

1 May 2006

Ian Dempster  
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Gas Industry Company  
PO Box 10-646  
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Dear Ian

**Review of Concept Design for Wholesale Gas Market**

Genesis Power Limited trading as Genesis Energy welcomes the opportunity to provide comments to the Gas Industry Company (GIC) on the consultation paper entitled 'Concept Designs for Wholesale Gas Market' dated March 2006.

In general, Genesis Energy supports the findings and conclusions reached in the paper and we support the development of a bilateral trading platform as the most appropriate market mechanism, in the event further analysis of costs and benefits concludes that a more formal market is required to support the current trading arrangements.

If you would like to discuss any of the matters raised in our submission please contact me on 09 5804917.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Roger Johnston', with a stylized flourish at the end.

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**Concept Design for Wholesale Gas Market  
Submission of Genesis Energy  
1 May 2006**

**Introduction**

Genesis Energy's view is that the current arrangements for trading (by way of private bilateral arrangements) are sufficient to support current trading requirements. Genesis Energy recognises however that future trading requirements are likely to increase as volumes of flexible gas from the Maui field reduce and are replaced by flat profile take-or-pay supplies.

Genesis Energy also recognises that the Government Policy Statement indicates, and the GIC is of the view that, a more formal market needs to be developed and implemented. If following a full analysis it is determined that such a market mechanism is required, Genesis Energy fully supports the conclusions of the GIC set out in the Consultation Paper that the bilateral trading platform is the most appropriate market mechanism. In particular, it is Genesis Energy's view that a bilateral trading platform:

- is sufficient to support the long-term requirements of the New Zealand wholesale gas market, satisfy the requirements of the Government Policy Statement and industry requirements (including that any market mechanism introduced is low cost, durable and fit for purpose);
- is the option which best and most economically accommodates the lack of depth and low liquidity of the New Zealand market.

We note the Supplementary Note on Section 41 of the Crown Minerals Act 1991 (dated 31 March 2006) and therefore, as requested, our submissions do not address the issue of the impediment or uncertainty that s41 imposes on the development of a wholesale gas market. Genesis Energy looks forward to reviewing the practice note to be issued by the MED and participating in any dialogue on ensuring that this issue is adequately addressed.

Genesis Energy notes the GIC's proposals for taking this work stream forward and considers that, as proposed, appropriate consultation and working groups need to be established with industry on specific key issues including prudential requirements, the form of standard form contracts and ensuring that prior to implementation of any market trading mechanism, such mechanism is consistent with (or accommodates) industry allocation arrangements and the NGC / MPOC transmission arrangements (and appropriate amendments, if any, have been made to such arrangements).

