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28 May 2008

Gas Industry Company,
Level 9, State Insurance Tower,
1 Willis Street, PO Box 10-646
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(Attention Ian Dempster, Senior Adviser – Wholesale Markets)

Dear Ian

Critical Contingency Management Arrangements – Short-form Consultation Paper

I attach MDL's submission on the Gas Industry Company's Critical Contingency Management Arrangement – Short-form Consultation.

MDL's internal governance procedures have been completed, and MDL has no objection to the attached document being posted on the Gas Industry Company's web-site.

MDL looks forward to working with the Gas Industry Company in this area and we would be pleased to meet with you to discuss our submission in more detail.

If you need any further information, please do not hesitate to contact me.

Yours truly,

for David Bott
Commercial Operator, Maui Pipeline

SUBMISSION TO GAS INDUSTRY COMPANY

on the

GAS CRITICAL CONTINGENCY MANAGEMENT ARRANGEMENTS – SHORT FORM CONSULTATION PAPER

by

MAUI DEVELOPMENT LIMITED

May 2008

1. Executive Summary

1.1 Maui Development Limited (**MDL**) welcomes the opportunity to provide comments to the Gas Industry Company (**GIC**) on the Gas Critical Contingency Management Arrangements - Short Form Consultation Paper dated May 2008 (**Draft Regulation**).

1.2 MDL agrees with GIC that here are issues with the current method for dealing with gas contingencies (**GC**) and that the proposed Regulation addresses these issues.

1.3 MDL appreciates the GIC's work to develop a more appropriate set of arrangements with the purpose of creating a practicable plan to address GCs. As one of the major transmission network owners (**TNO**s), MDL wishes to work with GIC to ensure GC arrangements work well in practice.

1.4 MDL considers that there are a small number of issues with the GIC's Draft Regulation that need to be resolved. In particular:

(i) Further analysis is required to establish the best solution for capturing CC imbalances and avoid any anomalies that might result if the Critical Contingency (**CC**) is not reflected in OATIS[1].

(ii) Further analysis is required in relation to the calculation of pre-CC imbalances, CC imbalances and post-CC imbalances on the Maui Pipeline.

(iii) It is unclear how MDL will give equal priority to the curtailment bands at a Vector interconnection point if the gas through the point is providing gas to multiple bands.

(iv) Further analysis is required to determine the timing of when the CC imbalance cash out should be entered into OATIS.

2. Background

MDL's position

2.1 Maui Development Limited (**MDL**) is a service company owned by the Maui Mining Companies; Shell Petroleum Mining Company Limited; OMV New Zealand Limited; and Todd Petroleum Mining Limited. MDL is the contracting party with all Shippers[2] and Welded Parties[3] who wish to obtain gas transmission Services on, or connect with, the Maui Pipeline[4].

2.2 MDL has a number of distinct functions with respect to the open access regime on the Maui Pipeline. It is the contracting party with all Shippers and Welded Parties. It receives and confirms Shippers' nominations[5], as well as monitoring Welded Party gas flows. It is the pipeline operator and the balancer of the Maui Pipeline. MDL has split the responsibility for its activities between three operators (the Commercial Operator, System Operator and Technical Operator[6]) and a Balancing Agent[7].

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[1] OATIS defined as "MDL IX" in the MPOC.

[2] "Shipper" is defined in the MPOC.

[3] "Welded Party" is defined in the MPOC.

[4] "Maui Pipeline" is defined in the MPOC.

[5] Shippers' nominations are defined "Nominated Quantities" in the MPOC.

[6] "Commercial Operator", "System Operator" and "Technical Operator" are all defined in the MPOC.

[7] "Balancing Agent" is defined in the MPOC.

2.3 Currently, the National Gas Outage and Contingency Plan (**NGOCP**) is the overall plan dealing with risks relating to security of supply. MDL agrees with GIC that there are issues with the current arrangements, since the NGOCP is voluntary and not sufficiently clear, and there are no commercial arrangements in place to provide signals of the costs and benefits to the parties who take and supply gas during a GC.

