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Dear Ian,

### **13 October 2011 Change Request – submission on GIC Draft Recommendation**

MDL submitted a balancing-related MPOC Change Request application to the Gas Industry Company (**GIC**) on 13 October 2011 (**Balancing CR**). The GIC published its Draft Recommendation on the Balancing CR on 22 February 2012 (**Draft Recommendation**). This submission sets out MDL's comments in response to that Draft Recommendation.

MDL commends the GIC on the approach it has taken to date in carrying out its role in this Change Request process. As the GIC notes, "cost reflective balancing has been discussed for many years, and the MPOC changes have been signaled for several years."<sup>1</sup> The conversation is not a new one. A universally acceptable solution has however proved to be elusive, indicative of the many and varied commercial interests within the industry, and the fact that balancing – initially perceived to be 'a \$25 million problem' – has become less of a priority as focus has shifted to other, more important issues.

The Balancing CR does not put forward a framework that reflects, to the letter, what is commonly referred to as 'international best practice'.<sup>2</sup> Rather it represents a step in that direction with a nod to the New Zealand context. It's a compromise, "recognising that a full hourly allocation of balancing costs is likely to be impractical, and possibly uneconomic."<sup>3</sup> MDL believes that it is not only a possible compromise, but the best one – at this point in time, at least – taking all relevant considerations into account.

Having already invested significant resources in preparing not one but two balancing Change Requests – in what is ultimately a neutral game for MDL, given unrecovered balancing costs are "passed through" under the tariff system and this will continue to be the case, essentially, under DPP regulation – MDL would welcome some form of resolution to the issue.

If the GIC in its Final Recommendation approves the Balancing CR, the question then becomes one of implementation. MDL supports the GIC's pragmatism in this regard and would play its part, as requested, in not implementing the Change Request before 1 June 2013. There is another dimension to bear in mind, however, in that – by virtue of its contractual relationship with Vector – MDL might (that is not necessarily to say, will) be prevented from implementing the Balancing CR on that date. How the "material adverse effect" discussions will play out remains to be seen.

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<sup>1</sup> *Draft Recommendation on 13 October 2011 MPOC Change Request*, Gas Industry Company, p.46

<sup>2</sup> For example, all imbalances are not cashed out at the end of each day, regardless of whether or not balancing gas has been purchased.

<sup>3</sup> *Draft Recommendation*, p.21, a comment made in the context of the proposed peaking arrangements.

This residual uncertainty aside, there is one final point MDL would like to make clear: If the industry wishes to realise to the fullest extent the efficiency gains inherent in the Balancing CR, it is up to stakeholders to be proactive in the coming year and deliver on the complementary developments that they desire. MDL remains firmly of the view that the crystallisation of developments such as D+1, BGX2 and nominations on Vector's system should not be entrenched as prerequisites to progress – and supports statements made by the GIC in the Draft Recommendation in this regard. However MDL also welcomes the GIC's commitment – enunciated in the cover note appended to the Draft Recommendation – to play a facilitative role in this context, and MDL looks forward to doing the same.

### General

We thank the GIC for the opportunity to prepare this submission and look forward to receiving the GIC's Final Recommendation. MDL is more than happy to discuss the content of this document or any matter in connection with the Balancing CR.

Yours sincerely,

Blair Robertson

Commercial Manager

**for Maui Development Limited**