## Response to Questions in Paper

Attached

Q1	<p>Do submitters agree with the objective defined for this work stream? If not, how and why would you change it?</p>	<p>Genesis Energy submits that the objective of the work stream be amended to read:</p> <p>“to ensure the industry has workable and efficient arrangements for the trading of gas (including regulations and rules where appropriate) that satisfy both government and industry”</p> <p>(i.e. delete the word “develop” and substitute the words “ensure the industry has”).</p> <p>As currently drafted, the use of the term “develop” assumes that the industry requires a more formal or organised structure to be put in place which is additional to the existing gas trading market. Genesis Energy considers that, at least during the period that Maui legacy gas continues to be supplied to the market, the current trading by way of private bilateral arrangements is sufficient.</p> <p>If an organised market for physical trading of gas is to be implemented, then Genesis Energy agrees with the analysis set out in section 3 of the Consultation Paper that the market should be considered as comprising both short term and long term markets and that the key drivers for a formalised gas trading market would be to give market participants day-to-day flexibility in managing their take-or-pay obligations and contract supply profiles. Accordingly it is Genesis Energy’s view that any trading solution proposed by this work stream should apply only to the short-term market (as defined in section 3).</p>
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Q2	<p>Taking into account the conceptual nature of the options at this stage, do submitters agree that these criteria reflect the key measures of suitability of a trading mechanism in the New Zealand wholesale gas market? If not, what criteria would allow a better evaluation of proposed mechanisms?</p>	<p>In addition to the matters set out in section 5 of the Consultation Paper, Genesis Energy considers that evaluation criteria should also specifically include:</p> <p><b>Fitness for purpose:</b> The implementation of any market structure should be appropriate, deliver on the required objectives and be fit for the purpose for which it is likely to be used by market participants in particular having regard to the limited number of market participants and the lack of liquidity of the market. In this regard Genesis Energy considers it essential that the implementation and operation of such a market mechanism:</p> <ul style="list-style-type: none"> <li>• does not impose significant costs or administrative requirements on market participants;</li> <li>• takes account of constraints which apply to market participants including contractual constraints such as that market participants hold bundled transmission and supply contracts – although it is preferable that gas deficits / excesses under these contracts are able to be traded, if this is not able to be accommodated in a market mechanism then it must be recognised, for example by ensuring participation in the market is voluntary and trading can occur outside of the mechanism.</li> </ul> <p><b>Durability:</b> Genesis Energy also considers that an express criterion against which any market structure should be assessed is durability – namely that the structure will offer the market a lasting solution that is able to accommodate the changing needs of a growing and increasingly complex market. Although this may be considered implicit within the proposed criteria of regulatory certainty and scalability, Genesis Energy submits that it should be an independent and express criterion.</p> <p>Genesis Energy otherwise fully concurs with the evaluation criteria set out in section 5.</p>
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Q3	<p>Do submitters agree with the characterisation of existing long-term contracts outlined in this section, or are there additional important contract features that should be considered?</p>	<p>Genesis Energy agrees that the factors outlined in section 7 of the Consultation Paper are likely to reflect contracts currently in the market, however notes:</p> <ul style="list-style-type: none"> <li>• Section 7 states that the fact that little uncommitted gas is expected to come to market reflects the need by producers to secure buyers in order to support the decision to invest in a field. Although this may be one factor which may influence whether or not gas comes to market, it is Genesis Energy's view that there are a number of other equally critical factors which influence the current prospective availability of gas, including regulatory uncertainty and limited economic domestic gas prospects. In this regard it is important that, in order to satisfy the evaluation criteria set out in section 5 and discussed above, any market structure contemplate, and be able to accommodate, sources of gas other than domestic supply as well as domestic supply from locations outside Taranaki.</li> <li>• As a point of clarification, supply from a field is normally offered at the nearest interconnection point with the high pressure gas transmission system.</li> </ul>
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Q4	<p>Do submitters agree that there is both a theoretical and practical need for long-term contracts in the wholesale gas market? If not, why not?</p>	<p>Genesis Energy is firmly of the view that there is both a theoretical and practical need for long-term contracts in the wholesale gas market, and that it is absolutely fundamental that market participants, (including producers, asset owners and other purchasers) continue to be able to privately and confidentially negotiate the terms of such bilateral contracts.</p> <p>Genesis Energy notes and concurs with the theories regarding the demand for long-term contracts, and notes further, from a practical perspective:</p> <ul style="list-style-type: none"> <li>• Long-term contracts are required by both producers and wholesale users to support investment decisions in exploration and field development and in plant and customer bases respectively.</li> <li>• Long-term contracts may be required to secure funding for infrastructure development. The ability to secure long-term contracts must be available to market participants seeking to develop infrastructure assets, the cost of which will be partially debt-funded as banks or other lending institutions are often unable to support the level of market risk able to be borne by equity investors.</li> </ul>
Q5	<p>Do submitters agree that auctions, negotiations and posted prices represent the range of contracting mechanisms available for long-term contracting in the New Zealand wholesale gas market? If not, what other options should be considered? Please provide a brief outline of the suggested mechanism.</p>	<p>In addition to the contracting mechanisms set out in section 9, Genesis Energy notes that alternative mechanisms have been developed as a result of major gas users investing upstream in exploration and production projects as a means of accessing and securing gas supply, including equity and farm-in gas purchasing arrangements which may involve pre-payment of gas during the construction / development phase of an upstream development, which gas is then uplifted during the production phase.</p>

Q6	Do submitters agree that the key features of each of the mechanisms are captured in this section? If not, what features have been excluded and what impact would they have on the evaluation of the options below?	Genesis Energy notes the features of the mechanisms set out in section 9 of the Consultation Paper and agrees that the features are representative of such mechanisms, subject to the specific processes that may be adopted in each case by the seller.
Q7	Do submitters agree that posted prices should not be considered further? If not, what features of posted prices have not been considered that lead you to this conclusion?	Genesis Energy supports the conclusion of the GIC that posted prices should not be considered further. In particular, Genesis Energy agrees with the conclusion that the variable nature of terms and conditions required by both buyers and sellers in the wholesale gas market (to allow for factors such as specific plant requirements and fuel portfolio management) means a posted prices mechanism is not sufficiently flexible or dynamic to accommodate the necessarily specific needs of each market participant.
Q8	Do submitters agree with the evaluation of the options outlined above? If not, why not? Please explain what your argument would mean for the conclusions.	Genesis Energy does not necessarily agree with the general classification of negotiation as a low cost option in comparison to auction, however notes this only. This view does not change its support of the conclusion that there is no benefit to be gained from formalising or mandating procedures to govern long-term wholesale gas contracting.

