

20/7

11 September 2008

Mr I Wilson  
Gas Industry Company Ltd  
PO Box 10 646  
Wellington

Dear Ian

**TRANSMISSION PIPELINE BALANCING ISSUES (AUGUST 2008)**

Thank you for the opportunity to comment on the August 2008 consultation paper. I am responding on behalf of Energy Direct NZ (EDNZ).

We believe that the key issues for pipeline balancing have been addressed in the consultation paper. As a relatively small retailer with a predominantly mass market customer base, we are most concerned with obtaining timely and accurate information on balancing positions, transparency of balancing costs and high transaction costs.

Overall we agree with the design elements outlined in Chapter 7 of the paper.

If you would like to discuss our comments further please contact me by email at [tara.gannon@energydirectnz.co.nz](mailto:tara.gannon@energydirectnz.co.nz) or by phone on DDI 06 349 2055. Alternatively you can contact our General Manager, Michael Ram, by email at [michael.ram@energydirectnz.co.nz](mailto:michael.ram@energydirectnz.co.nz) or by phone on 06 349 0129.

Yours sincerely



Tara Gannon  
**Energy Trading Supervisor**

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## Submission on Transmission Pipeline Balancing Issues (August 2008)

Submission from: **Energy Direct NZ**

Contact: Tara Gannon, Energy Trading Supervisor

QUESTION	COMMENT
<p>Q 1: Do you agree that the ERGEG guidelines are appropriate to use as a framework to evaluate alternative balancing market design options for New Zealand?</p>	<p>Yes, we agree that the ERGEG guidelines are reasonable and would be a good starting point for use as an evaluation tool. The guidelines are sufficiently high level to enable them to be applied to the New Zealand gas market.</p>
<p>Q 2: Are there key issues that are not identified in Chapter 6?</p>	<p>From our perspective the consolidated issues section of chapter 6 has identified the key issues associated with pipeline balancing.</p> <p>As a small gas retailer with mainly mass market residential customers our key issue is access to timely, accurate information on balancing status, followed by transparency of balancing costs and high transaction costs.</p> <p>We would prioritize the consolidated issues in the following order:</p> <ol style="list-style-type: none"> <li>1. Poor information on balancing status</li> <li>2. Poor transparency</li> <li>3. High transaction costs</li> <li>4. Competing balancing agents</li> <li>5. Role of balancing agent unclear</li> <li>6. Poor governance</li> <li>7. Inappropriate tolerances</li> <li>8. Poor allocation of positive imbalance costs</li> <li>9. Multi day balancing and pricing periods.</li> </ol>

## Submission on Transmission Pipeline Balancing Issues (August 2008)

QUESTION	COMMENT
<p>Q 3: Are there any additional design elements, not identified in Chapter 7, which you consider should be addressed?</p>	<p>Overall, we agree with the design elements described.</p> <p>EDNZ agrees that use of a single balancing agent, and single versus multiple balancing zones should be considered to increase efficiency and effectiveness. If it is decided to go ahead with a single residual balancing agent, their processes, actions and costs must be transparent to system users to ensure fairness. Balancing agent decisions should be based on fair, clear and objective criteria.</p> <p>Review of the balancing period length and pipeline tolerances should not be considered high priority, as there are other more important issues that need to be resolved first. Once the industry is confident that the revised balancing processes are working efficiently and accurately these issues can be revisited.</p> <p>The key options for mechanisms to procure balancing gas and determine prices have been identified. We agree that a market based approach where prices are determined transparently and by the cost of balancing resources at the time they are required would be the ideal option, but only if it could be achieved at a low cost. In the meantime the existing Vector mechanism is adequate. The Maui mechanism should be reviewed in an effort to make balancing costs more reflective of costs at the time of the imbalance.</p> <p>Whether balancing gas pricing is based on marginal or average costs should be carefully considered. Use of a weighted average price could also be argued to be reflective of the "true" cost of balancing gas, because it is the true cost i.e. the amount paid to the providers of balancing gas purchased. A marginal pricing approach in effect applies a penalty to the lower cost balancing gas and could result in over collection of imbalance payments which may need to be redistributed.</p> <p>If possible, we agree that OATIS should be modified to allow users to increase an imbalance at a certain point prior to reducing it through ex-post title trading.</p> <p>We agree that timely, accurate information must be available to allow retailers to manage and balance their loads. This is a significant issue for EDNZ as our customer base is predominantly mass market.</p>
<p>Q 4: Are there any balancing regime options which you consider Gas Industry Co should include in its forthcoming options analysis work?</p>	<p>We would be particularly interested in consideration of simplifying the balancing regime, including whether it would be possible to have one balancing agent and zone.</p>