



Transmission Balancing Options Paper

Submissions close 13 March 2009

Greymouth Gas New Zealand Limited (Greymouth Gas) is pleased to make a submission to the Transmission Balancing Options Paper published by the Gas Industry Company in December 2008. Greymouth Gas did not submit on the Transmission Pipeline Balancing Issues Paper (issued August 2008), meaning we can approach this Options Paper afresh. We welcome the opportunity to submit.

- 1. Do you consider that the objectives identified in Section 2 are appropriate for the analysis of balancing options? If not, what other objectives would you propose?**

Principles/Objectives for Balancing Arrangements:

Greymouth Gas notes the objectives set out in Section 2:

1. that balancing arrangements should aim to achieve balancing at least cost (including transaction costs),
2. that users should be able to manage risks associated with balancing charges and running mismatch and have an ability to hedge price risk,
3. that pipeline pressures should be maintained within an appropriate band for safety and service deliverability measures

Comments:

- 1) Least cost is a moot point – the aim shouldn't necessarily be for least cost, it should be for cost neutrality, or for all balancing costs to be passed onto causers (including TSOs). However, an operating framework calling for the Balancing Agent/s to seek the cheapest call gas and most expensive put gas, plus undertaking work on securing call gas supply, should ensure that the balancing costs approach the least cost.
- 2) Another interpretation is that if least cost means the lowest cost possible, then you could be stifling the market by penalising those who have put themselves in a position of competitive advantage.
- 3) Perhaps penalties should not automatically be discounted as an option as it may incentivise shippers to act better – can the GIC explain how users will over-invest in balancing arrangements relative to the current level of investment in OATIS, for example?
- 4) Preserving competition – the GIC should not pay direct attention to this; those who adapt their processes and manage their risks will be better off than those who don't; this is what the market does. The GIC should facilitate achieving the objectives of the regulations.

Objectives of this Paper:

Firstly, there are two over-riding questions to ask:

1. What can be done better now, broadly in line with the current arrangements (i.e. with Vector and MDL both as Balancing Agents)?,
2. Then, after this is addressed, should there be a single independent Balancing Agent or is the current Vector & MDL arrangement sufficient?

Greymouth Gas believes it remiss to tackle the second issue before a full options' analysis is undertaken on the first and before any of these recommendations are implemented, and the success measured.

For each question there are a number of things to explore, which are alluded to in the Executive Summary:

1. *What can be done better now, broadly in line with the current arrangement (i.e. with Vector and MDL both as Balancing Agents)? Issues to explore include:*
 - i. Why can't all costs be wholly passed on through the existing arrangements, e.g. by increasing/decreasing Cash-out prices? TSOs should ensure that, over time, the difference between their balancing costs and cost recovery tracks to zero. Any +/- difference on one day could be factored into the next balancing gas event....
 - ii. At the moment, do TSOs factor in other costs such as transaction and overhead costs? Is there scope for further cost recovery?
 - iii. Perhaps reducing the ILON period to allow Welded Parties and shippers to adjust nominations & flow
 - iv. Reducing the time in advance that MDL has to publish changes to the Cash-out price from 1 week to on-the-day
 - v. Reviewing MPOC tolerances,
 - vi. Reviewing penalties for breaching tolerances
 - vii. MPOC (and VTC) changes for parties to consider,
 - viii. What would it take to move to a D+1 balancing arrangement? This is a major issue for mass market retailers
 - ix. Extending nominations, i.e. Vector's proposal including new BPP pools for Large Stations
 - x. Does the Gas Transfer Agent process on the Vector system need looking at, i.e. no arrears-based trading?
 - xi. Short-term daily gas trading spot market
 - xii. What contracts or diversification can TSOs source to secure supply of call gas such that prices are kept low? This is particularly important
 - xiii. Investigate MDL investing in pressure-control at New Plymouth to assist with line pack management
 - xiv. What can be done to improve transparency and increase information on balancing status – publishing all shippers' Running Mismatch positions?
 - xv. What would it take for Vector and MDL to increase the communication to the industry to improve transparency?
 - xvi. How can Vector and MDL work closer together to increase effectiveness?
 - xvii. What frameworks or mechanisms can be put in place so that Vector doesn't over-correct/double-correct an MDL balancing adjustment

