



## **GREYMOUTH GAS**

### **Proposal to Amend MPOC: re Balancing**

Submissions close 5 February 2010

Greymouth Gas New Zealand Limited (Greymouth Gas) is pleased to make a submission on this paper, submitted by Maui Development Limited (MDL) to the Gas Industry Company (GIC) on 17 December 2009 (the application) then submitted by the GIC to the industry for comment on 21 December 2009. We welcome the opportunity to submit.

#### **Structure of Submission**

This submission is prefaced by a covering letter, and the body of the submission is structured in five parts:

- 1) Summary
- 2) Gas Act and GPS Concerns
- 3) Process Concerns
- 4) Mix of Balancing Penalties & Tools
- 5) Comments on Specific Proposed Amendments

#### **1) Summary**

##### **1.1 Support of Intent**

Greymouth Gas is not averse to changing the mix of balancing penalties and tools as long as incentives remain in place for self-balancing and the outcome is efficient for all affected parties.

To this end, we do not consider that this particular application provides the right mix of balancing penalties and tools for the outcome to be efficient.

Accordingly, Greymouth Gas does not support this application.

Further, we note the massive size of this application and suggest that in future, change requests should be limited. This should enable non-contentious issues to be approved, rather than be held up by issues that need industry discussion and resolution.

##### **1.2 MDL's Application**

Greymouth Gas notes MDL is intent on change to the current balancing environment. We note that, from MDL's perspective, the problem at hand is minor relative to the quantum of gas transported around the country and especially considering that any

MDL financial exposure is mitigated by the current Tariff 2 which passes these costs onto shippers.

Greymouth Gas notes that, in practice, industry balancing works. Greymouth Gas can not identify a safety issue that has resulted from poor balancing. The pipelines are structured such that over-pressure situations are managed by operational directives and selling Put balancing gas, and under-pressure situations are managed by buying Call balancing gas, then by Operational Flow Orders, then by the comprehensive Critical Contingency process which has now gone live.

Greymouth Gas considers that if the changes proposed by MDL are incorporated into the MPOC then Shippers and Welded Parties will face increased penalties and costs and that these will be passed onto customers.

Accordingly, Greymouth Gas considers that the proposed change request outlined in the application (Change Request) should be rejected on the basis that the application is:

- Not consistent with section 43ZN of the Gas Act 1992 (the Gas Act) or the Government Policy Statement on Gas Governance dated April 2008 (the GPS)
- 'Jumps the gun' from where industry ended up in 2009 re balancing discussions,
- Not consistent with the draft Gas Governance (Balancing) rules 2009 (the rules),
- Not a natural extension of the Industry Code Development (ICD) process,
- Lopsided in favour of MDL

Greymouth Gas is concerned that the Change Request sets forth only MDL's views about the future-state and that this application is designed to embed those views in the Maui Pipeline Operating Code (MPOC) without appropriate, and prior to, industry consultation, efficiency tests or checking for strategic fit.

### **1.3 Wider Balancing Issues**

In our comments on the Statement of Proposal: Transmission Pipeline Balancing, Greymouth Gas supported a participative solution, subject to the outcome of the ICD process and as long as a Balancing Plan passed an efficiency test in the rules.

We maintain our support for an industry-led solution, which would be the preferred option – in any case, the framework is not the most important aspect. The most important issue here is that an efficient outcome is reached that is fair for all parties and that complies with the Gas Act.

Greymouth Gas considers there are two potential outcomes:

- Balancing is regulated, but Greymouth Gas considers that the GIC will have difficulty approving a Balancing Plan that is efficient resulting in a potential stalemate,
- Balancing is not regulated, Vector resumes its threat to withdraw from OBA principles at TP Welded Points, wider industry discussion is engaged in (e.g. Methanex, Ballance, other potential Virtual Welded Point parties), and further incremental improvements to balancing occurs over time as various parties submit code change requests.

In response to the first, Greymouth Gas proposes that either GIC's financial analysis is redone or a more robust NPV analysis is undertaken to determine an efficient outcome.

In response to the second, the steer from the ICD process is that balancing should not be regulated. 2009 concluded with the GIC proposing to regulate balancing. The ICD process was left stranded by a number of unresolved high-level and detailed issues. It is significant that the only ICD participant not to sign the Memorandum of Understanding: Integrated Gas Balancing Regime dated December 2009 (MoU), being the outcome of the ICD process, was Vector.

It appears that the industry's preferred approach is being blocked by Vector so they can push through their extended nominations regime and reduce OBA risks – essentially outsourcing risks and getting others to pay.

Greymouth Gas is increasingly frustrated at the lack of direction on balancing, to the detriment of other key industry issues such as resolving capacity in Vector's North Pipeline.

#### **1.4 Way Forward**

Greymouth Gas supports solving balancing issues (e.g. if more parties can transact with the Balancing Agent), and we support changing the mix of balancing penalties and tools as long as incentives remain in place for self-balancing and the outcome is efficient for affected parties.

Accordingly, specific to this application, we ask that the GIC does one of three things:

- Strike out the application because of the lack of fair process, and provide for any industry participant to submit new change requests,
- Facilitate and/or necessitate industry discussion and agreement that resolves previously unresolved ICD issues, efficiency concerns, and the mix of balancing penalties and tools, with an extension of timeframe and involvement of all affected parties to the MPOC [if stalemates exist there should economic papers determining the most efficient outcome on a particular issue]
- Put the application on hold until the Minister has processed the GIC's recommendation and keep it on hold until after a Balancing Plan has been developed, as development of the Balancing Plan will address many of the issues.