Q9	<p>Do submitters agree that there is prima facie no net benefit to be had from formalising or mandating the form of auction by which long-term contracts are established? If not, what benefits of formalisation or mandating, or costs of the existing auction form have not been accounted for?</p>	<p>Genesis Energy fully supports the GIC's conclusion in section 10 of the Consultation Paper that there is no net benefit to be gained from formalising or mandating the mechanisms by which long-term contracts are established. Genesis Energy concurs with the view that this is best left to the market and market forces which will, over time, determine the features of such contracts.</p> <p>Parties must be free to negotiate and seek to put in place arrangements that, in each case, satisfy their particular requirements and, if necessary, the requirements of their debt providers. The optimal basis for contracting will depend on the then current market conditions and the specific circumstances relevant to the buyer and/or seller such as:</p> <ul style="list-style-type: none"> <li>• the supply / demand balance;</li> <li>• the location of the supply or demand, as the case may be;</li> <li>• the quantum and term of supply / demand being added to the market;</li> <li>• the size of the associated investment.</li> </ul>
Q10	<p>Do submitters agree that the mechanisms listed above cover the range of options for short-term trading mechanisms in the wholesale gas market? If not, what other mechanisms are available?</p>	<p>Genesis Energy agrees that the mechanisms outlined in section 11 of the Consultation Paper appear to broadly cover the range of mechanisms available. Genesis Energy notes however that MPOC and the standard form NGC TSA contemplate the short term trading of gas in order to balance the respective pipelines (which by definition require the existence of a short term trading market). Under the mechanisms set out in standard form NGC TSA short term balancing gas is secured through a tender process, supported by a back-up standing contractual arrangement. This appears to be a further mechanism to those listed in section 11 or at least a variant of the direct bilateral mechanism. Genesis Energy is interested in how the proposed market structure will interface with and accommodate these existing regimes.</p>



Q11	<p>Do submitters agree that the analysis above accurately reflects the applicability of anonymous/known counterparty and compulsory/voluntary participation to the mechanisms identified? If not, what relevant factors were not identified?</p>	<p>Genesis Energy agrees with the analysis of potential advantages and disadvantages of these factors to each of the mechanisms identified.</p> <p>As noted above, Genesis Energy supports the GIC's recommendation that a platform bilateral trading mechanism is the most appropriate for the New Zealand market. Genesis Energy considers that the identified disadvantages of anonymity of trading counterparties prior to confirmation of trades in the platform bilateral mechanism is sufficiently mitigated by appropriate prudential requirements (discussed below).</p> <p>Genesis Energy's view is that the trading market should be voluntary – this is consistent with our view that the long-term gas contracting market should be left as it is, which includes that it should not be subject to a compulsory gross pool (or any other compulsory) arrangement. Further, any compulsory arrangement is likely to add administrative and compliance costs to market participants which are both unnecessary and inappropriate.</p>
Q12	<p>Do submitters agree with this outline of the key effects of the characteristics of the gas market on mechanisms for short-term trading? If not, what other factors should be considered and how do they affect the viability of the options?</p>	<p>Genesis Energy agrees with the analysis set out in section 13. In particular, Genesis Energy strongly supports the GIC's conclusion that bilateral contracting offers the greatest flexibility and ability to accommodate market participants' differing requirements. Given the lack of a liquid market, limited number of market participants and the differing natures of their portfolios bilateral contracting appears to be the most appropriate and cost effective mechanism.</p>
Q13	<p>Do submitters agree that both the clearing house and gross pool options are not likely to be practical mechanisms for short-term trading in the New Zealand wholesale gas market and should not be considered further? If not, please explain your reasoning.</p>	<p>Genesis Energy strongly supports the GIC's conclusion that both the clearing house and gross pool options are not appropriate for the New Zealand market. These mechanisms are likely to impose implementation and administrative costs on market participants which are not warranted given the size and depth of the New Zealand market. Genesis Energy considers that the volume of trades likely to be conducted through the market mechanism is not sufficient to realise the potential benefits which clearing house and gross pool mechanisms may offer.</p>

