



3 February 2010

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Dear Ian

MDL's MPOC Change Request Dated 17 December 2009

In accordance with section 29.4 of the Maui Pipeline Operating Code (MPOC) Maui Development Limited (MDL) has requested the Gas Industry Company (GIC) to make a written recommendation in respect of MDL's MPOC Change Request dated 17 December 2009 (Change Request).

Contact appreciates the opportunity to make a submission on the Change Request.

Contact commends MDL's initiative in proposing a change request to address balancing issues and in principle supports development of a MPOC change request that addresses balancing issues. Contact appreciates the efforts MDL has already made to address balancing issues. These include establishment of the BGX, the provision of information available through the BGX and the publication of Standard Operating Procedures for Balancing.

Contact also supports some aspects of MDL's Change Request and in particular the proposed removal of the ILON process from the MPOC. That should allow better allocation of the costs of correcting imbalance to the causer of the imbalance. Contact also supports the use of the mean call price and the mean put price as the clearing price for balancing gas.

Unfortunately, there are aspects of the Change Request that Contact is unable to support.

MDL has developed the Change Request without seeking input from users of its transmission services. Consequently, the Change Request does not address some concerns users have with the manner in which the current MPOC addresses balancing. These concerns were identified during the recent ICD process and are listed in the MoU that resulted from that process.

The Change Request also does not meet the requirements of the GIC's Draft Governance (Balancing) Rules. Since the GIC proposes to recommend to the Minister that those Rules should be

implemented it would seem unlikely that the GIC could make a written recommendation supporting the Change Request. It would seem therefore that the Change Request would not satisfy the conditions set out in section 29.4 of the MPOC for amendment of the MPOC in accordance with a change request.

Contact suggests that MDL should withdraw the Change Request and, through consultation with Maui pipeline users, further develop the Change Request so that it better meets the needs of its users and the GIC requirements set out under the Rules. In any event that would seem necessary in order to meet the requirement under the Rules that transmission system owners must attempt to develop a balancing plan in consultation with users. That will require amendment of the MPOC so that it is consistent with the balancing plan and Rules.

The following are the main issues identified in the Change Request:

- no attempt is made to address coordination of balancing across the Maui and Vector's transmission systems;
- the appointment of a single balancing agent for the transmission system would not be possible if the Change Request was implemented;
- the operation of the balancing market could be changed at any time by MDL;
- there would be no certainty that the balancing market would be open to users of the Vector transmission system;
- no improvement is offered in the balancing tools available to users;
- the circumstances in which MDL would undertake balancing activity is not specified;
- the effective removal of the mismatch provisions, reduction in tolerances, requirement to balance on an hourly basis removes flexibility available to users without explanation and perhaps unnecessarily;
- the removal of relief from the obligation to balance during a force majeure event;
- pointlessly, the balancing operator is allocated a trivial role and MDL would remain responsible for balancing;
- the provisions relating to UFG lack detail and transparency;
- the retention of incentive pool mechanisms based on daily imbalance but with cash out of operational imbalance based on running imbalance will be unworkable; and
- the removal of the GIC's independent overview of change requests is inappropriate;

Contact is happy to respond to any questions related to this submission.

Yours sincerely



Contact Energy Limited

