



## GREYMOUTH GAS

30 March 2015

Ian Wilson, Ian Dempster, Steve Bielby  
Gas Industry Company Limited  
By email

Dear Sirs,

### **RE: Draft Recommendation on 10 October 2014 MPOC (Daily Cash-Out) Change Request**

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make this submission on the Gas Industry Company's ("GIC") Draft Recommendation on 10 October 2014 MPOC CR (the "paper"), following an invitation from the GIC in February 2015.

Greymouth Gas considers that the GIC has made a bizarre and irrational decision in the paper by supporting the 10 October 2014 MPOC CR on daily cash-outs ("change request").

A rational and defensible decision is required in the GIC's final recommendation that adequately tests the change request against the status quo. One would hope that this will be robust and made for the betterment of NZ Inc., and will not be affected by any political or emotive pressure.

Even without re-hashing the basic arguments, the case for GIC reversing its decision is strong.

Greymouth Gas will set out this case, attached to this letter, under five sections:

- 1) Process Shortcomings
- 2) New Information to Consider
- 3) Benefit Analysis Lacking Costs
- 4) Mistakes with GIC's Analysis
- 5) Conclusion

GIC reversing its position will remove potential disputes and disruptions, including Vector Gas Limited's ("Vector") signalled material adverse effect notice, allow for proper consideration of problem definitions and find fair and reasonable supply chain solutions to today's problems.

It is also the right thing to do and the right outcome under the GIC's legislative framework.

Yours sincerely,

Chris Boxall  
Commercial Manager

## Section 1 – Process Shortcomings

There are three key process shortcomings which must be remedied as the GIC considers its final recommendation in respect of the change request.

### i) Cost Benefit Analysis

A theme from earlier submissions is the sub-optimal receipt of the cost-benefit analysis (“CBA”) at draft recommendation stage. This means industry has a CBA at first draft stage but a paper on the change request that has had numerous public iterations.

### ii) Consultation of GIC Management

Without commenting on the content of the paper or the quality of the decision (yet) and notwithstanding its management of CBA timing, GIC’s general consultation process appears to have been okay except for one matter, as set out below:

- GIC called for cross-submissions on initial industry submissions on the change request.
- GIC noted that four ‘*matters of particular interest to us*’ were:
  - i) Cost increases faced by shippers and end-users,
  - ii) Significant of market prices,
  - iii) The cost of high-pressure situations, and
  - iv) The extent to which the change request may reduce high pressure situations.
- GIC releases the paper.
- GIC holds two workshops on the paper.
- GIC advises industry in those workshops, that in creating and completing the paper it did not consider, or form a view on, the matters of particular interest to it from the preceding cross-submission process.

Prima facie this is strange especially when these issues are central to the understanding of the change request.

### iii) Role of GIC Board

GIC has rightly had its independent directors determine the draft recommendation. However, given the irrational decision made in the paper, Greymouth Gas requests the GIC to summarise the level and quantum of debate and thoughtful challenge that its board gave to its draft recommendation.

## Section 2 – New Information to Consider

There are four completely new pieces of information for the GIC to consider. Other information put forward, but not considered, or analysed incorrectly, will be discussed in sections 3 and 4.

The new information is:

### i) Revised CBA

In one of the workshops, GIC said that it had not considered the CBA in its thought processes when forming its own view on the change request, and that when the CBA came through, it acted as a cross-check to the draft decision that the GIC had reached.

Therefore, at a minimum, the CBA should be considered as new information that the GIC needs to consider in its final recommendation.

Further, the CBA has the potential to change – certainly it is untenable in its current form – and this will also be new information which the GIC will need to consider in its final recommendation.

Greymouth Gas would imagine that, having commissioned the CBA, GIC will accord it good weight in making its final recommendation decision.

It is interesting to note that the draft recommendation was made on a) the basis of submissions, b) the CBA and c) the GIC's analysis of the likely effects vs status quo. On each of these:

- a) This doesn't make sense as the majority of industry position is clearly that the change request doesn't stack up.
- b) This conflicts with what the GIC said at the workshop, and if the next version of the CBA adequately addresses the issues raised in the latest workshop, it has the potential to supplement a) above.
- c) This is reasonable, but it implies that the GIC did not consider the Gas Act 1992 ("Gas Act") even if it cited it in summaries elsewhere in the paper.

