30 March 2015

Ian Dempster
General Manager - Operations
Gas Industry Company
PO Box 10-464
Wellington 6143

Dear Ian

Maui Pipeline Operating Code Change Request

Mighty River Power welcomes the opportunity to provide this submission on the Gas Industry Company's (GIC) Draft Recommendation on the Maui Pipeline Operating Code (MPOC) change request on Market Based Balancing (MBB) and is happy for this submission to be publicly released.

Mighty River Power is disappointed that the GIC has decided to support the MMB change request in its draft recommendation given the lack of support from retailers and the on-going discussions had between retailers and the GIC since 2008 on the need to introduce daily allocation arrangements for the downstream markets. We take this opportunity to highlight a number of issues raised within the draft recommendation.

We are pleased to note that the GIC agrees with our position and that of a number of submitters that the benefits of moving to a market based platform for balancing gas transactions are not dependant on the implementation of the MBB change request[1]. We also note the GIC's agrees that the MBB change request is not a panacea for high pressure issues on the pipeline.[2]

Mighty River Power disagrees with the GIC and Covec's conclusion that because only 7.2% of ILON's are cashed out that shippers have a reasonably strong ability to correct their pipeline positions[3].

Whilst the issuing of an ILON does provide a shipper with the opportunity to adjust their pipeline position to avoid a cash out this is a crude and uncertain arrangement. An ILON signals that the pipeline is out of tolerance and allows shippers to make an adjustment to their nominations in an attempt to bring the pipeline back into balance. Shippers at the Vector welded points where most, if not all ILONs are issued, simply do not know the level of adjustment that they need to make with any degree of accuracy. Firstly shippers speculate on whether they need to make an adjustment or not to their nominations. They then estimate how much they need to adjust their nominations to contribute to the attempt to move the pipeline back into tolerance. Given the lack of accurate information available to shippers on these occasions, the net result of an ILON is the regular creation of swing in the pipeline..

As far back as 2008 Mighty River Power made it clear that it considers the fundamental cause of imbalances at Vector Welded Points is the lack of a daily allocation arrangement for

1 Draft Recommendation page 31 paragraph 3
2 Draft Recommendation page 44 paragraph 1
3 Draft Recommendation page 43 paragraph 1 and Covec Cost Benefit Analysis page12

downstream gas retailers. This is the priority issue that needs to be addressed in order to improve pipeline balancing. Much has been made in submissions supporting the change request of the superior performance of direct connect gas users to manage their balancing positions within the pipeline. The reason that this is the case is that these end users have access to information that allows them to micro manage their pipeline positions.

It should be noted that under the current allocation arrangement, the MBB change request, if implemented, will see imbalances outside the tolerances cashed out daily but retailers such as Mighty River Power will still only receive confirmation of our cash outs on the Balance and Peaking Pool commencement day on the 14^{th} of the month following, i.e. we will be cashed out up to 6 weeks in arrears. We fail to see how this is an improvement in the current arrangements.

The introduction of a Daily Cash Out (DCO) arrangement without the coordinated implementation of a daily allocation arrangement, does not improve current arrangements in any meaningful way, on the contrary it introduces more uncertainty and inaccuracy. DCO's should only be introduced together with or after the implementation of a daily allocation arrangement. To introduce DCOs in advance of a daily allocation arrangement will create and compound the current inefficiencies in the balancing gas arrangements.

There are obvious inefficiencies in the increased administration costs of cashing out imbalances daily with the majority of these being invoicing monthly in arrears. More importantly the inefficiencies of the current system will be compounded as a result of the need for retailers to react to daily cash-outs with no information regarding their current mismatch position. At times, a retailer will make the wrong judgement (e.g thinking incorrectly that they have a positive mismatch position when it's actually negative) and as a result will be cashed out (unbeknown to them at the time), which will increase the judgement error and may lead to further and unexpected cash-outs. Cash out costs may quickly accumulate without the retailer's knowledge. This will create inefficiencies and costs that will ultimately be passed on to retail consumers.

If Mighty River Power and other gas retailers have to deal with the introduction of a DCO under the current Gas (Downstream Reconciliation) Rules 2008 (Rules) and without the aid of new balancing tools then the additional costs incurred will be passed onto our customers. In our view the application of these additional costs are inconsistent with the objective in section 43ZN(b)(iv) of the Gas Act and paragraph 11(d) of the Government Policy Statement on Gas Government both of which refer to delivered gas costs and prices being subject to sustained downward pressure.

The Covec Cost Benefit Analysis in our opinion incorrectly concludes that retailers will only incur additional costs in developing systems in response to MBB if those systems assist them in managing their balancing position under a DCO arrangement. Such costs according to Covec will be exceeded by the benefits to the retailer and therefore were not included within the MBB Cost Benefit Analysis.

The GIC's position appears to be that a daily allocation arrangement will only be pursued if it cost effective to do so[4]. If the MBB change request is to be implemented, it is our position that it is critical that a daily allocation arrangement be introduced simultaneously for the reasons noted above.