GIC's Draft Regulation

3. **Flows in Excess of Pre-Contingency Volumes**

3.1 *"Under MPOC, any revisions to the SQs are suspended during a critical contingency and the (previously revised) SQ will stay at the reduced level during the critical contingency. An anomaly may then arise if the producer recovers production and injects at a higher rate, causing that producer to accumulate positive OI – the measured quantity of flow is greater than the revised SQ. Under the critical contingency imbalance arrangements, as currently proposed in the draft Regulations, the producer would stand to receive payments for all or some of that positive imbalance."* [8]

(i) In the current environment, the understanding is that 'Phase 2 Critical Contingency' events are not reflected within OATIS. This is because responses to phase 2 instructions to adjust flow are voluntary under the current NGOCP and do not impose any enforceable obligations on any industry participant. Because Welded Parties are not obligated to abide by the NGOCP instructions, changes to SQ are not made, thereby ensuring that a Welded Party's Operational Imbalance (**OI**) is only calculated against a SQ that the Welded Party is obligated to flow to under the MPOC.

(ii) Since the new Critical Contingency regulations will have a mandatory framework in which industry participants will be obligated to respond to instructions to adjust flow, there is an opportunity to analyse the possibility of reflecting phase 2 CC events in OATIS by adjusting SQs and providing for the ability to capture sub-daily imbalances that occur prior to and during the CC phase in OATIS.

(iii) It should be noted, however, that further analysis is needed to determine if this would be the best solution, as opposed to keeping phase 2 CC event curtailment outside of OATIS.

(iv) MDL recommends that the GIC provide for this further analysis to determine the best possible solution for capturing CC imbalances and avoid any anomalies that might result if the CC is not reflected in OATIS.

3.2 There are numerous references to 'shippers' in the context of their entitlement to gas during CC in GICs Draft Regulation.

(i) These references to shippers only apply on the Vector pipeline. Allocations of sub-daily imbalances will occur at a Welded Party level, not at Shipper level, on the Maui Pipeline.

(ii) If further allocations were required at a Shipper level, this would entail a highly manual process.

(iii) MDL recommends that this be clarified within the new CC Regulations.

[8] Draft Regulation, Flows in Excess of Pre-Contingency Volumes, P.1, Para. 6.

3.3 *"To avoid perverse incentives a producer should not benefit from the positive imbalance until the flow is increased to a rate above the pre-contingency…"*[9]

(i) Further analysis should be performed on calculating the pre-CC imbalance, CC imbalance and post-CC imbalance on the Maui Pipeline.

(ii) For those Welded Parties with pre-CC imbalances that contributed to the line pack levels reaching the point of CC, provisions should be made for them to not benefit from bringing their supply back on during the CC phase.

(iii) MDL recommends that the Regulations categorise Welded Parties in to ones that contributed to the CC event so as to determine who should benefit from the CC Price.

4. Proposed Gas Governance (Critical Contingency Management) Regulations

4.1 *"a process, consistent with the curtailment arrangements set out in Schedule 2, outlining the **manner in which curtailment will be implemented**, curtailment bands, how restoration will be implemented, and an explanation as to how these processes meet the objectives set out in Schedule 2; and…"*[10]

(i) Practically speaking, Vector's Transmission Pipelines and the downstream distribution pipelines are dependent on the Maui Pipeline for balancing. It is currently unlikely that these networks will be able to change their operations in any significant way to effectively mitigate or end a CC independent from Maui Pipeline services.

(ii) During the development of the OCMP, it would be beneficial for both pipelines to work together to ensure there is consistency with how to manage imbalances at pipeline interconnection points after the CC.

(iii) MDL submits that it will be difficult to give equal priority to the curtailment bands at a Vector interconnection point if the gas through the point is providing gas to multiple bands.

(iv) The current curtailment process in OATIS is not designed to take into account curtailment band priorities.

(v) MDL requests more analysis be undertaken to determine how curtailment bands will be managed on the Maui Pipeline for both curtailment and restoration phases.