### ii) Congestion Management

To date, and since the start of the GIC's consideration, GIC has not considered the impact on congestion management.

As GIC is aware, the gas industry is leading two strands of attempted industry reform being a) balancing and/or pipeline management, and b) capacity and market design. The latter currently has the Gas Industry Transmission Access Working Group ("GITAWG") leading significant changes in MDL and Vector's codes, which ultimately gives effect to the GIC's Gas Transmission Investment Project and Panel of Expert Advisers' reports which look to move the codes towards evolutionary convergence.

Greymouth Gas, and industry, supports the GITAWG.

GITAWG's latest piece of work is a congestion management tool. It basically asks pre-contracted end-users to reduce demand (if required by pipeline line pack) so as to ensure all gas can be delivered on the Vector system, and those end-users receive compensation.

It is a way of virtually increasing the size of the Vector system without peaky step changes in capex.

This does two things at a high-level:

- a) Under common carriage, it is a pre-requisite and method for managing peaks in demand, and
- b) Under contract carriage, it allows Vector to issue more reserved capacity, thus avoiding competition issues experienced in recent past<sup>1</sup>.

GITAWG is making significant progress across a range of fronts including congestion management, market design, transparency, code change request processes etc.

Greymouth Gas urges GIC to consider what MDL's change request (which was effectively unilaterally created and which the majority of industry do not support) would do to the GITAWG's congestion management and market design initiatives.

The two obvious outcomes are:

- If daily cash-outs come in and a user is curtailed after the close of an intra-day cycle, then shippers will be stuck with a more +ve position at a Vector pool than they would have liked. This may well be in the opposite direction (or mitigate the position) of the shipper vis-à-vis the pass-through of Vector's daily cash-outs to its shippers. However, in the absence of it being proved 100% that shippers won't be worse off under daily cash outs if congestion management is used, then it should be assumed that there will be increased costs.
- Even if the last part of the last point is not correct, then given the uncertainty and the materiality of the daily cash-out change request, it is likely that when shippers contract with end-users to give effect to the congestion management tool, then those shippers will look to fully pass on the costs and risks. This will either:
  - Kill off congestion management, and, therefore, market design, or
  - Few, if any, end-users will want the product, or
  - End-users will demand a price premium for the increased cost or risk.

This would be a terrible outcome affecting over ½ of the industry's initiatives.

It is not rational for a decision maker to knee-cap a highly successful and material market design work-stream to push through a unilaterally created balancing work-stream that doesn't stack up and which few industry participants support.

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<sup>1</sup> This is additional to, but more important than, a) above under contract carriage.

iii) emsTradepoint now a Shipper

The third interesting development is that emsTradepoint (or its related entity) is now a shipper on the Vector system. This means that it can ship from its hub and supply participants on the MDL pipeline (or further downstream of the Vector pipeline).

In effect, this removes any remaining arguments from MDL that it needs heightened visibility of emsTradepoint flow vs nominations as MDL could now simply buy/sell from emsTradepoint as a shipper, which would be the same as buying/selling from any shipper or participant on the BGX<sup>2</sup>.

iv) Weaker Incentives for Primary Balancing

GIC appears to have accepted, at face value, MDL's implication that the change request will improve incentives for shippers to do primary balancing. Greymouth Gas provides information in Section 3<sup>3</sup> and 4 of this letter and below which questions this approach.

Fundamentally, if a shipper on the Vector system with TOU load is cashed-out yet it does not know its cash-out position with any certainty on the Vector system<sup>4</sup>, then there are weaker incentives for it to try to manage its balancing position (given the quantum and frequency of contractual cash-outs) and stronger incentives to simply pass costs onto end-users.

Greymouth Gas has yet to decide how it would approach this issue if the change request came into effect. However, the concepts are best summarised as follows:

- With infrequent cash-outs, shippers are incentivised to maintain ROIs close to zero, which benefits shippers, end-users and TSOs.
- With frequent contractual cash-outs, and a limited ability to manage downstream demand, shippers will be incentivised to minimise their unrecoverable costs because ROIs will be cashed-out close to zero anyway. This means shippers may not act to minimise industry costs (including upstream flexibility and movement of nominations) or primary balancing actions, but rather to minimise their own costs by simply taking the cash-out and passing recoverable costs onto end-users.