Q14	<p>Do submitters agree that a party-specific limit on the net trading position of participants is sufficient to manage the risk of default? If not, are there other risk management mechanisms that would allow anonymous trading?</p>	<p>Genesis Energy considers that the prudential requirements of the market mechanism is one of the most fundamental elements of its design. It goes to the trust that market participants will have in the market mechanism. To ensure a voluntary market is utilised market participants require certainty that they are dealing with credible counterparties.</p> <p>The issues of whether a party-specific net trading position is sufficient to manage default risk and whether the net sell position should be based on a mismatch position or absolute volume are very complex and require significantly greater consideration than currently set out in the Consultation Paper once the appropriate market mechanism is decided upon. It is Genesis Energy's preliminary view that:</p> <ul style="list-style-type: none"> <li>• prudential requirements must apply to both buyers and sellers in the market; and</li> <li>• limits will need to be placed on both the volume (i.e. GJ/ day) and dollar amount which a party may trade which take account of the prudential standing of that party.</li> </ul>
Q15	<p>Would submitters prefer a net sell position based on an ability to pay for an underlying quantity of mismatch gas or a pure volume measure? Please explain your preference.</p>	<p>See Q14 above.</p>

Q16	<p>Do submitters agree with the assessments of the relative advantages of trading at a hub and trading at all welded points outlined above? If not, what other factors should be considered, and how does your argument affect the conclusion?</p>	<p>Genesis Energy agrees with the assessment of the relative advantages of trading at a hub and trading at all welded points outlined in section 14.2 of the Consultation Paper, and notes further that it is important that transmission arrangements (i.e. MPOC and NGC):</p> <ul style="list-style-type: none"> <li>• are sufficiently flexible and clearly allow such spot trading to occur when capacity so allows (in particular the NGC TSA); and</li> <li>• that gas traded at the hub should incur the fixed portion of the MPOC transmission fees once only for transmission (i.e. either in to or away from the hub).</li> </ul> <p>Genesis Energy's preferred option is that trading occurs at a single hub on the Maui pipeline as:</p> <ul style="list-style-type: none"> <li>• it minimises the number of contracts which parties are required to monitor and under which they place bids and offers;</li> <li>• MPOC and NGC transmission on the Frankley Road pipeline allows spot transmission to alternative delivery points;</li> <li>• under MPOC transmission costs are known from point to point so trading at a single hub is sufficient and transparent for market participants.</li> </ul>
Q17	<p>Do submitters consider that the other options identified represent the range of potential solutions and that the assessment of them is accurate? If not, please elaborate.</p>	<p>Genesis Energy agrees that the range of other options identified as potential solutions set out in section 14.2 is appropriate, however notes:</p> <ul style="list-style-type: none"> <li>• The selection of an option should not be driven by Maui legacy gas considerations as those parties also have third party gas contracts and the mechanism adopted should (as noted in the initial discussion on the evaluation criteria) be durable and scalable such that it accommodates, and is the best solution for, the post-Maui legacy gas era.</li> <li>• OATIS should not drive market design without a full review of the costs and benefits associated with each option.</li> </ul>

Q18	<p>Do submitters agree that Frankley Road and Rotowaro should be specified as hubs? If not, where do you consider a hub should be and why is it more advantageous than Frankley Road and Rotowaro?</p>	<p>Genesis Energy prefers that a single hub based on the “postage stamp” option is adopted, which encompasses Frankley Road to Tikorangi which would avoid the need for Rotowaro as a second hub. It is Genesis Energy’s view that this option is able to be accommodated under MPOC. As noted above the MPOC fixed fee portion should be payable only once (either into or out of the Hub).</p> <p>Under the transmission regime there is a fixed transmission cost (and therefore known cost differential) from Frankley Road to Rotowaro so there is no real value in having Rotowaro as a second trading hub unless transmission arrangements are amended such that parties are able to trade without having to sign up as Shippers under MPOC. A better second point, in Genesis Energy’s view, is Kapuni due to its position on the gas transmission system and the availability of Kapuni, Swift and Kupe gas at that point.</p> <p>If Rotowaro is selected as a second hub then it should also include Huntly Power Station on a “postage stamp” hub definition as Huntly Power Station is likely to be a source of / and sink for balancing gas.</p>
Q19	<p>Do submitters agree with the characterisation of disputes processes, information disclosure and contract standardisation outlined above? Are there any other factors that should be considered?</p>	<p>It is Genesis Energy’s view that trading contracts under the market structure should be standardised with the ability for special terms (including price, volume and other deal-specific terms) to be negotiated and agreed. Such terms should include standardised dispute resolution provisions which reflect, and be appropriate for, the likely types of disputes, and in particular, should include a fast-track dispute resolution process that can be used for payment defaults.</p> <p>Genesis Energy agrees that the level of information disclosure will to some extent be dictated by the type of market structure adopted.</p>