#### **1.5 Customer Comments**

Greymouth Gas has encouraged gas consumers to respond to this application. We have received a comment from OI New Zealand Limited (a large user of gas in Greater Auckland) as follows:

"OI does not want extra costs passed onto us. We operate in a highly competitive glass manufacturing industry and any increase in costs will significantly erode our competitive advantage."

Greymouth Gas supports OI's statement and notes that the Gas Act should provide appropriate comfort to consumers.

## **2) Gas Act & GPS Concerns**

Greymouth Gas notes that this application is not fully compliant with the Gas Act and the GPS, in particular:

- Section 43ZN (a) of the Gas Act: to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner,
- Section 43ZN (b) (ii) of the Gas Act: barriers to competition in the gas industry are minimised, and
- Section 43ZN (b) (iv) of the Gas Act: delivered gas costs are subject to sustained downward pressure.

## **3) Process Concerns**

To elaborate on the 'jumping the gun' concern, Greymouth Gas notes that MDL did not consult with the industry following the conclusion of the ICD process, in particular with regard to the unresolved high-level issues or detail that was still to be discussed/resolved. Separately, we question how much involvement non-ICD participants have had in the balancing process thus far.

Section 1.2 of the application states that MDL has taken into account the principles set out in the Memorandum of Understanding: Integrated Gas Balancing Regime dated December 2009 (MoU), being the outcome of the ICD process. We refute this with reference to two examples.

A) Schedule 4, III, of the MoU states that:

- *Tolerances will be reduced to minimize extent of socialization of costs; and*

*[There were differing views on whether tolerances should be eliminated or a small tolerance be retained to minimize transaction costs]*

The MoU signed by Greymouth Gas adds:

- *Tolerances will be reduced to minimize extent of socialization of costs but not to the extent that such reduction imposes more costs on users individually or collectively than such reduction saves in socialized costs*

Schedule 4, I, of the MoU states the following, which directly implies tolerances will be retained:

- *Balancing costs in respect of cash outs will be allocated to each MPOC Welded Party...in proportion to running imbalance positions and up to the limit of their excess contributing OI position*

There has been no post-ICD consultation with users regarding resolving the differing views associated with tolerances and there is no firm view to remove tolerances. Greymouth Gas refutes that MDL has taken into account the MoU in this instance.

B) Schedule 4, I, of the MoU states that:

- *Any balancing costs not recovered through cash-out will be recovered through peaking charges or other mechanisms*

The MoU signed by Greymouth Gas adds:

- *On a particular day, any balancing costs not recovered through cash-out will be recovered through peaking charges...or other fair and reasonable mechanisms*

Most importantly though, page 6 of the "091002 – Maui Development Ltd – ICD Presentation" (which was part of the development process of the MoU) states the following which implies Daily Operating Limits and charges will be removed:

- *With back to back balancing the Incentives Pool mechanism is not needed for the collection of imbalance charges; and*
- *Current thinking is to remove the Incentives Pool from the MPOC and retain peaking charges [only].*

Page 2 in the same presentation says that:

- *While this presentation is pitched at a high level...the great majority of work discussed here has been developed in detail and is available to be discussed in the form of specific MPOC changes*

While the MoU does give scope for some *other* mechanism to be implemented (depending on the mix of the balancing solution), Greymouth Gas understood from MDL (through the ICD process and the MoU) that Daily Imbalance Limits and charges would be removed from the MPOC. At no stage has MDL conveyed otherwise until this application. Greymouth Gas refutes that MDL has taken into account the intent of the MoU.

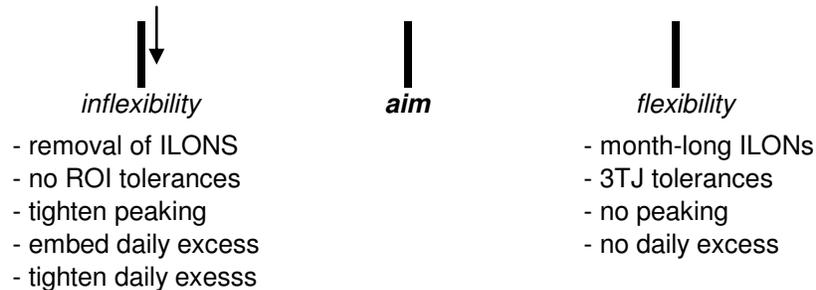
Further, we note the intention (refer the above and industry discussions involving MDL and/or MDL's representative at the ICD process) to *only* use peaking charges to recover balancing costs not recovered through cash-outs.

Greymouth Gas notes that all parties will 'win some things and lose some things' with regard to balancing, but whatever the outcome, we consider it important to follow proper process.

#### **4) Mix of Balancing Penalties & Tools**

Greymouth Gas is concerned that the mix of balancing penalties and tools needs to be fair and notes that the current proposal is lopsided in favour of TSOs, mainly MDL.

Greymouth Gas proposes that the balancing solution must reflect the mid-point of the following:



MDL's application is in line with the arrow above and is explicitly designed to favour TSOs, or just MDL (depending on Vector's views). It has no regard for Shippers and Welded Parties.

The aim should be a mid-point, the end result being an efficient, fair system, regardless of a regulatory or ICD framework.

If new Shippers or Welded Parties were thinking about entering the gas market, either on the Maui or the Vector system, then Greymouth Gas considers it likely that fewer such parties would enter the market if the arrangements are too inflexible because the start-up costs, operational costs and exposure to penalties will be too great.

