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Dear Ian

Gas Balancing – Second Options Paper

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company (GIC) on the consultation paper "Transmission Balancing Second Options Paper" dated July 2009.

Genesis Energy considers that transferring balancing arrangements from pipeline codes to regulations, to the degree outlined in the consultation paper, is risky and is likely to be unnecessary.

While transmission open access is nearing its fourth anniversary, the impetus to evolve balancing arrangements is less than nine months old. Since the expiry of legacy Maui balancing arrangements in December 2008, Maui Development Limited (MDL) has made considerable progress in improving balancing arrangements. An example is the procurement of balancing gas via an electronic balancing gas exchange.¹

Genesis Energy considers that it would be better to allow an industry-led code change process to take its course than to shift resources into a regulatory process. Such a shift would be disruptive and is not likely to lead to better balancing outcomes or lower cost implementation and administration. In the long

¹ The exchange is yet to be formalised under MPOC, but is operating and providing tangible benefits now.

term, there are advantages to retaining balancing arrangements within MPOC. In particular, this:

- preserves flexibility for arrangements to continue to adapt to changing market conditions;
- maintains close operational alignment between code changes and changes to the OATIS system; and
- involves appropriate regulatory oversight through the GIC's role in the code change process.

There appears to be a credible prospect of MDL delivering on a project of improving MPOC balancing arrangements within a satisfactory timeframe. Genesis Energy will support this process and understands that other gas industry participants are similarly supportive.

If this process fails to show tangible signs of progress before the end of the year, then Genesis Energy accepts that the next best option would be to revert to the "participative regulation" approach described in the consultation paper. In the interim, there is valuable work that the GIC could be leading on balancing gas allocation timeframes (the "D+1" proposal), tolerances, downstream unaccounted for gas levels, and interconnection arrangements. There are also emerging issues around transmission capacity adequacy that should be of interest to the GIC.

Genesis Energy appreciates that Vector dissatisfaction with its existing commercial arrangements may be seen as a driver for regulation. However, this in itself is not a sound basis for extinguishing the existing code arrangements.

Genesis Energy suggests that:

- improving balancing arrangements and allocation processes within the existing codes will make any difficulties that Vector faces less acute; and
- Vector is free to propose changes to the Vector Transmission Code (VTC) that address its difficulties directly.

Genesis Energy would, for example, be open to VTC amendments implementing a requirement for shippers to pay disputed amounts in the first instance. This would help to address any cash flow issues that Vector faces under current arrangements.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely

A handwritten signature in black ink that reads "R Parry". The signature is written in a cursive, flowing style.

Ross Parry
Regulatory Affairs Manager
Genesis Energy