Q20	Do submitters agree that the characterisation of the contract terms and features of direct bilateral trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?	Genesis Energy agrees with the characterisation of the identified terms of direct bilateral trading contracts.
Q21	Do submitters agree with the assessment of the direct bilateral trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.	<p>With respect to the assessment of the direct bilateral trading mechanism Genesis Energy notes that the stated disadvantages for some of the criteria are, in Genesis Energy's opinion, adequately mitigated by the size of the market. For example, although the assessment that direct bilateral contracts do not score highly on efficiency may be correct for large markets we do not consider this to be a significant risk inherent in the current New Zealand market.</p> <p>Further we agree with the GIC assessment that the risks associated with contract availability and competitive effects and for administrative and compliance costs are mitigated by the size of the market.</p>

Q22	<p>Do submitters agree that the characterisation of the contract terms and features of platform bilateral trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?</p>	<p>Genesis Energy broadly agrees with the characterisation of the features of the platform bilateral trading mechanism. We note however that certain aspects require further detailed consideration if the bilateral trading mechanism is to be adopted. We note at this stage:</p> <ul style="list-style-type: none"> <li>• Appropriate mechanisms for prudential requirements need to be carefully considered and Genesis Energy does not currently consider that it has been sufficiently reviewed. As noted above, we are not currently in a position to endorse the recommendation set out in section 16.1.3 and wish to engage further with GIC on this matter.</li> <li>• We agree that the weighted average price and total (net) volume traded is likely to be the more useful information for price discovery and transparency for market participants although this may depend upon the volume of trades and the ability to identify parties in the event of low volumes.</li> <li>• The duration of available trades of daily and weekly is currently sufficient however the market mechanism must be sufficiently flexible to accommodate other durations if transmission arrangements require or adopt the same.</li> </ul>
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Q23	<p>Do submitters agree with the assessment of the platform bilateral trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.</p>	<p>Genesis Energy notes that the GIC's assessment of the platform bilateral trading mechanism and the conclusions drawn appear reasonable. Genesis Energy considers that any further market mechanism evaluation (including the full cost benefit analysis) should be limited to an evaluation of direct bilateral trading and the platform bilateral trading mechanisms to evaluate whether there are advantages to the market to implementing the platform bilateral trading arrangement. Although it is unlikely to affect the conclusions drawn, Genesis Energy notes:</p> <ul style="list-style-type: none"> <li>• With respect to efficiency, market power may be determined by various factors specific to the parties particularly as the market mechanism will be used as a risk mitigant to manage take-or-pay obligations and contract profiles. In these circumstances, where a party may be seeking to mitigate contractual consequences of a failure to take, parties may be unlikely to hold out until the last minute in order to ensure the highest price possible is offered.</li> <li>• With respect to contract availability and competitive effects and regulatory certainty, the identified risks are best managed by use of the "postage stamp" hubs discussed in section 17 above which give, in Genesis Energy's view, greatest access of the market mechanism to the majority of existing gas supplies and flows and gives market participants the most options for secondary trading.</li> <li>• Genesis Energy fully supports the implementation of a low cost option as the most appropriate for the New Zealand market, given its size and depth. We also concur with the view of the GIC as to the matters to be resolved prior to the implementation of such a market structure (set out in section 16.2.5) as the appropriate resolution of these issues is required to ensure that the mechanism is trusted and used by market participants and will, in our view, encourage such use.</li> <li>• Genesis Energy fully supports a low-cost mechanism which is able to accommodate the growth anticipated in the market and considers that any change in the market by way of a single large field or importation of LNG (which, like existing supplies is likely to be largely contracted) should be able to be accommodated through appropriate review and change mechanisms. Genesis Energy agrees with the GIC conclusion that this risk is not better managed by any of the other market mechanisms.</li> </ul>
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Q24	Do submitters agree that the characterisation of the contract terms and features of net pool trading outlined above is appropriate? If not, what additional, or different terms should be considered and why?	Genesis Energy broadly agrees with the characterisation of the net pool.
Q25	Do submitters agree with the assessment of the net pool trading mechanism? If not please explain the nature of your argument and what it would mean for the relative score in Table 4.	<p>Genesis Energy agrees with the assessment of the net pool trading mechanism. It is Genesis Energy's firm view that the limited depth and low level of liquidity of the New Zealand market does not warrant the introduction of a pool mechanism in particular in relation to the likely implementation and operational costs which would be imposed on market participants, and notes:</p> <ul style="list-style-type: none"> <li>• it is unlikely that efficiency benefits will be realised or that any benefits that may be realised would warrant the investment, compliance and operation costs likely to be imposed on market participants under the net pool mechanism;</li> <li>• with respect to contract availability and competitive effects, any benefit of the introduction of a pool mechanism above those that would be gained from a bilateral trading mechanism appears likely to be minimal given the absolute level of trading that will occur and does not warrant the introduction of a more complex and costly system.</li> </ul>
Q26	Do submitters wish agree that both these options require further consideration? If not, why not?	Genesis Energy's considers that the introduction of a voluntary trading tool is not a matter appropriate for legislation and that the appropriate mechanism should, and is able to, be agreed by way of voluntary code (which the wholesale gas market now has some experience and track record in achieving). It is however fundamental to this process that sufficient time and resource is allocated to appropriate industry consultation. Genesis Energy considers that market participants are sufficiently sophisticated and well-informed and are the best placed to develop the appropriate mechanism, provided that sufficient time is allowed for industry consultation and agreement.