This inflexibility would not satisfy Section 43ZN (b) (ii) of the Gas Act which calls for barriers to competition in the gas industry to be minimised. Greymouth Gas considers that this application, if approved, would achieve the opposite and increase barriers to competition. We consider that barriers to competition will be minimised if a mid-point solution is reached.

Greymouth Gas advises, as a Welded Party and a Shipper on both the Maui and Vector pipelines, that we will face significant extra costs if this application proceeds. These extra costs are unnecessary because there is no scope for users to self-balance. Greymouth Gas notes that additional costs will be passed onto customers. Additional costs to customers would likely be month-specific depending on their balancing performance, but as a guess it might add \$0.01 to \$0.30/GJ to the price of gas.

There is a way around this: give industry the tools to self-balance and avoid the need to take balancing actions.

Currently MDL faces a shortfall, resulting from non-recovery of balancing costs due to the 2-day ILON process (notwithstanding that this shortfall is passed onto shippers via Tariff 2). Greymouth Gas considers that any changes to the balancing penalties and tools should occur in order to generate 100% cost recovery with regard to balancing costs, so as to retain flexibility.

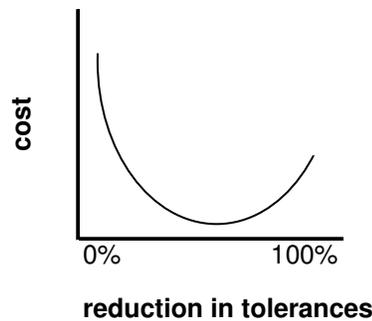
Options to achieve this include:

- Keep 2-day ILONS, remove tolerances, reduce peaking limits, embed current daily excess

- Reduce to 1-day ILONs, reduce peaking limits, reduce tolerances to 1TJ, remove daily excess
- Remove ILONs, keep current peaking limits (charge only if on-the-day shortfall in cash-out recovery), reduce tolerances to 1TJ

As an injecting party on the Maui pipeline, we favour tolerance to take account of the swings associated with operating a production station. Operators have a responsibility to act as a Reasonable and Prudent Operator and this concept should recognise that injections rarely exactly match nominations, especially when adjusting for intra-day nomination changes. Greymouth Gas considers tolerances are required to maintain the ability to act as a Reasonable and Prudent Operator.

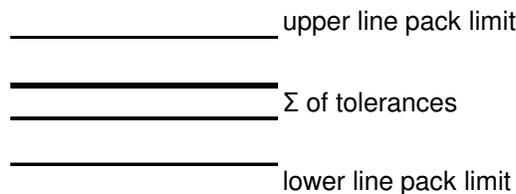
To achieve 100% cost recovery for the Balancing Agent, tolerances should be set at a level whereby the industry does not incur significant additional cost. We foresee the following scenario:



- Balancing Agent costs (non-allocated \$s) reduce with the reduction in tolerances – essentially more costs are going to causers
- The bottom of the curve is the optimum point for industry – 100% cost recovery, with no extra costs for causers
- Past this point, if tolerances are reduced, significant additional investment will be incurred by users to manage daily swings

A back-to-back balancing regime is a fundamental change and removes significant user operational flexibility. In this regard, if real time balancing occurs, then we must keep tools to encourage self-correction at minimal cost to users, e.g. removing peaking and/or retaining tolerances.

The aim of tolerances should be to encourage economic self-correction. Accordingly, there should be a scenario whereby the sum of tolerances is less than the range between the upper and lower line pack trigger points, i.e.:



Further, tolerances should be applied equally to those parties who need them in order to achieve Distributive Efficiency. An argument can be made that tolerances at TP Welded Points do not add value because shippers' have little ability to influence

their exposure by controlling the running imbalance, whereas there is a strong benefit to other Welded Points where generally one party controls their direct exposure.

Swings in imbalance have the potential to be similar amongst most non-TP Welded Points regardless of the quantum of nominations. It is Distributively Inefficient to keep tolerances based on a % of nominations. Greymouth Gas proposes tolerances be kept at a set fixed amount for all non-TP Welded Points.

Greymouth Gas enquires whether MDL has modeled the impact of removing tolerances at TP Welded Points and keeping other tolerances the same. This analysis will point towards an efficient outcome.

An optimal level of tolerance should be based on the two diagrams and concepts above. Peaking charges also need to be added into the mix. If tolerances need to reduce 70% to recover 100% of balancing costs. Then:

- a) Peaking charges should be scrapped because total cost recovery has occurred, or
- b) Peaking charges could remain, but tolerances could be reduced by maybe 50% of current levels to allow an aggregate 100% recovery of Balancing Gas costs via both mechanisms

Greymouth Gas questions whether Daily Imbalance charges need to be retained if models show 100% cost recovery if either a) or b) above occur.

In summary, it is inefficient from a market efficiency perspective to make the balancing framework so inflexible as to incur unnecessary costs, where if industry was given available tools, industry could avoid or limit the need for industry balancing action to be taken.