- xviii. To what extent have the Critical Contingency regulations and the implementation of peaking charges addressed the compliance and enforcement of OFOs?
- xix. Can we change OATIS to allow imbalance trades that increase an imbalance at a welded point in order to accumulate imbalance prior to reducing it?
- xx. How can we change the compensation for claims from the incentives pool to operate more efficiently?
- xxi. What can be done to allow users to hedge price risk?
- xxii. After these are bedded down, what other simple mechanisms can be put in place, if needed, relatively easily?
- xxiii. Can MDL investigate passing on balancing costs like Vector does, i.e. similarly to Cash-outs? Is this appropriate? What additional information would Welded Parties and third parties need to help them manage their risks?
- xxiv. More information is required from TSOs to allow shippers to efficiently balance their positions on the pipeline system.

TSOs (or a regulatory approach led by the GIC) should be incentivised to explore all these options first, because if they aren't, TSOs will not get full recovery of costs associated with balancing their pipeline.

Wouldn't exploring all these issues first lead to a cheap, pragmatic way of bringing the current arrangements more in line with the objectives in the Gas Act and Government Policy Statement on Gas Governance, instead of investing a large amount of capital in a new system (as contemplated by Section 4 of the Issues Paper)?

2. *Then, after all other options are addressed, should there be a single independent Balancing Agent or is the current Vector & MDL arrangement sufficient?*
 - i. Has doing things better now improved things such that no further action needs to be taken?
 - ii. Is it better to invest a significant amount of capital in a new system, when industry can continue to use the current reliable system?
 - iii. Will this give value-for-money, e.g.:
 - a) will the up-front and annual costs deliver greater benefits to all industry participants, or just TSOs (who may be looking to strategically or financially limit the costs of running a pipeline business), or just some shippers?
 - b) will the benefits be worthwhile, or is this arguably another initiative like the Gas Registry and M-co, whereby very little has changed regarding end outputs for shippers and consumers (i.e. switches still occur, gas is still allocated) but the costs have more than doubled for shippers?
 - iv. What are the risks of setting up an independent Balancing Agent, e.g. commercial decisions and sensitivities for TSOs, and fast-tracking a system leading to sub-optimal initial outcomes (a la M-co)?
 - v. What is the cost-benefit analysis and do the financials stack up?
 - vi. Are there any other wide-sweeping changes that can be integrated into this?

The only benefits of exploring this list of second issues is that, from the Issues Paper, it would address whether the current regime is too costly and if a single independent Balancing Agent is a viable option, both within the context of a value-for-money vs. market efficiency approach.

What is the additional value-added here to those who would pay for the service? Is the value-add marginal or significant?

In other words, at what cost should the government intervene to ensure the market operates completely efficiently if the additional benefits are marginal, given the costs are worn by the industry, not the government?

2. Do you agree that it is necessary to review tolerances as described in Section 3.1?

Not in the short-term, but possibly in the medium to long-term, as long as this is paid for either by the GIC, and/or by the TSOs.

The GIC should not pass this cost onto shippers or wrap the costs into any capital cost of a potential single independent Balancing Agent. If this is the intention, the GIC should get approval from the industry before incurring any costs. In any case, doesn't the GIC have a separate funding stream for consultative or information-only research papers?

Such a research paper should also address the feasibility of penalty-type arrangements for breaching tolerances and whether this affects appropriate tolerance levels. The GIC should have a regulatory role here to test that the current tolerances are fair.