Primary balancing is critical.

This is an old concept, but in light of it not previously being considered this way, it is new information which now needs to be considered.

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<sup>2</sup> This is notwithstanding the fact that MDL is required to use emsTradepoint at the moment under the MPOC and its flow vs nominations argument is incorrect.

<sup>3</sup> This is also an issue in the CBA.

<sup>4</sup> The Welded Party will know its position, but the shippers themselves will not.

### Section 3 – Benefit Analysis Lacking Costs

The CBA is not a cost-benefit analysis but a benefit analysis.

It would be too easy to critique Covec Limited (“Covec”), who independently authored the CBA, but that’s not the issue.

Greymouth Gas considers that Covec has done a reasonable job trying to understand both the gas industry and the change request from scratch and that the quality of the CBA simply reflects the nature of it being a first draft.

As mentioned in Section 1, the underlying problem here was timing and the lack of public debate about the CBA *prior* to the GIC doing or releasing the paper.

Nevertheless, industry will, concurrently with submissions on the paper, help Covec move the CBA from a first draft to a second draft or final report.

It is essential that the CBA is fair, accurate and logical.

There are five areas for improvement in the CBA.

i) Dynamic Efficiency

Greymouth Gas agrees that it is reasonable not to quantify, but simply to note and discuss, the dynamic efficiency arguments. However, the net dynamic efficiency benefit conclusion must be tested, as set out in the following two tables.

Dynamic Efficiency Benefit in CBA	Greymouth Gas Comment
More efficient price signals for day-to-day pipeline use	Agree.
More efficient price signals for storage/swing investment	Business cases for investment are driven by different signals, not more (or less) efficient signals.
More market liquidity	It is likely that there will be more bids and offers, and more shippers looking to effectively trade mismatch positions, but we are unsure if producers will actually make more gas available – even if they did, then ↑ in flexibility may command an ↑ in price.
Upstream benefits	Assuming over-pressure situations reduce then agree with some upstream benefits like ↓ in flaring due to trips, ↑ in product control, but unconvinced that this translates into greater reserves when wider pressure framework doesn't change.

There are some dynamic efficiency benefits, but these are not as strong as Covec affords them in the CBA.

Now let's consider dynamic efficiency costs, which are not included in the CBA.

Dynamic Efficiency Costs in CBA	Greymouth Gas Comment
-	Per Section 2, the change request would render ineffective the largest current gas industry initiative with regard to congestion management.
-	It will be more difficult for new shippers and retailers to enter the market as new entrants will be penalised for their lack of knowledge and face higher and uncertain cash-out costs, making it harder to attract customers.
-	Upstream costs will increase, because if shippers need to be nimble and mitigate their cash-out position, then they will seek ↑ in flexibility from their supply contracts, and producers will likely price this flexibility into supply contracts.

Net-net, there is one irrelevant dynamic benefit, one economic benefit<sup>5</sup>, and two that may give some small benefits but have some doubt or some downside associated to them. On the flip side, there are three material dynamic costs.

On balance, therefore, the change request seems to have a dynamic efficiency cost. At best it could be argued to be neutral but, on balance, this would be a liberal view.

ii) Benefit Analysis

Benefits in the CBA are solely focused on the interplay between MDL saving fuel gas costs and MDL saving costs of balancing actions due to a lower spread in prices. Greymouth Gas agrees that 2014 should be the year that feeds into the numbers.

Prima facie, the picture presented in the CBA is understandable, i.e. as primary balancing gets better then total benefits stay flat as increases in fuel gas savings are offset by reductions in balancing action cost savings.

However, the tenet on which the benefits are based is wrong. I.e. it focuses on the stable benefits as behaviour changes, but it takes as fact that the quantum of balancing actions will stay the same or reduce.

Greymouth Gas hypothesises that the quantum of balancing actions will increase.

The starting position here is that status quo balancing transactions are very low in quantity.

It is subjective to model forward behaviour, but the current assumption can be disproved, and the hypothesis can be proved, at least in theory.