## **5) Comments on Specific Proposed Amendments**

### **5.1) Section 1 Amendments: Definitions**

Greymouth Gas does not support the following changes to section 1.1 of the MPOC, with reasons discussed underneath each bullet point or set of bullet points:

- Removal of the definition of 'Imbalance Limit Overrun Notice'
  - Although part of the MoU, we do not support this because we have concerns that other parties to the MPOC may not be aware of this potential change.
  - Further, such a change must absolutely be in parallel with Vector providing its shippers with gas gate information on non-Business Days so that industry does not fly blind during weekends and public holidays (as at present) when self-balancing. While *okay* (but not ideal) at present, tightening the cash-out process to on-the-day is not efficient if shippers are not given the tools needed to balance and mitigate risk.
  - E.g. a 5TJ line pack imbalance is caused by two 2.5TJ customer overtakes on Friday and Saturday, which would be cashed out by buying balancing gas on the Saturday when the trigger points are met. This could have all been averted, or at least reduced by 2.5TJ had

industry been able to see the 2.5TJ overtake on the Friday and self-corrected for this during the ID3 cycle on the Saturday.

- Removing ILONs and not providing Vector shippers with access to gas gate data would be inefficient as short-run cost concerns would be embedded at the extent of matching long-term tools with long-term balancing solutions [and limiting the potential of the D+1 work-stream] (Dynamically Inefficient). In addition, it would be Productively Inefficient as it would not incorporate best practice managerial or technological processes. It is also Allocatively Inefficient as Vector keeps costs down (which they could recover) at the expense of its shippers who would have 2/7 day exposure to balancing penalties (via end-use gas gates or part of retail estimation models) which cannot be mitigated on the day.
  - In this regard, Greymouth Gas has submitted a VTC change request to Vector and we expect to work through this process with the industry.
  - Until such data is provided, ILONs should not be removed at TP Welded Points.
- Removal of the definition of 'Accumulated Excess Operational Imbalance'
  - Removal of the definition of 'Running Operational Imbalance Limits'
  - New definition of 'Cash Out Quantity'
    - We support the minimization, but not the removal of tolerances for the reasons outlined earlier in this submission,
    - We request industry resolution on this issue, which, if needs be, includes a report commissioned by the GIC as to what level of tolerances and mix of balancing penalties and tools is efficient.
    - We are open to removal of tolerances at TP Welded Points but not at non-TP Welded Points
    - Does not comply with section 43ZN (b) (iv) of the Gas Act which calls for gas costs and prices to be subject to sustained downwards pressure
  - Change in the definition of 'Daily Operational Imbalance Limit'
  - Change in the definition of 'Excess Daily Imbalance'
  - Change in the definition of 'Incentives Pool Debit'
    - We do not support the retention of Daily Operational Imbalance Limits and charges for the reasons outlined in this submission
    - Notwithstanding the above, we do not support moving to 3% of SQ – this provides no flexibility for industry to deal with day+1 customer undertakes and overtakes
    - We request industry resolution on this issue
    - Does not comply with section 43ZN (b) (iv) of the Gas Act which calls for gas costs and prices to be subject to sustained downwards pressure
  - Change in the definition of 'Operational Balancing Agreement'
    - Editorial correction is incorrect, although we do support the underlying intent.
  - Change in the definition of 'Peaking Limit'
    - We question whether it is right for a Reasonable and Prudent Operator to reduce a Peaking Limit to 0% of the HSQ if an OFO has been issued. E.g. if the OFO says reduce flow to ½ planned rates, then the peaking

limit should reduce by ½ also, not by 100% otherwise all deliveries will contribute to peaking. We seek clarification.

- We also disagree with some of the changes in Schedule 7, however, we support including the reference to Schedule 7 within the definition.
- Change in the definition of 'Running Operational Imbalance'
  - If balancing is to be daily and ROI data is to be posted on a daily basis (unvalidated and validated), why does ROI need to be calculated on an hourly basis?
  - What extra cost does this involve and what is the benefit? These costs/benefits have not been made clear and so this change seems unnecessary.
- New definition of 'Tariff 3'
  - It ignores the matching principle and is not fair.
  - If Tariff 3 were to apply, then industry would effectively subsidise the Balancing Operator even though industry may/will not use the service. The additional cost for industry could be excessive and economically lopsided and inefficient. This goes against clauses 11b and c of the Government Policy Statement of Gas Governance (GPS).
  - From a regulatory perspective, Tariff 3 should incentivise users to avoid balancing transactions and the proposed definition provides no incentive as balancing charges are based on throughput of gas.
  - Further, if there is a price per GJ, users will add this as a direct cost onto the price of gas that consumers pay (rather than an increased change of the user wearing the cost themselves or targeting the actual downstream user). This goes against clause 11d of the GPS.
  - All balancing costs should be in proportion to a user's contribution to the need for the Balancing Operator to buy/sell balancing gas<sup>1</sup>
  - The recovery of "certain" balancing costs is too vague and should be more specific
  - This change was proposed prior to the 2<sup>nd</sup> version of the rules being published. Accordingly, such proposed MPOC change should be inline with the final version of the rules, not the draft.
- New definition of 'UFG'
  - Because UFG is a new documented concept to MDL, we consider that such a definition should either be more detailed (e.g. as per the Vector Transmission Code) but keep the "or other unknown or unattributed gains or losses", or the intent of what MDL "determine[s] UFG to be] from time to time" is discussed and agreed between MDL and Vector, and published to the industry, such that both TSO's concepts are aligned.

Greymouth Gas supports other proposed changes to section 1.1 of the MPOC as long as they retain references to Running Operational Imbalance Limits, and on the basis that they are editorial corrections, minor amendments, existing concepts or are a firm, core concept of the MoU. We support the proposed changes to section 1.2 of the MPOC.