Tolerance information would be useful in the future, once the balancing arrangement more closely reflects the balancing principles. When everything is working better, perhaps tolerances can be tightened if deemed appropriate.

The last sentence in Section 3.1 says 'The conclusions of this review can be used by MDL, and later, the independent Balancing Agent, to modify tolerance levels'. This suggests that the GIC has formed a view that the market should have an independent Balancing Agent, prior to fully analysing the options.

3. Do you agree that it is necessary to consider MPOC changes as described in Section 3.2?

Yes, but it doesn't go far enough. We agree with the comments in this section, but further MPOC changes, VTC changes and general changes outside of these operating codes should be explored along the lines of the 24 things that could perhaps be done better now (as discussed in the answer to question 1) before we decide if an independent Balancing Agent is required.

4. Do you agree that the primary balancing obligation should remain with pipeline users?

Greymouth Gas agrees that pipeline users should do their best to ensure that receipts match deliveries. But TSOs also have a primary obligation. They are in the

business of operating pipelines, so they should have obligations to manage day-to-day line pack to ensure pipeline safety.

It should be noted that TSOs can also be pipeline users when they buy compressor fuel gas and if they make commercial decisions to manage their own imbalance position. Such actions should also count as primary obligations.

In order for pipeline users to balance their position on a pipeline, they need to receive information from the TSOs, such as their Running Mismatch positions, ILONs, pipeline maintenance, pigging activities and balancing gas events. Users cannot accurately manage their Running Mismatch without this information. It should be the TSOs' primary obligation to provide shippers with the information required to allow them to balance their positions on the pipeline system.

Separating who has a primary and a secondary role is not so easy to define. Regardless of the definition of 'primary', because TSOs and pipeline users are so entwined in the process, TSOs arguably have primary obligations too. Perhaps this is why the GIC has not been able to find out what the costs are of the current Vector and MDL Balancing Agent operations?

5. Do you agree that there should be a single independent Balancing Agent?

Greymouth Gas does not agree that there should be a single independent Balancing Agent, for the reasons outlined below:

Process:

- 1) As discussed in the answer to question 1, there are a number of other easy-win items and objectives to consider which have not been fully addressed. These should be investigated, given time to bed-in, and analysed to see whether they assist achievement of the principles of the balancing arrangements.
- 2) Further to the above, there are a number of industry changes which should help facilitate the principles of the balancing arrangements (no more 367 legacy gas, the increasing unavailability of free Maui call and put gas, the settlement between Vector and MDL, changes to ILON arrangements and the implementation of MDL's peaking and incentives pool arrangements). These should also be given time to bed-in and analysed to see whether they assist achievement of the principles of the balancing arrangements.
- 3) There is likely to be a VTC review scheduled this year, with a new-code perhaps coming into effect in October and there are MPOC reviews underway. Given that these review processes are likely to address issues in the two points above, and therefore reshape the balancing environment, consideration of a single independent Balancing Agent should wait until after the new code/s are brought into force to allow for the changing landscape. Any minor changes thereafter would be addressed via the Change Request process.
- 4) Further to the above point are the questions of whether or not Vector's extended nominations proposal and Genesis' proposal for daily allocations

will gain traction. There are some merits in the Vector proposal and definitely some merits in the Genesis proposal – any changes will likely be discussed during the VTC review. Arguably, the issue here is who will pay for the changes, particularly OATIS, to make these ideas work.

- 5) In Section 5.2 of the Options Paper, the GIC has said that submissions supported the view that two balancing roles were likely to be more inefficient. That doesn't give a mandate to favour a single agent when the issue must be determined based on detailed analysis and the financials.
- 6) As discussed in the answer to question 2, the way the Options Paper is written suggests that the GIC has a view that a single independent Balancing Agent is the best option, yet this conclusion seems to be made prior to the analysis section in the paper and prior to industry comments on all the options. Proper process should be to explore all options first without favouring any particular one until an assessment of all the options is undertaken.

