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3 June 2010

Ian Wilson
Gas Industry Company Ltd
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By email: submissions@gasindustry.co.nz

Dear Ian

MPOC Change Request Draft Recommendation

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company (GIC) on the consultation paper "MPOC 17 December 2009 Change Request Draft Recommendation" dated 7 May 2010.

GIC Draft Recommendation

Genesis Energy has a number of concerns with the Maui Pipeline Operating Code (MPOC) 17 December 2009 change request and believes the GIC should not support it in its current form.

The change request covers a number of diverse issues across two broad areas (balancing and non-balancing) which in turn has made the change request difficult for submitters to comment on and for the GIC to evaluate. While the GIC notes that the balancing aspects of the change request provide a net benefit, Genesis Energy believes there are a number of material concerns such that the GIC should reject the change request.

Genesis Energy also believes that if the GIC supports this change request, it will set a bad precedent that will encourage MDL (and others) to bundle negative and unrelated change requests in with beneficial change requests.

Noting that the GIC must legally consider the change request as a whole package, Genesis Energy recommends that the GIC should not support this

change request and should suggest that Maui Development Limited (MDL) resubmit two or more change requests that are more tightly defined in scope.

Genesis Energy's primary concerns with the change request are outlined below.

Balancing Functions of the Change Request

Genesis Energy agrees with the GIC's analysis of the benefits of many of the balancing aspects of the change request and notes that the removal of the Imbalance Limit Overrun Notice (ILON) process and the move to back-to-back cash out is likely to bring overall improvements to pipeline balancing.

However, there are a number of shortfalls and inconsistencies that arise from this change request which Genesis Energy believes will require further change requests to address. The areas of concern for Genesis Energy were outlined in our earlier submission¹ and we believe additional change requests would need to cover the following:

- the removal of shipper mismatch (section 11 and all associated references). The change request makes this an automatic cash out process which Genesis Energy believes is contrary to the principle of a back-to-back cash out;
- the transfer of title with any allocation of balancing costs through the secondary incentives pool process. This change is required to align this process with the back-to-back cash out. It will also ensure balancing transactions do not in themselves create imbalance, by allocating as fully as possible title to all gas forming a balancing gas transaction;
- the retention of the Daily Operational Imbalance Limits (DOIL) and Accumulated Excess Operational Imbalance (AEOI) concepts to provide welded point tolerance. Genesis Energy believes that the removal of small tolerances² will increase volatility in the level of Maui line pack as Welded Parties change their Running Operation Imbalance (ROI) position to be the opposite of the cash out risk at any point in time;³

¹ Please refer to our submission on the MPOC Change Request dated 5 February 2010.

² For example, 3TJ from Maui receipt and delivery points.

³ Balancing gas exchange information shows that most welded points maintain a small positive balance, which is maintained within the allowable tolerance. This is efficient and helps improve security of supply, as this balance covers against small daily fluctuations in welded point supply or demand.

- definition of the transmission system owner's (TSO) imbalance and including any such imbalance in the balancing cost allocations. It is unclear from this change request that MDL will take clear responsibility for any imbalance its own operations may cause; and
- a revision to the process for setting and allocating Tariff 3. Genesis Energy notes that in Schedule 10 Tariff 3 can be interpreted to vary monthly, whereas in clause 19.9 it states that tariffs can only be changed once in a twelve month period. This conflict in the MPOC is likely to lead to disputes about what is included within Tariff 3 and how it is allocated. Genesis Energy also believes allocating Tariff 3 on the basis of total deliveries is not consistent with the "user pays" principle⁴ and that a variable tariff will cause issues for shippers, in terms of cost recovery from end users.

Genesis Energy has held discussions with MDL and other parties on these and other issues. We have stated a preference for the change request to be resubmitted as a number of change requests that address single issues.

It is our understanding that MDL supports a continuous improvement process for the MPOC. We believe it would be more efficient for all parties concerned if MDL were to re-submit the change request, rather than require other parties to submit further change requests to address the problems this change request creates.

Non balancing items

Genesis Energy does not believe the impact of some of the non-balancing functions of the change request have been sufficiently recognised and given sufficient weighting in the GIC evaluation. Our key concern is with the dispute process, specifically clause 21.11 which states that:

"the Invoiced Party shall nevertheless pay the full amount owing as stated in any Invoice which is in dispute."

Genesis Energy's experience with "pay now, dispute later" type agreements is that unless there are strictly enforced timeframes for the dispute resolution process, it can be difficult to get the other party to engage in settling the dispute. This issue was discussed in detail during the Industry Code Development process and Genesis Energy is disappointed that changes to the dispute process have not accompanied the change to the payment provisions. Genesis Energy

⁴ The allocation basis should incorporate a factor that relates to imbalance; for example Accumulated Excess Operational Imbalance (AEOI) debits aggregated over each month.

notes that our concern is not with the introduction of a “pay now, dispute later” type agreement *per se*, just with the lack of a fixed timeframe and a defined process for settlement.

Future Change Requests

Genesis Energy believes changes are necessary to either the Maui Pipeline Operating Code (MPOC) change request process or the GIC’s Memorandum of Understanding so that future change requests are restricted to single or closely related issues. This should enable a more timely review and approval process and would reduce the complexity of the GIC’s consultation and evaluation processes. As discussed above, it will also parties from bundling negative and unrelated change requests with beneficial change requests.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely

A handwritten signature in black ink that reads "K/Boyes". The signature is written in a cursive, flowing style.

Karen Boyes
Senior Regulatory Advisor