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<sup>1</sup> The way to do this might be based on the proportion of a user's GJ quantity of cash-outs in the prior gas year (or calendar year, or rolling calendar year) compared to the total cash-outs for the same period. There could also be a wash-up/correction for errors and reallocations etc.

## **5.2) Section 2 Amendments: Pipeline Services**

Greymouth Gas questions the old section 2.13 of the MPOC, which is the new section 2.14, in that the addition of a pay-now, dispute-later clause in the status quo environment might not add value considering the stance Vector has historically taken on this issue. Also, if MDL considers this clause to already be within the intent of the MPOC, then why change it? Perhaps a better solution would be to address this concern as part of the Balancing Plan.

Greymouth Gas does not support the old section 2.14, which is the new section 2.15, because this removes MDL's indemnification to TP Welded Parties as a result of a breach by MDL and instead adds that MDL will not be liable to TP Welded Parties for breaches by a Shipper. This clause appears to swing from one extreme to the other.

Greymouth Gas does not support the new section 2.18 of the MPOC because it is too limited. The intent does reflect parts of Schedule 1, III of the MoU. However, section 2.18 and section 29 of the MPOC do not appear to include the following, which was also a key component of Schedule 1, III of the MoU:

- *[SOP Change Request] procedures will allow for all users of the relevant transmission system to request changes and to participate in consultation*

The ability of users to initiate change requests is an essential governance feature of an efficient market.

Greymouth Gas supports other proposed changes to section 2 of the MPOC.

## **5.3) Section 3 Amendments: Balancing Principles**

Greymouth Gas supports the removal of the old section 3 of the MPOC titled 'Maui Legacy Contracts' and all its sub-sections. However, Greymouth Gas does not support the new section 3 of the MPOC titled 'Balancing Principles'.

Greymouth Gas does not support the proposed new section 3.1 of the MPOC because it describes how MDL will solely appoint a Balancing Operator (at the expense of Vector's input), whereas clause 4.1 of the rules states:

- *These rules provide for the appointment of a single balancing agent...by transmission system owners*

If the rules do not proceed, then Vector should have a formal or informal input into the new framework, as should other parties and potential parties to the MPOC.

We are concerned about potential commercial interpretations with regard to the words 'operator' and 'agent'. The concept started out as the 'Balancing Agent' at the start of the ICD process but morphed into the 'Balancing Operator'. In the application, MDL has sought to retain the concept of 'Balancing Operator', however, with the collapse of the ICD process and the possibility of a regulatory solution, 'Balancing Agent' is the relevant term proposed by the rules. Greymouth Gas expresses concern that the application opens the door for there to be both a Balancing Operator and a Balancing Agent.

Further, section 3.1 also says that “MDL [will set the Balancing Operator on] such terms as MDL determines from time to time”. This is not in accordance with the MoU which states:

- *Managing line pack [should be]...in accordance with Standard Operating Procedures (SOPs).*

The MPOC should therefore reference the SOP and as discussed in 5.2) above, the SOPs need to have a consultative approach as prescribed by both the rules and the MoU.

Greymouth Gas does not support the proposed new section 3.2 of the MPOC because it sets the Balancing Operator’s role much wider than the MoU and the rules envisage.

Proposed sections 3.2 (a) (i), (ii), and (iii) of the MPOC propose that the Balancing Operator’s role should include normal pipeline operations, the sale and purchase of UFG and the purchase of fuel gas. This is wrong. It is unacceptable that, without knowing what will be in the Balancing Plan, there is scope for the Balancing Operator to pass on the costs of fuel gas, UFG etc. as cash-outs. The intent is clear in Schedule 1, III of the MoU and the application over-steps the intent:

- *The SOPs will address the circumstances in which the balancing operator(s), as RPO, will buy or sell balancing gas.*

Further, the rules say, for example in clause 15.1, that the Balancing Agent can only operate when there is a need to, based on line pack.

- *If the line pack of a balancing zone that is directly managed falls below, or in the balancing agent’s reasonable opinion is likely to fall below, the lower threshold specified in the balancing plan for the zone if balancing action is not taken, the balancing agent must use reasonable endeavours to purchase the amount of gas that, in the balancing agent’s opinion, is necessary to return the line pack to, or close to, the threshold, or prevent the line pack falling below the threshold.*

This reinforces our concern about the interpretation of ‘Balancing Operator’ and ‘Balancing Agent’ and is further reason why we do not support this part of the application.

Section 3.2 (b) is also off the mark because, according to clause 15.1 of the rules, it is irrelevant why the line pack breaches or may breach the thresholds (which should be addressed in the Balancing Plan).

Section 3.2 (c) seeks to only invoice Shippers, whereas Schedule 1, I of the MoU states that:

- *For the Maui pipeline, the Balancing Operator’s costs will be payable by Maui pipeline users*

We consider that Tariff 3 is inappropriate for the reasons discussed elsewhere.

Section 3.2 (d) refers to the Balancing Operator doing any other activities as per the SOP. However, with the upcoming implementation of the rules, why should users fund the Balancing Operator to undertake potentially business-as-usual functions like buying fuel gas?

All these points in 5.3) illustrate the lack of compliance with section 43ZN (b) (i) of the Gas Act.

#### **5.4) Section 4 Amendments: MDL IX**

Greymouth Gas does not support the removal of information including, but not limited to, Running Operational Imbalance Limits because we believe some tolerance should remain, and stay published.

As per Schedule 5, I of the MoU, Greymouth Gas supports the principle of increased transparency for TSOs and Welded Points, such as making public all Welded Points' specific nominations and ROI positions.