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<sup>5</sup> Although this is not a contractual benefit.

The CBA's premise that balancing actions will reduce or stay neutral appears to be based on section 2.2.1 of the CBA, however, the three paragraphs in this section need testing:

- There are two graphs in figure 5 of the CBA that show the proportion of ILONs corrected on day 1, day 2, and cashed-out at TPWPs and in aggregate.
- The conclusion in the CBA is that there is a reasonably strong ability to correct positions on day 1.
- The graphs do not prove that parties are able to correct their aggregate imbalance positions on day 1, they only hint that parties are able to move their imbalance positions between balancing pools and avoid exposure to ILONS.
- Therefore while analysis of ILONs might show good improvements in primary balancing, what will actually happen is this:
  - Shippers will not be able to move imbalance positions between pools to mitigate commercial exposure or will not pay unrecoverable money to try to do so.
  - This means the underlying level of balancing actions will largely be driven by downstream demand profiles, which won't change under the change request.
  - Then shippers will be cashed-out to, say, zero each day but there will not necessarily be a corresponding balancing action that is taken.
  - If this happens then it will reset what is effectively a net pipeline imbalance position away from the middle of the pipeline (status quo and back-to-back balancing) to anywhere just above the call triggers or just below the put triggers.
  - This decoupling of the relationship between commercial incentives and line pack management will probably make line pack swing more as smaller variability from a reset net pipeline position is more likely to trigger actions to be taken on the put or call line pack triggers.
  - Overlay this with imperfect downstream information, such as real-time unknown cash-out quantities for shippers at TPWPs and month-in-arrears mass market demand allocations and this will create further swing in line pack due to the decoupled relationship between commercial and line pack.

When you put all this together, the current analysis has been used to draw an incorrect conclusion, and there is every chance that there will be an increase in balancing gas actions. Sections 2 and 4 further discuss this issue.



Should this occur, then the benefits stated in the CBA will reduce. A doubling of balancing gas actions (which wouldn't require much increase) may well erode all the benefits from the change request or swing it into a net cost.

One way of dealing with this issue is to treat any costs or benefits here as dynamic, and not assign a \$ value to them. On balance it could then be concluded that there is a net benefit or net cost. Greymouth Gas would argue the latter, although if the former is argued then it would need to be coupled with significant down-side risk.

Even if Covec takes a different position here, it must reduce the \$ benefits assigned here by a material amount to give effect to:

- The economic incentives placed on shippers (see Section 2), and
- What is likely to happen to primary balancing given the disconnect between physical and contractual mechanisms (see Section 3).

Either approach makes sense because downstream users don't have tools to manage primary balancing (more so under the change request), meaning the change request will create massive disruption to industry which is likely to manifest itself in line pack variability (or at least uncertainty about what will happen).

It also makes sense because the \$ value of the benefits is capped (due to the small status quo quantity of balancing gas actions), but the \$ value of costs and potential for costs is uncapped.

iii) Cost Analysis

It is astounding that the CBA has only factored in \$0.15m of costs in relation to Vector. While this cost appears reasonable, the CBA must also factor in these other costs with reasons also explained:

1) Cost of emsTradepoint fees

The following table sets out the position here:

<b>Status Quo</b>	<b>change request</b>
No transaction fees to use the BGX	Transaction fees to use emsTradepoint
Limited shipper use of wholesale market to mitigate against balancing position (and no fees associated with this)	Any wholesale market use to trade and manage shipper exposure will attract new transaction fees. It will also attract shipping fees to move the gas from the trading point into the relevant balancing pool required by the shipper – the latter will have a neutral impact on costs over time, but will have a time value of money impact until those costs are washed-up through tariff wash-up processes.

This argument then manifests itself as two different material costs.

a) Balancing Agent

Conservatively, if one assumes that the quantity of balancing gas actions doesn't increase, and that if it decreases then this comes together with increased transaction fees for shippers who have improved primary balancing, then costs will be:

= 2014 quantity of calls and puts per CBA \* emsTradepoint 'Full Trading' trading fee \* 2 (on buy and sell side).

= 283.5 TJ \* \$0.075/GJ \* 2

= \$42k.