Theory:

- 7) Firstly, and most importantly, the ERGEG does not appear to favour an independent Balancing Agent. This should give industry the steer that the Balancing Agent functions should remain with TSOs.
- 8) Further, Greymouth Gas is not satisfied with the GIC's reasons for going against the ERGEG and favouring a single Balancing Agent. The reasoning in Section 4.2 is a shallow analysis and does not address the wider issues including cost-benefit and exploring easy wins first.
- 9) Greymouth Gas considers that industry needs to explore easy wins first – the actual balancing mechanism is working sufficiently; it is just the recovery of all the costs, securing adequate supply of call balancing gas and the imperfect information for mass market retailers that seem to be the major issues. This is unrelated to who acts as the Balancing Agent and can be addressed separately.
- 10) The GIC does present a good discussion in Section 5.2 on whether one Balancing Agent is better than two. However, as with issues raised in points 1 & 2, a number of these can be addressed with easy wins now and a number of the issues are perhaps not as problematic as the paper makes out:
 - Both TSOs taking balancing action which could conflict with each other can be mitigated by having a framework in place and improving communication between the TSOs.
 - What is the problem with choosing which Balancing Agent to offer flexibility to? This assumes users have limited gas and cannot offer to both. It also assumes that both TSOs will balance at the same time (how often has this occurred in the past?). Do we need to pool gas when MDL's balancing is likely driving the whole balancing process? How will hedging balancing costs be impacted by choosing a particular Balancing Agent?
 - TSOs have an obligation to dispatch the lowest cost balancing option and pass these onto causers. With a framework in place and

increased communication, is it unlikely that high-priced options would be dispatched. Aren't TSOs contractually obliged to seek the most favourable prices?

- With one Balancing Agent, the separation and management of line pack from the provision of transmission services may be problematic – along with re-establishing governance and accountability arrangements.
- Will outsourcing decisions made by Commercial Operators at Vector and MDL to a third party result in any confidentiality issues? When the detail is worked out, what are the complications? Have these issues prevented Vector and MDL combining their Commercial Operator functions in the past? If not, what has?

11) The GIC considers that a single independent Balancing Agent is likely to be the best option for the industry and will provide greater harmonization, increased efficiency and the ability to hedge against balancing price risk. All of these can be achieved in the current state, without the need for a single, nor independent Balancing Agent. For example harmonization can be achieved by the TSOs increasing communication and agreeing on a balancing framework – this removes the risk by keeping both TSOs managing their own pipeline. Also, market efficiency is improving, and the ability to hedge against balancing price risk should be achievable regardless of who the Balancing Agent is.

12) Further to point 11 above, the nature of the GIC's reasoning suggests that the GIC is more concerned with the intangible benefits of having a single, independent Balancing Agent, rather than the tangible ones. Investment decisions are not based on intangible benefits.

13) Arguments about who should be a single Balancing Agent are irrelevant at this stage – the question should be whether or not there should be a single Balancing Agent. The GIC does not address a link between these questions; instead, there is a jump straight to a conclusion that an independent agent should report directly to the GIC. Why is the GIC getting ahead of the game and suggesting that an independent agent should report to them – this is way down the track and why should the GIC care who such an agent reports to as long as the regulatory objectives are achieved?

14) Can the GIC explain how they arrive at their conclusion to recommend an independent Balancing Agent based on the above analysis? Surely the industry will require a detailed cost-benefit analysis first.

Cost-Benefit Analysis & Financials:

15) The Options Paper considers that balancing gas transactions will halve as costs flow through to causers. This should happen anyway, regardless of whether the Balancing Agent/s are independent or not. The numbers in the example are out of date.

16) The argument for justifying the independent Balancing Agent option is that \$0.5m of savings, or 5% efficiencies need to be achieved from lower balancing costs and security of supply flexibility. These savings should be achieved by looking at easy-win initiatives discussed in question 1. Let us

review what are the actual tangible savings that can only be achieved by having an independent agent?

