispute process under the MPOC simply shifts the issue. The removal of the right to dispute is excessive compared to the benefit or the fact there will be residual rights.

In respect to the allocation of balancing charges the objectives and outcomes are to ensure;

(a) the supply of gas on competitive market arrangements,
(b) to ensure an efficient market structure; and
(c) that there is accurate, efficient and timely arrangements for the allocation of gas quantities.

None of which can be met if the allocation of the balancing charges is still allocated across shippers at individual welded points and not directed to causers on the system as a whole. This could easily be achieved in the same way that balancing gas is sourced.

Contact is happy to provide examples of the inaccuracy of the regime and a solution to better allocate costs to causers.

Recommendation

Given the GIC cannot assess the impact, and accepts there is a risk of adverse outcomes, it should not support the change; especially where it appears to accept it results in limited/unquantifiable benefits overall.

Contact submits that the GIC should decline this change request and ask Vector to resubmit the change request on the basis of the technical points only and to address the deficiencies in the costs to causers' allocation regime.

Yours sincerely

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Fuels Trading