#### **5.5) Section 12 Amendments: Operational Imbalances**

Greymouth Gas does not support the proposed removal of the old section 12.1 of the MPOC as it removes the wording that parties acknowledge that exact balancing at a Welded Point is usually not possible.

Greymouth Gas does not support the proposed addition of the new section 12.5 of the MPOC as it removes recalculation of Cash-out quantities (i.e. MDL to a Welded Party) as a result of meter errors etc. Current practice is for this to be either adjusted or for the Cash-out to be classified as invalid. We suggest that Cash-out amendments are made or that there is a time period, e.g. 10 Business Days, whereby changes can be made and that MDL has to use best endeavours to investigate and put through potential changes if they materially change Cash-out quantities.

Greymouth Gas does not support the retention of Daily Operational Imbalances or of Excess Daily Imbalances. Fundamentally this goes against the ERGEG Guidelines of Good Practice for Gas Balancing in that market participants should have access to balancing tools. This was signaled for removal by MDL. Keeping it makes the system extremely inflexible, especially if every excess will now be invoiced.

It is inequitable to remove tolerances and reduce peaking limits and embed and reduce daily movement limits and implement back-to-back Cash-outs. There are no wins here for shippers, welded parties or customers.

Also changing the Daily Limit to 3% of SQ is unacceptable. Greymouth Gas is aware of gas consumers that sometimes, by nature of the business they run, undertake or overtake anything from 5% to 60%. Allowing a 3% change to fix ROI on any particular day is nonsensical. The incentive should be in allowing parties the ability to self-balance at all times, with ultimate exposure determined by a party's excess contributing running imbalance.

If Daily Limits were reduced to 3% of SQ then this would breach section 43ZN of the Gas Act.

A 3% rate is extremely inflexible. The current 3TJ limit provides a minimum quantum of flexibility and anything tighter will likely see costs passed through. Even keeping the Daily Imbalance penalty at all seems inefficient and unnecessary.

Greymouth Gas does not support any of the proposed changes to section 12 of the MPOC as these should be assessed in aggregate with the issues outlined above.

#### **5.6) Section 13 Amendments: Peaking**

Greymouth Gas accepts that another form of penalties/incentives is appropriate from an industry perspective to cover the potential short-fall of funds if \$ from cash-outs does not cover the cost of purchasing balancing gas. We also accept that peaking is a reasonable tool in which to do this and to incentivise good behavior.

However, we do not support the removal of the old section 13.4 of the MPOC for the same reasons as in 5.15) in our submission below.

Greymouth Gas does not support the changes to the Peaking Limit itself or in the definitions.

#### **5.7) Section 14 Amendments: Incentives Pool**

Greymouth Gas does not support the over-riding proposed changes in section 14 of the MPOC for the reasons outlined earlier. We are surprised that this section has not been removed from the MPOC as envisaged by MDL during the ICD process.

However, we do support the intent of the proposed changes in section 14.6 of the MPOC, namely that the Balancing Operator can access the Incentives Pool if they're out of pocket on a particular day. This largely addresses cash-flow risk of the Balancing Operator. For the avoidance of doubt though, we do not support the wording of the proposed changes in section 14.6 of the MPOC because Incentives Pool Debits should exclude Daily Imbalance breaches and we are unsure if the Balancing Operator envisaged here is the same as the Balancing Agent that needs to be appointed as per the rules. Also access to the Incentives Pool should be for the GJ quantum needed to cover the short-fall of cash-outs on a particular day only and peaking charges should only apply on days when there is <100% cost recovery from cash-outs.

#### **5.8) Section 15 Amendments: Interruptions**

Greymouth Gas supports the proposed changes in section 15 of the MPOC but we note a potential interplay problem with section 15.9 of the MPOC, which says that MDL may use the Contingency Volume to assist, e.g. a Welded Party during a Force Majeure event.

Key to this section will be how the Balancing Plan allows MDL to do such a thing, given the Balancing Agent envisaged in the rules will have an arms-length, independent decision making process so may buy/sell balancing gas regardless of the arrangements between Welded Party and MDL. We suggest this is addressed as part of the Balancing Plan, should this process proceed.

#### **5.9) Section 16 Amendments: Measurement and Testing**

No Comment. We assume that MDL has discussed (and had approval for) this change with significant consumers.

#### **5.10) Section 17 Amendments: Gas Specification**

Greymouth Gas supports the proposed changes in section 17 of the MPOC.

#### **5.11) Section 18 Amendments: Maintenance**

Greymouth Gas does not support the proposed deletion of section 18.13 of the MPOC because we consider it an over-reaction to solving the issues associated with balancing. It is another example of MDL proposing an inflexible framework designed to benefit MDL.

#### **5.12) Section 19 Amendments: Fees**

Greymouth Gas does not support the proposed change to section 19.1 of the MPOC for the same reasons we do not support the same in the rules.

If Tariff 3 is passed onto shippers in proportion to their percentage of nominations, then parties who are good at balancing will subsidise those who are not good. Greymouth Gas is reluctant to incur socialized costs to fund other parties' poor ability to balance.

This is inefficient – it may be neutral from an Allocative Efficiency perspective, but it is Inefficient from a Pareto perspective because, while some will be better off, some will also be worse off. It is also arguably Dynamically Inefficient because long-run concerns about a fair, user-pays system are thrown out the window in favour of an easy solution, "let's just make it proportionate to nominations". This is in breach of Section 43ZN (a) of the Gas Act re efficiency of gas delivered to customers, and it also breaches the purpose of the rules.

