



GREYMOUTH GAS

24 November 2014

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

Dear Sirs,

RE: 10 October 2014 MPOC (Market-Based Balancing) Change Request

Greymouth Gas New Zealand Limited ("Greymouth Gas") is pleased to make this submission on Maui Development Limited's ("MDL") 10 October 2014 Maui Pipeline Operating Code ("MPOC") Market-Based Balancing Change Request¹ (the "MPOC CR"), following an invitation from the GIC in October 2014.

Greymouth Gas recognises that there are now two balancing processes in train (the MPOC CR process which the GIC is currently consulting on and the industry's pipeline management working group process). Greymouth Gas strongly supports the latter which has good governance and is addressing the problem definition from the bottom-up.

A lot of the interplay and context between the two work-streams was addressed in Greymouth Gas' submission ("previous submission") to MDL on the forebear to the MPOC CR when it was in pre-consultation and draft stage. Greymouth Gas does not support the MPOC CR for reasons contained in its previous submission, which we refer the GIC to².

This letter therefore focuses on the GIC's role in considering the MPOC CR.

However, it is unfortunate that submitters cannot consider the GIC's commissioned cost-benefit analysis ("CBA") at this stage as it has neither been finished nor published. Greymouth Gas therefore reserves³ detailed comment on the MPOC CR and CBA until the GIC calls for further submissions including on its draft recommendation.

In the interim, Greymouth Gas makes some high-level points:

- In the Memorandum of Understanding dated 5 October 2006 between GIC and MDL ("MoU"), GIC is required to have regard for the objectives specified in s43ZN of the Gas Act 1992.

¹ Comprising both the draft marked-up MPOC and the draft change request application

² <http://mauipipeline.co.nz/wp-content/uploads/2014/09/GGNZ-Letter-to-MDL-re-August-2014-draft-MPOC-CR-on-Balancing1.pdf>

³ Apart from this letter and the previous submission

- There is nothing in the GIC's Briefing to the Incoming Minister paper dated 7 October 2014 that suggests that the GIC considers balancing to be a problem that must have an imminent solution.
- The consultation window for this round of MPOC CR submissions is not generous, particularly when GIC has provided industry with additional information since calling for submissions.
- The CBA needs to be quantitative and therefore needs to consider both productive and allocative efficiency. Prima facie, it is difficult to see how the MPOC CR can improve productive efficiency, but it may reallocate allocative efficiency (but at what cost?). Ironically, the CBA may well come down to how it treats dynamic efficiency. However, it is difficult to see how the MPOC CR can be said to be appropriately balancing short and long-run concerns, given it has not had regard for the actual problem definition, there are currently no material productive and allocative balancing problems, and there is a counterfactual industry pipeline management process already underway.
- MDL has not categorically (in writing) ruled in or out back-to-back balancing, so for an optimum outcome the CBA should be assessed against this and the status quo.
- If the GIC obtains an internal or external legal opinion or advice ahead of publication of its draft recommendation, we request the GIC to provide this, or a summary of it, to industry when it calls for submissions on its draft recommendation.
- As part of the above, we request the GIC to strike out the MPOC CR on the grounds that the change request application did not seek to amend the MPOC as amended from time to time, but instead sought to amend the back-to-back version of the Maui pipeline operating code which doesn't form part of the MPOC as this hasn't been incorporated into the MPOC. Furthermore, while we understand that MDL has since provided the MPOC CR marked-up into the MPOC, GIC's advice to industry was that this was strictly for illustrative purposes and is not part of the MPOC CR⁴.
- Does the GIC consider⁵ that MDL has, as required by s5.5(a) of the MOU, '*discussed the MPOC CR with itself in good faith with a view to finding a mutually satisfying resolution or position*'. As noted in s5.5(b) of the MoU, the test isn't whether there has been a satisfactory resolution or position⁶, but whether MDL has had good faith internal dialogue before lodging the MPOC CR. In retrospect, this does not appear to have happened with the back-to-back MPOC change request – so if it has not happened with the MPOC CR, then GIC should also strike out the MPOC CR.
- MDL and its agents should, in theory, be cost neutral under the MPOC CR. Would GIC please confirm whether this is the case? We request a simple explanation as to how the additional charges under the MPOC CR would be treated by MDL.

⁴ And furthermore the GIC notes that there are some discrepancies with that mark-up

⁵ And with what evidence or level of comfort

⁶ Or whether MDL has consulted with other interested parties (or considered their positions) ahead of submitting the MPOC CR

- In this round of submissions, if other submitters raise material process or content issues, we encourage the GIC to consider calling for a round of cross-submissions.

Greymouth Gas looks forward to hearing from the GIC in due course.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chris Boxall', with a long horizontal flourish extending to the right.

Chris Boxall
Commercial Manager