Under the status quo one could debate the cost verses the benefits of a daily allocation arrangement. Under MBB gas retailers will, regardless of the cost of a daily allocation arrangement prefer to deal with this known cost rather than the unknown, unpredictable financial risk of operating under a DCO arrangement without one. The individual costs and benefits of a daily allocation arrangement will however differ from retailer to retailer.

[4] Draft Recommendation page 43 paragraph 2

Our view is that under a DCO arrangement a daily allocation arrangement must be introduced and that the cost of the daily allocation arrangement should be included in the Covec Cost Benefit Analysis. The implementation of a daily allocation arrangement will almost certainly result in the need for a revision of the Rules and again the cost of this should also be included in the Cost Benefit Analysis.

An additional cost that we believe will probably be inevitable following the introduction of a daily allocation process is that over time those customers with time of use metering without telemetry will be required to have telemetry included in their gas metering arrangements. The cost of this additional metering equipment will be passed onto those customers. Again such cost should be included in the Cost Benefit Analysis.

Much is made of the use of pipeline flexibility within the draft recommendation which states that pipeline flexibility is currently free[5]. Pipeline flexibility or "park and loan" as it is also referred to within the Cost Benefit Analysis is not free. It is in fact paid for by Maui shippers within the pipeline tariffs. Whilst the current arrangement results in the cost of pipeline flexibility being socialised through tariffs this is an arrangement which is presently acceptable to most Maui shippers.

Whilst gas retailers do take advantage of the socialised park and loan facilities they do so more by default than by design as they do not know what their position on the pipeline is. This again goes back to the lack of information/balancing tools available to gas retailers. We have no objections to the development of a priced park and loan balancing tool for the Maui pipeline. We consider Maui shippers would be prepared to pay for such a tool, however first these shippers will need to know how much gas they are parking or being loaned each day.

The GIC has stated that the introduction of a DCO arrangement will make the replacement of the OATIS system easier and cheaper[6]. We seek further clarification from the GIC on why they consider this would be the case.

We are disappointed that the GIC considers that a collaborative approach by the industry is not a credible alternative to the MBB change request[7].

Having been a participant in the Gas Industry Transmission Access Working Group (GITAWG), we consider a collaborative approach to pipeline management is the best way to resolve some long standing issues. A collaborative approach ensures a better outcome for the majority (or at least several) participants in the industry, as opposed to the current proposal which in our view only ensures a good outcome for one participant Maui Development Limited's (MDL) and only attempts to resolve (and we disagree that it does) one issue relating to the pipeline

The MBB change request may resolve pipeline balancing to MDL's satisfaction but it will simply move the problem, as well as creating other problems downstream. Mighty River Power accepts MDL's position that the delivery of the likes of a downstream daily allocation arrangement is outside their control. It is however our belief that through a collaborative approach with MDL, Vector, shippers and the GIC working together a solution to the information shortfall for gas retailers could have been identified, resolved and introduced at the same time as a daily cash out arrangement. This would address the currently identified pipeline balancing problems to everyone's satisfaction in a much less confrontational manner that the current MPOC change request process.

[5] Draft Recommendation page 45 paragraphs 2 and 3
[6] Draft Recommendation page 59 paragraph 4
[7] Draft Recommendation page 65 paragraph 3

What we are now faced with is a situation whereby MBB, if implemented with no additional balancing tools, will result in regular cash outs without any actual balancing actions being taken by MDL. We also expect that the GIC will be encouraged by gas retailers to implement a daily allocation arrangement as soon as possible most likely with the minimum of testing and regardless of on-going operational costs.

In conclusion Mighty River Power is opposed to the implementation of the MBB change request and asks that the Gas Industry Company rejects the change request.

Should the GIC ultimately decide to support the MBB change request then the GIC should also recommend that the Daily Cash Out arrangement is not introduced until a daily allocation arrangement is in place for shippers at the Vector Welded Points. In our view this approach better meets the objectives specified in section 43ZN of the Gas Act, particularly section 43ZN(b) (iv) “delivered gas costs and prices are subject to sustained downward pressure” and the Government Policy Statement on Gas Governance, 2008, paragraph 11 (d).

We would also recommend that the proposed ROIL multiplier of 2 is applied for a full year after the MBB change request is implemented rather than until only March 2016.

Mighty River Power recognises that the Gas Industry Company has no powers to require Maui Development Limited to implement such recommendations but believe that MDL would give such recommendations due consideration if proposed by the Gas Industry Company.

Finally if the Gas Industry Company was to support the MBB change request in its final recommendation then it must make its current work on a daily allocation arrangement a priority. The Gas Industry Company should also make immediate plans to undertake a review of the current Gas (Downstream Reconciliation) Rules 2008 with regards to the probable introduction of a daily allocation arrangement.

If you would like to discuss any of our above comments directly with Mighty River Power, then please do not hesitate to contact me on 06 348 7926 or jim.raybould@mightyriver.co.nz .

Yours sincerely

Jim Raybould

.

Jim Raybould
Gas Manager