There is upside to these costs as shippers may well increase the level of trading of their imbalance positions even though this might not have a net impact on line pack.

b) Pass-Through

At the moment, the price at which cash-out costs are passed through to shippers and welded parties is the price at which gas is bought or sold. Under the change request this concept is replicated (at a different margin and quantum), but emsTradepoint fees will probably also be passed through.

This is a new cost under the change request which can be estimated as:

= estimated line pack swing each day \* emsTradepoint 'Full Trading' trading fee \* 2 (on buy and sell side across industry) \* days in year.

= 10 TJ \* \$0.075/GJ \* 2 \* 365

= \$548k.

Note that this is in relation to the daily cash-out of imbalance positions, rather than on the quantum of balancing gas actions.

2) Costs of Subjective MDL margin

The change request gives MDL flexibility to assign a margin of up to 10% to water-down the price at which cash-outs are priced. There is no such concept under the status quo, meaning this is a new cost.

This can be estimated as:

= estimated line pack swing each day \* VWAP estimated in the CBA \* mid-point of margin adjustment \* days in year.

= 10 TJ \* \$5.75/GJ \* 5% \* 365

= \$1.05m

### 3) Costs faced by end-users

The CBA opines at length about the benefit from spread improvement on the balancing action side. However, it ignores the quantity of cash-outs.

Under status quo, the CBA assigns spread benefit of the change request at \$1.12m in its table 3 when assuming the same number of balancing gas actions. We can therefore assume that \$1.12m of cash-out cost inefficiency is currently passed from MDL onto shippers and welded parties under the status quo compared to the change request.

However, under the change request, shippers and welded parties will then be cashed-out, say to zero, every day. It won't matter whether balancing gas was bought or sold. This is a significant change as set out in the following table:

Status Quo	change request
\$1.12m of cash-out cost inefficiency passed onto shippers	Benefit as left, but debatable per discussion in ii) in Section 3.
High margin	Low margin
Low quantity of cash-outs passed onto shippers	High quantity of cash-outs passed onto shippers

It is astounding that the costs passed onto shippers and welded parties have not been considered because while the spread will reduce, the quantum will sky rocket.

This can be estimated as:

= estimated line pack swing each day \* buy-cost avoided under status quo (excluding margin adjustment and trade fee) \* days in year + estimated line pack swing each day (both directions) \* estimated opportunity cost of selling gas to spot market \* days in year.

$$= 10 \text{ TJ} * \$5.40/\text{GJ} * 365 + 10 \text{ TJ} * \$1/\text{GJ} * 365$$

$$= \$23.4\text{m}$$

This is right because everyone's mismatch will be cashed-out each day, at a low margin, but none of that (aside from ~\$1m) happens under status quo.

Whether shippers wear this cost, or pass it onto end-users, it is a new cost of ~\$22m.

Even if one conservatively only models the spread, at 10 TJ/d \* 2 \* 365 \* \$0.5/GJ, then this is still ~\$3.5m of extra costs (due to the forced volume of commercial cash-out transactions) that doesn't happen under status quo.

The CBA only looks at MDL-shippers, in section 3.1.1 of the CBA, where it says that *'each party participating in a cash-out will be exactly opposite...the payments will be a transfer between parties, so from [industry's perspective], they will net to zero'*.

There is a transfer between MDL and shippers, but what about the transfer between shippers and end-users?

What will happen is that the ~\$3.5m to ~\$22m of new costs will, presumably, be washed-up in future years' tariffs. But:

- This assumes that MDL will pass through tariff credits, as well as costs that are simply netted down,
- There will significant allocative inefficiency here, which should at least be noted because:
  - i) If shippers do not pass cash-out costs on, then shippers will not receive the benefit of future years' tariff reductions yet end-users will when they did not pay for the original cost, and
  - ii) If shippers do pass cash-out costs on, it can be assumed to be based on causer-pays, yet future years' tariff reductions will be based on variable pipeline throughout. This effectively penalises end-users with a peaky or seasonal demand profile, and benefits end-users with a flat demand profile.
- There is a time value of money cost which, unlike the discussion in 1) earlier, is now assumed to be material. If ~\$3.5m to \$22m is paid in year 1 and reimbursed at face value in year 2, then there is a cost of inflation. If this is assumed at 2%, then the cost range is \$70k to \$440k.