Greymouth Gas notes that funding M-co is done on the basis of deliveries, and funding the gas registry is done on the basis of ICP numbers; in both cases a fair and efficient funding model based on the matching principle. We call for the same to be applied to all capex and operating costs associated with balancing, i.e. Tariff 3 is passed on in proportion to a shipper, Welded Party or TSO's contribution to the need for the Balancing Agent/Operator to take balancing action – perhaps based on percentage contribution to Cash-outs over a rolling historical 6-month period.

Greymouth Gas notes that if the proposed amendment to section 19.1 of the MPOC is applied, it would create disincentives for parties who are bad at balancing to improve their performance. If a matching funding model was applied (based on contribution to the need to balance), then incentives will be in the right place as a party will be subject to cash-outs and their % share of operating and capex costs depending on how much they were cashed-out.

If we do a back-of-the-envelope calculation and assume quite generally that 100PJ of nominations on Maui is subject to \$8m pa of Balancing Agent/Operator operating costs; then as a new cost [to fund the 'balancing issue'] it would be passed onto customers and would add \$0.08/GJ to the price of gas each year, with an extra \$0.02/GJ in the first year to pay for a potential \$2m in capex. This is in breach of section 43ZN (b) (iv) of the Gas Act.

Greymouth Gas notes MDL's comments in the application that Tariff 3 is not expected to increase costs as balancing costs (current) are included in Tariff 2. The GIC has failed to provide any NPV analysis indicating that this whole balancing work-stream has a positive NPV. On this basis, we dispute MDL's comment that it will not cost users more than at present. While the cost may not be as extreme as the back-of-the-envelope calculation earlier, it is unlikely to have a neutral impact, and it requires firm financial analysis.

There is a strong argument to incorporate a causer-pays system.

Greymouth Gas supports proposed changes in section 19 of the MPOC, including the use of 'average pricing', not marginal pricing as the GIC has indicated preference for during the ICD process. Marginal pricing will add extra cost which would not be needed if peaking is to cover the short-fall in funds received from cash-outs.

### **5.13) Section 20 Amendments: Prudential Requirements**

Greymouth Gas supports the proposed changes in section 20 of the MPOC.

### **5.14) Section 21 Amendments: Invoicing and Payment**

Greymouth Gas does not support the proposed changes in section 21.2 (b) of the MPOC. The proposed change is for the Incentives Pool Trustee to invoice each Welded Party that has accrued an Incentives Pool Debit. The problem arises because the definition of Incentives Pool Debit is "*for each Day, every GJ by which a Peaking Limit is exceeded; [or] of an Excess Daily Imbalance*".

Current practice is for these charges to be passed onto Welded Parties only if there was a Cash-Out pertaining to the purchase of Call Balancing Gas by MDL/the Balancing Agent. The proposed change implies that Welded Parties will start being invoiced for any hourly peaking and any Excess Daily Imbalance regardless of whether there was a Cash-out or not.

Greymouth Gas considers this is inefficient and inequitable because:

- \$ penalties are introduced with no GJ compensation
- It introduces a whole different balancing framework outside of the Balancing Plan/Balancing Agent envisaged by the rules
- Welded Parties will be penalised during normal pipeline operations when they do not contribute towards the need for the Balancing Agent/Operator to take balancing action
- Increased costs for Welded Parties will lead to increased costs on shippers and upwards pressure on prices to end customers
- Current interpretation and precedent is to only invoice Welded Parties if Call Balancing Gas has been purchased by the Balancing Agent
- It would significantly reduce the ability of Welded Parties and shippers to self-manage their balancing position
- The above would take away significant pipeline flexibility and is weighted solely in favour of MDL
- Our interpretation is that Vector would be disadvantaged because of the quantum of potential Incentives Pool Debits and the increased chance of downstream shipper disgruntlement and disputes

- The Incentives Pool Trustee will end up with significant amounts of money, offset only slightly by Balancing Agent/Operator claims to the Incentives Pool to cover shortfall in money received from Cash-outs

Between 31 October 2009 and 28 January 2010, by way of example, there has been 81,769 GJ of Call Balancing Gas bought by MDL as Balancing Agent, with 47,943 GJ of negative Cash-outs. Incentives Pool Debits during the same period: 396,269 GJ, all according to the BGX website. If the Incentives Pool subsidises the short-fall in cash-outs, and the negative price is \$12/GJ, then there will be 362,443 GJ of penalties imposed on shippers, \$4.3m of penalties paid, all just sitting in the trust account. The industry couldn't get more inefficient, not to mention the impact on consumers who will face increased pass-through charges, for no benefit.

Greymouth Gas considers the proposed change to section 21.2 (b) of the MPOC is inconsistent with the MoU and with MDL's discussions during the ICD process.

In addition, it would breach both section 43ZN (b) (iv) and section 43ZN (a) of the Gas Act. Productive Inefficiency would exist because production of gas would not be achieved at its lowest cost due to the unnecessary "taxation" of any peaking and daily imbalance problem. Also Allocative Inefficiency would exist as the losers [Vector downstream shippers] would lose significantly more than those who benefit [Incentives Pool Trust] gain as the unnecessary penalties shippers will pay will sit in the trust account gathering interest. It has little regard for Dynamic Efficiency as the over-the-top short-term fix [full-time peaking and daily imbalance retention] does not consider long-run considerations of a fair, sustainable gas balancing framework.