- 17) An independent Balancing Agent will definitely cost more, particularly given the \$2m setup costs and ongoing costs to pipeline users who currently don't have any costs. Surely this contradicts the first principle that balancing arrangements should aim to achieve balancing at least cost.
- 18) Further, TSOs don't appear to pass overhead or transaction costs onto pipeline users. Therefore, with an independent agent, it's likely that they will pass these costs on. This will increase costs because industry doesn't incur them currently.
- 19) There is not enough information on the financials. The industry cannot be expected to approve a \$2m project on a high-level guess at the numbers.
- 20) Greymouth Gas has looked at the robustness of the cost-benefit analysis and we are not convinced that this project would have tangible benefits that recover the costs. A detailed NPV analysis should be done, based on sound assumptions and benefits derived specifically and only from the independent agent option.
- 21) An essential part of most Business Cases is that the risks are fully explored. There is very little analysis of the risks of having an independent Balancing Agent. For example, if the project is fast-tracked, as M-co appeared to be, what cost blow-outs or revenue implications might there be?
- 22) In terms of overall value-for-money, we have been here before with the Gas Registry and M-co. In the Gas Registry, switches still get done as before – yet we have only seen minor process improvements and no tangible changes to our outputs or outcomes from the money invested. Likewise regarding M-co, allocations still happen and we still get allocated delivery quantities – again we have not seen any tangible changes to outputs or outcomes resulting from doubling our annual charges. If it goes ahead, we are concerned that an independent Balancing Agent project will also go down this path: with significant upfront and annual costs but with no/very little corresponding increase in revenue or decrease in costs for industry.

Economics:

- 23) As discussed in the answer to question 4, TSOs have a role in balancing and managing their pipelines. By having an independent Balancing Agent, TSOs will pass on some of the direct obligations and costs of running such a business. Should TSOs be allowed to outsource such obligations?
- 24) An analysis should be conducted of who is likely to benefit most from having a single Balancing Agent, and therefore, a discussion should occur concerning who would pay if it went ahead. A) Will it benefit everyone – most likely not; balancing is still likely to happen, perhaps at slightly cheaper costs than at the moment (but this should be achieved without an independent agent). B) Will it benefit mass market retailers – most likely not; any benefits here are likely to occur through VTC and other daily allocation initiatives. C) Will it benefit TSOs – yes; they will outsource some

risks and costs of running a pipeline business. D) Will it benefit the GIC – yes; it’s another win for the GIC in expanding its role. This suggests that an independent Balancing Agent should be paid for by the GIC and TSOs.

25) Do we really need a costly new system? The current arrangement is working and there are a number of short-term improvements.

Fundamentally, Greymouth Gas believes that the Options Paper has the process wrong. Secondly, we think the theoretical argument does not stack up nor take into account quicker, more cost-efficient solutions. Thirdly, the cost-benefit analysis section is weak and skewed to favouring the single independent agent option. Finally, and very importantly, the GIC has not discussed the economic issues, including who will pay the costs.

In conclusion, we submit there should not be a single independent Balancing Agent.

6. Do you agree with the Section 7.1 preliminary assessment of balancing procurement options?

Yes, the preliminary assessment of the balancing procurement options is a good start to try and improve security of supply, and therefore achieve lower balancing costs.

However, surely more can be achieved by discussions between the TSOs and pipeline users. If the TSOs can secure additional supply, this should benefit the industry if further spot market development is slow.

A preliminary assessment of balancing procurement options should occur anyway, irrespective of whether there is a single independent Balancing Agent or the status quo continues.

7. Do you agree with the Section 7.2 preliminary assessment of daily allocation options?

Greymouth Gas agrees with the conclusions set forth in Section 7.2. Accurate daily allocation will come at a high cost and would probably be stifled by discussions on who would pay that cost. It probably wouldn’t benefit end-consumers greatly either.