It is irrational that this is excluded from the CBA.

#### 4) Costs faced by shippers

The CBA assumes, in 3.2.4, that shipper costs would be an investment that parties can expect to receive a benefit for.

This logic is at odds with the industry level approach taken by the CBA.

If Vector has increased admin costs of \$0.15m (which sounds conservative), then the issue is whether they wear this or can recover it. Due to the pricing framework, it's arguable that the former would apply.

Nova, in the CBA, is cited as saying it would expect to incur, say \$0.075m/pa to manage its affairs under the change request. The test of Nova would therefore be the same as for Vector: i.e. do they wear the admin cost or can they recover it? The answer is not relevant as it is a new cost that is worn somewhere in industry.

Even if, as the CBA ponders, a shipper were to profit from that admin cost, then the profit keeps the shipper's position slightly positive, but the cost is worn by end-users.

Greymouth Gas concurs with Nova's estimate. Prima facie, it seems conservative to think that each shipper (say 10 in the industry) will employ 1 extra person to manage balancing under a daily cash-out environment. There will be other costs in terms of systems etc.

Shippers, who do not necessarily have 24/7 teams, will need to staff 24/7, track positions and line pack intra-day and on non-business days much more closely in order to try to minimise the quantity of commercial cash-outs.

Extra cost to industry is therefore, conservatively, \$0.75m/pa plus any upfront system changes which could conservatively be estimated at \$0.2m for all shippers.

iv) Net Position

It should be clear, even being very conservative that:

- At best there is no net dynamic benefit, and there is likely (or at worse) a net dynamic cost.
- The \$ value of benefits should reduce materially downwards from the current ~\$1m, possibly even becoming a cost.
- The \$ costs sum up to ~\$2.6m being very conservative.
- Net-net, the CBA is a net cost of \$1.6m/pa or worse.

This makes sense because most of the industry, certainly all those who are not conflicted and have an interest across the whole supply chain, are putting the message out that the change request will result in massive disruption without tools to manage it.

The change request will also artificially churn out commercial cash-outs, at significant quantities (offset slightly by a margin reduction), the cost of which will be significant on end-users.

Greymouth Gas encourages Covec to reconsider its CBA including the conclusion.

## Section 4 – Mistakes with GIC’s Analysis

The primary mistake with the GIC’s analysis is that it hasn’t done any Gas Act analysis, according to the basis on which it made its draft recommendation in the paper.

This is qualified by section 6 of the paper in which GIC says it believes that the change request would promote the Gas Act and GPS, citing appropriate consultation and cross-submissions for this.

However, the body of the paper focuses on a comparison of the current arrangements vs the proposed arrangements, providing only minimal comment on the Gas Act and GPS impact.

Notwithstanding this, Greymouth Gas outlines the GIC and our own analysis (vis-à-vis how the change requests affects the status quo) in the table below. Comments are colour coded as positive (green), neutral (orange), or negative (red):

Legislative Objective in Gas Act or GPS	GIC Comments (Critiqued also by Greymouth Gas)	Greymouth Gas Comments
To ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner.	<p>The removal of the ILON grace period should allow for more accurate, efficient and timely reconciliation of upstream gas quantities. Greymouth Gas notes that this is simply not the case – it will actually make upstream and downstream gas reconciliation a lot more difficult.</p> <p>Tolerance reduction would increase free line pack flexibility and slightly improve the efficiency of the market structure. Greymouth Gas notes that it will cost more to target costs to causers (by tightening a regime without providing the necessary tools) than the status quo that has some (but extremely low) cost socialisation.</p>	<p>Efficiency is relevant here and per the CBA – it will result in an increase in delivered gas costs and an increase in costs in general across industry.</p>
The facilitation and promotion of the ongoing supply of gas to meet NZ’s energy needs by providing access to essential infrastructure and competitive market arrangements.	<p>emsTradepoint provides fast access to competitive market arrangements. Greymouth Gas comment is the same as on the right.</p>	<p>Not relevant from a gas supply or market accessibility perspective when the status quo already provides the required wholesale market access.</p>
Barriers to competition are minimised.	<p>Removing barriers to competition for balancing gas supply will come sooner.</p>	<p>↑ in barriers for shippers to enter market due to higher cash-out impact.</p>