Q27	Do submitters agree that issues with gas allocation can be resolved separately from the establishment of a trading mechanism? If not, why not?	Genesis Energy considers that there further development is required of gas allocation and reconciliation processes before it can be determined as to whether such issues may be dealt with separately. In any event Genesis Energy considers that it is important that prior to implementation of any market mechanism, market participants are confident that such mechanism is compatible with allocation arrangements (and any necessary amendments have been agreed).
Q28	Do submitters agree that these issues should be considered further but need not delay the development of the wholesale market? If not, what factors have not been considered that lead you to this conclusion?	Although Genesis Energy concurs that transmission issues may be dealt with separately and need not currently delay the further analysis and development of the wholesale gas market, it is important that such issues are resolved prior to implementation of any market mechanism such that market participants are confident that the market mechanism is compatible with transmission arrangements (and any necessary amendments have been agreed).

Q29	<p>Do submitters believe that the summary of the suitability of the mechanisms above accurately reflects the relative strengths and drawbacks of each of the options as considered? If not, which factors not considered would alter the relative merits of the options?</p>	<p>As noted above, Genesis Energy considers that the current direct bilateral market adequately addresses the secondary trading needs of the market. Genesis Energy recognises however that there may be advantages in introducing a more formal market, particularly for the post-Maui legacy gas period. In this regard Genesis Energy supports the conclusion of the GIC that the most appropriate market mechanism is the platform bilateral trading mechanism as it fulfils what we consider to be the following key criteria:</p> <ul style="list-style-type: none"> <li>• It is the relatively low cost option (in both the implementation and operation phase). Genesis Energy can not see any circumstance in which a net pool mechanism is warranted given the limited depth and liquidity of the wholesale gas market.</li> <li>• Any benefit which, in theory, could be gained from the implementation of a net pool mechanism is highly unlikely to be warranted in New Zealand given market size and the lack of market liquidity.</li> <li>• Genesis Energy considers the bilateral trading platform should be able to be designed to accommodate future market growth (including the discovery of a new major field or the importation of LNG) and is therefore both scalable and durable.</li> <li>• It is the option which best copes with the likely low liquidity of the market.</li> <li>• Satisfies the requirements of the Government Policy Statement.</li> </ul> <p>In taking this work stream forward Genesis Energy submits that the evaluation and cost-benefit analysis now to be carried out should assess whether there is significant advantage in implementing a platform bilateral trading mechanism over maintaining the status quo (i.e. direct bilateral trading). In doing so, Genesis Energy wishes to be clear that this is on the basis that (as described in the GIC Consultation Paper) the platform bilateral trading mechanism would be a voluntary market and parties will be free to continue to enter into direct bilateral trades.</p>
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