4.2 *"a process, consistent with regulations 68 to 75, outlining the manner in which the contingency imbalances will be determined for **each affected interconnected party and shipper** over the period of the critical contingency, including…"*[11]

*"if the aggregate amount of all negative contingency imbalances over the period of the critical contingency is greater than the aggregate value of all positive imbalances, that difference is treated as a positive contingency imbalance to be **allocated to the relevant transmission system owner**;"*[12]

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[9] Flows in Excess of Pre-Contingency Volumes, P.3, Para. 3.

[10] Proposed Gas Governance (Critical Contingency Management) Regulations, 25.1 (d).

[11] Proposed Gas Governance (Critical Contingency Management) Regulations, 25.1 (h)

[12] Proposed Gas Governance (Critical Contingency Management) Regulations, 69.3 (f)

(i) This statement must be amended to state that Maui Pipeline will only be calculating contingency imbalances for Welded parties ('interconnected party' as defined in the above statement) and not Shippers.

(ii) If further allocations were required at a Shipper level, this would entail a highly manual process.

(iii) MDL recommends that this be clarified within the new CC Regulations.

4.3 *"Imbalance obligations under MPOC, VTC, etc: A payment made under these regulations in relation to a contingency imbalance* ***discharges in full any payment liability under MPOC, VTC****, or any other transmission system code in respect of the same contingency imbalance."*[13]

(i) This statement implies that the CC imbalance should not be subject to double cash out. Therefore, the CC imbalance for each Welded Party would need to be removed from OATIS so that it is not factored into any other MPOC imbalance provision.

(ii) If there is a delay in entering the cash out amount into OATIS, the Welded Party may have already rectified the Running Operational Imbalance (**ROI**) through physical adjustments through the Imbalance Limit Overrun Notice[14] process, or by using the CC imbalance quantity to go into a ROI position within their tolerance limits[15].

(iii) MDL recommends that further analysis be undertaken to investigate the timing of when CC imbalance cash out should be entered into OATIS.

(iv) Further, MDL recommends that CC imbalance cash out should follow as close to the CC event as practicable so that the Welded Point ROI position is correct going forward.

5. Further Analysis

5.1 There are a number of areas where this submission has stated that further analysis will be required. MDL will be happy to assist the GIC as required in developing acceptable solutions in these areas.

[13] Proposed Gas Governance (Critical Contingency Management) Regulations, 74.1

[14] "Imbalance Limit Overrun Notice" is defined in the MPOC.

[15] MPOC, Schedule 7

Appendix 1: Answers to GIC questions

QUESTION	COMMENTS
Q1: Are the proposed threshold limits (or the ranges for those limits) set at an appropriate level?	• Yes.
Q2: Do you consider the definitions of positive and negative contingency imbalances are appropriate? If not, please explain why.	• Yes. However, section 69(2)(c) only references the situation where the aggregate negative contingency imbalances exceed aggregate positive contingency imbalances and the difference must be treated as a positive contingency imbalance that must be allocated to the relevant TSO. There is no mention of what occurs if the aggregate positive contingency imbalances exceed the negative contingency imbalances.
Q3: Do you agree that a process for correcting material errors in contingency imbalances is desirable?	• Yes. However, implications should be considered if the CC imbalance arrangements include adjustments being made to Welded Party ROI positions for either (a) sub-daily balancing, or (b) adjustments made in respect of changes in line pack when the aggregate amount of all negative imbalances was different than the aggregate value of all positive imbalances. • If additional adjustments are made up to 6 months later, analysis should be performed as to how this may impact a Welded Party's ROI position.
Q4: What is your view of the proposed two-stage process for setting the critical contingency price?	• MDL agrees with the two-stage process for setting the critical contingency price. • However, it may be beneficial to gain feedback from the parties prior to their knowledge of their CC Imbalance to ensure an unbiased feedback.
Q5: Do you consider the definition of regional critical contingency is sufficiently unambiguous?	• No comment.
Q6: Do you agree with the appeal process for the designation of consumers as minimal load consumers and essential service providers?	• MDL agrees with this appeal process.
Q7: Are there any other changes to the proposed Regulations that you wish to comment on?	• See points made in body of submission.
Q8: Are there any other areas related to implementation that should be included within the terms of reference of CMIG?	• See points made in body of submission.