	Greymouth Gas notes that there is no contractual barrier at the moment for MDL to use emsTradepoint for balancing gas supply.	
Incentives for investment in gas processing facilities, transmission and distribution are maintained or enhanced.	The better directing of costs to users of pipeline flexibility should provide an incentive for investment. Greymouth Gas considers that there will be no incentive for investment, but incentives to mitigate costs and pass increased cost onto end-users.	Not relevant.
Delivered gas costs and prices are subject to sustained downward pressure.	Sustained downward pressure will result from use of emsTradepoint. In addition to the comment on the right, liquid markets can move in either direction.	Per CBA – it will result in an increase in delivered gas costs and an increase in costs in general across industry.
Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties.	The greater prescription and transparency around how MDL will manage Balancing Actions builds confidence the risks relating to security of supply are being properly and efficiently managed. Greymouth Gas considers that prescription and transparency are no greater, but a different framework applies to give effect to the same balancing gas standard operating procedures – there is no change to security of supply risk.	Not relevant.
Consistency with the government’s gas safety regime is maintained.	No comment.	Not relevant.
Energy and other resources used to delivery gas to consumers are used efficiently.	No comment.	Per CBA – inefficient productive and dynamic efficiencies.
Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term	No comment.	↑ in barriers for shippers to enter market due to higher cash-out impact. No change to transparency of those costs and no change to barriers to

benefit of end users.		access to the wholesale market.
The full costs of producing and transporting gas are signalled to consumers.	No comment.	No change.
The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences.	No comment.	Balancing gas services have a trade-off between quality and price and the change request does not reflect majority of industry's preferences.
The gas sector contributes to achieving the government's climate change objectives as set out in the New Zealand Energy Strategy by minimising gas losses and promoting demand-side management and energy efficiency.	No comment.	Not relevant.

In a nutshell:

- The GIC's analysis against the Gas Act and GPS fails to factor in the CBA and the increased costs that industry will face.
- The GIC's points are a mix of either being wrong, or not really being relevant to the core test imposed on it under the legislation.

The GIC's logic is such that there prima facie is a case that few (if any) other persons who had done the same analysis could have arrived at the same decision.

The second mistake with the GIC's analysis can be summarised on pages 42 and 43 of the paper where GIC assumes that primary balancing would become more efficient. This is discussed more wholly in Sections 2 and 3, but in general, GIC seems only to have considered the relationship between MDL and shippers, not between shippers and end-users.

Having TOU or telemetry is not the issue, nor is the ILON grace period or margin spread.

The issue is the incentives shippers will have to manage primary balancing when their contractual position is cashed-out close to zero.

The incentives for shippers will switch from doing what is best for the pipeline (by nature of them doing what is best for it), to doing what is best for it (which will have no linear impact on the pipeline as their ROIs will track to zero regardless by way of forced cash-outs).



## Section 5 – Conclusion

In conclusion:

- 1) The GIC must give more thought to the decision, particularly with regard to things it had expressly consulted on but not considered in its analysis.
- 2) There is new, and material, information that GIC needs to consider in its final recommendation.
- 3) The case for Covec reversing its conclusion made in its CBA is compelling.
- 4) The case for GIC more wholly considering its Gas Act and GPS analysis, and in also reversing its support for the change request in the final recommendation, is compelling.
- 5) Theory suggests that primary balancing actions will increase under daily cash-outs, not decrease.

Greymouth Gas is open to change, but change should be done properly, proactively and around a table.

At the highest level, the change request is bad news for end-users so it should not be supported by the GIC. Greymouth Gas hopes this submission sets out logical and reasoned arguments to support this conclusion.

There is no doubt that the change request creates greater targeting of costs to causers, but the cost to achieve this (and the dynamic penalties) are phenomenal in New Zealand's unique and small environment.

This is particularly the case when no tools will be immediately available to attempt to mitigate against the effects of what, quite frankly, isn't a market based balancing change request (especially given the current MPOC requirements), but is primarily a daily cash-out change request.