It may be sensible to look at daily balancing based on historical algorithms and we support the pursuit of this. However, there are a number of issues to bear in mind, such as:

- One should look at the issue of adjustments when correcting actual data with algorithm data and how this would be flowed onto shippers
- Vector’s Gas Transfer Agent function would need to become trade-in-advance, rather than a week in arrears
- M-co would need to be involved in the process and adapt their systems at their own cost
- Could a Business Day system be developed to reduce the need to have weekend and night staff?
- Payment for any projects relating to this should be made by all parties with non-TOU mass market retailers, in proportion to the GJs of the non-TOU customers they have

8. Do you agree with the Section 7.3 preliminary assessment of the extended nominations options?

Greymouth Gas first comments on Appendix C, then we look at the bigger picture.

Comments on Appendix C

1. Vector argues that Small Stations are the mass market Delivery Points – this may be right, but one can also feed industrial and commercial TOU customers from these gates; which is not mass market in the context of balancing Running Mismatch.
2. We do not support there being a single independent Balancing Agent without following the proper process and addressing the theoretical argument, cost-benefit and economic issues.
3. TSOs have more than a residual safety role because they act as a shipper to manage their own imbalance position and buy compressor fuel. TSOs also have obligations regarding data provision and operationally ensuring the day-to-day service works.
4. We see no problem with continuing to allocate balancing costs to shippers who caused the imbalance, as long as the Small Station, TOU, mass market issue is adequately addressed. To address this, one should assume that the current balancing arrangements continue, e.g. a negative Cash-out is passed onto Code and Non-Code shippers who had a positive Running Mismatch.
5. More discussion is required about whether this concept essentially creates a BPP zone for each Large Station, and, how will these stations act as Receipt Points when they are physically only Delivery Points.
6. Charging penalties to Large Stations may be a good idea, subject to issues raised above. There would need to be a clear process for setting the limits. We submit that penalties should not apply to TOU customers at Small Stations.
7. We support the current arrangement whereby Vector uses the MDL nominations as receipts onto its system. If we had to nominate on the Vector system then, prima facie, we are likely to nominate the same as the MDL nomination – what would be the point of doing a double nomination?
8. If injectors nominate the same nomination from the field to Vector and from Vector to the Small Stations, how will imbalance be created at the Maui/Vector Welded Points? How can you measure individual shipper flow at these points? Surely the obligation to match injection quantities to nominations should stay with the Welded Points linked to a Production Station or gas field. Changing the existing arrangement may complicate things.
9. How will metered quantities be considered? It would be pointless to nominate receipts from metered quantity Receipt Points, such as Mokoia.
10. Why would we nominate from a Maui/Vector Welded Point to a Delivery Point? Does Vector mean that shippers would need to nominate all receipts at

- Receipt Points to go to all Delivery Points, thus meaning every Delivery Point is also a Receipt Point, hence every Delivery Point is its own BPP pool? It doesn't look like this is the intention, rather it looks like one would nominate for each existing BPP pool and the Large Stations separately. Again, this is what happens at the moment (except for shippers saying the split of nominations for Large stations). What is the impact on displaced gas nominations and why change the current arrangement?
11. Ignoring the Large Stations, why separate the existing BPP pools into two – the Receipt Welded Point and the Small Station Pool. This doesn't achieve much because injecting parties are likely to be the shippers and the shippers are likely to move all gas that they inject (or receive from trade). How would Welded Point imbalance be created? Why change this when separating out the existing BPP pools seems to complicate the process?
 12. Wouldn't a more simple approach be to create some Notional Receipt Points on the Vector system, i.e. one for every Large Station, in addition to the current BPP pools? This would simplify everything. E.g. one could nominate from a Taranaki Welded Point to Rotowaro (for mass market and commercial customers), and hypothetically from a Taranaki Welded Point to Southdown Power Station – all using the current systems. Our arguments seem related and Vector's proposal has some merit.
 13. Has Vector thought of the implications and obligations of Non-Code shippers at a Large Stations when passing on costs? For example, if a Non-Code shipper at a Large Station has any balancing costs assigned under the proposed new framework, Vector would be unable to fully recoup the costs from the causer. This is because you would have to consider the Non-Code shippers' position in the current wider BPP pool and therefore also Shippers' contributions (as per historical practice), but the VTC would not allow anything to be passed onto those Code Shippers as they would be in a separate BPP Pool. Vector Transmission would wear the swing – is this the intention? What mechanism would be employed to ensure that costs are passed solely onto Non-Code shippers at Large Stations? A similar issue may also arise with Non-Code shippers in the other BPP pools.
 14. More understanding is needed as to why one would change terminologies, e.g. Mismatch.
 15. The proposed process for determining 'Imbalance Positions' is the current process, particularly with the BPP Commencement Day. It would be good to do Large Station allocations daily.
 16. One should not regulate gas sales agreements to enable shippers to pass on their balancing costs to end users – this is taking regulation too far. Let the market decide.
 17. We disagree with removing the ILON, Operational Balancing Agreement and Balancing and Peaking Pool processes. These are working fine and are being improved. We should not think about removing these until agreement is reached on the mechanisms that would replace them. Both TSOs also need to be on the same page here and engage in a consultative approach with industry.

High Level Comments

18. We agree with the GIC's analysis in Section 7.3. The paper does raise the need for further analysis, which is definitely required if this moves forward.
19. At this stage, we do not support removing BPP and ILONs, the new nominations process or having a single Balancing Agent, but we do support daily allocations at Large Stations, an increase in the number of BPP pools (i.e. the existing ones plus Large Stations) and perhaps penalties for Large Stations (as this would keep overall costs down).
20. We agree with the GIC that Vector's proposal is quite extensive and may introduce unforeseen issues. If you separate out the balancing activities from the change in operations, there is a big question as to who would pay for the changes to OATIS. How much would this cost? With some improvements, the costs could be reduced. There is also a negotiation process needed with the industry which should be pursued separately to this paper.
21. Whilst there may be merit with Vector's proposal, it only skirts around the wider balancing issues. The most value should be achieved by addressing mass market allocation issues, ensuring TSOs pass all costs onto shippers and securing supply for call balancing gas.
22. We submit that Vector's proposal, and all other status-quo type initiatives and easy wins should be addressed before the question is asked whether there should be a single independent Balancing Agent.
23. New Zealand is a small market, let's have a simple solution.

9. Do you agree with the hybrid approach proposed?

At this stage, we support everything detailed in the Options Paper except establishing an independent Balancing Agent function.

The scope should be widened to comprehensively explore all potential options that can be achieved now or in the short-term, such as those raised in the answer to question 1.

10. Do you agree with the proposed work programme?

Greymouth Gas does not agree with the proposed work programme. In Section 8.2, the GIC says that there are a number of components which can be pursued independently.

We strongly believe that these (and other) components and the rest of the GIC's proposed work programme should be addressed first, plus we should also let recent/upcoming industry developments bed-in. It is hoped that doing this will assist in the achievement of the principles of the balancing arrangements, possibly removing the need to interfere in the market further.

Only then should an analysis be undertaken of the need for a single independent Balancing Agent. Such an analysis should address the weak theoretical argument in

the Options Paper, the lack of robust financial detail, the light cost-benefit analysis, the lack of consideration for the current economic environment and who would pay.

We consider that fast-tracking a single independent Balancing Agent option is wrong. Analysis of the Options Paper suggests that implementing this option may lead to increased costs, which is contrary to the primary principle of balancing arrangements.

For all these reasons, we consider that the industry and the GIC should not proceed with establishing a single independent Balancing Agent function.

The industry and the GIC should focus on the easy wins first. Industry does not need a \$2m white elephant.