We submit that industry discussions are continued to work out the mix of penalties and tools such that Cash-outs are the primary mechanism, with peaking charges secondary only on days when Cash-outs are insufficient to cover the purchase of Call Balancing Gas.

Greymouth Gas does not support the proposed change to section 21.4 (e) (i) of the MPOC which calls for any breaches of Peaking Limits and Running Operational Imbalance to be provided as information.

We do not support 'any breaches of Peaking Limits'. We note that parties cannot breach Running Operational Imbalance as this is not a limit; therefore we do not support the provision of information pertaining to breaches of the Running Operational Imbalance because industry cannot breach this.

All changes need to be considered from an efficiency perspective and such that the framework is not just flexible (to just benefit shippers/Welded Parties) and not just inflexible (to just benefit TSOs or just MDL). A middle ground must be reached that is derived from a fair process of industry discussion.

Greymouth Gas notes a problem with the proposed change to section 21.6 of the MPOC that *"each Shipper and Welded Party shall pay to MDL and the Incentives Pool Trustee the aggregate amount stated in the relevant Monthly Invoice"*.

There are two issues, first a party should not pay the aggregate amount to both MDL and the Incentives Pool Trustee as this will result in double-payments. Secondly, the Incentives Pool is operated as a trust, so why should all payments pertaining the Incentives Pool go straight to MDL's Nominated Bank Account when the definitions

pertaining to Incentives Pool and Incentives Pool Account say that "[*The Incentives Pool is*] the pool of money held on trust and administered by the Incentives Pool Trustee, into which all Incentives Pool Debits are to be paid... [*and the Incentives Pool Account is*] the bank account that contains the funds from time to time of the *Incentives Pool*."

Greymouth Gas does not support the above on the basis that it gives MDL access to funds it should not have access to.

Greymouth Gas notes inconsistency between the proposed changes to section 21.4 (e) (iv) of the MPOC and section 21.4 (f) (ii). We note that section 21.4 (e) is structured as a Welded Party receiving an invoice, whereas section 21.4 (f) is structured as MDL giving an invoice: the structure does not make mention of the Incentives Pool Trustee giving an invoice.

Greymouth Gas notes that clause 21.2 could be tightened to reflect that each month the invoices are issued pertaining to the prior month.

#### **5.15) Section 22 Amendments: Termination**

Greymouth Gas supports the proposed changes in section 22 of the MPOC.

#### **5.16) Section 23 Amendments: Disputes Resolution**

Greymouth Gas does not support the proposed changes in section 23.5 of the MPOC pertaining to pay-now, dispute later.

Our concerns arise initially because of the uncertainty regarding Vector's position on this issue at the conclusion of the ICD process, particularly given that Vector was not a signatory to the MoU.

As a shipper on the Vector pipeline, we are not averse to pay-now, dispute-later provisions, although perhaps the wording (in the MPOC initially, then in the VTC later) needs to allow for the immediate correction of agreed material mistakes that could impact a shipper's cash flow. If this is not addressed, it would reduce incentives for investment in gas processing facilities [and in exploring for oil and gas] by delaying projects because of cash flow, with implications under section 43ZN (b) (iii) of the Gas Act.

However, our biggest concern with the current and proposed dispute resolution arrangements in the MPOC is section 8.13 (b) (iii) of the VTC, which does not provide any mechanism for shippers to prove or disprove contribution towards an Incentives Pool debit [peaking] that is imposed on Vector and passed onto shippers.

If shippers are going to be liable for costs, then shippers should have an ability to manage their exposure to peaking at TP Welded Points, not be subject to socialized costs.

Although not directly related to the MPOC or this application, this VTC issue is a good example of how all the balancing penalties and balancing tools will flow onto shippers and Welded Parties on the MDL system, then shippers on the Vector system. Greymouth Gas considers it necessary to have this resolved before any blanket pay-now, dispute later provisions are brought into the MPOC.

For this reason, we do not support the proposed amendment to section 23.5 of the MPOC as it could embed a problem with no guarantee of a fix. Failure to sort this out would breach section 43ZN (a) of the Gas Act.

From an efficiency perspective this would create Dynamic Inefficiency as the long-run concerns (getting the overall balancing framework efficient) would be at odds with the short-run concerns (pass-through payment, and the pay-now, dispute-later solution). It may also create Pareto Inefficiency as Vector downstream shippers would be worse off at the expense of MDL being better off.

#### **5.17) Section 24 Amendments: Confidentiality**

Greymouth Gas supports the proposed changes in section 24 of the MPOC.

#### **5.18) Section 27 Amendments: Force Majeure**

Greymouth Gas supports the proposed changes in section 27 of the MPOC.

#### **5.19) Section 28 Amendments: Liabilities and Indemnities**

Greymouth Gas supports the proposed changes in section 28 of the MPOC.

#### **5.20) Section 29 Amendments: Modifications to MPOC**

Greymouth Gas supports the proposed changes in section 29 of the MPOC but we note that this Change Request lacks Transitional Provisions which are essential for a change request of this magnitude.

Greymouth Gas refers to clause 29.4 (b) (iv) of the marked-up MPOC (clause 29.4 (b) (v) of the old MPOC) and we note the steer for GIC consent to be withheld if "*the Change Request would materially adversely affect the compatibility of MDL's and a TP Welded Party's open access regimes.*" In addition to all submitters' submissions and aside from the process concerns and Gas Act and GPS concerns, we consider that the Change Request would fall into this category given that rule 31 of the rules calls for TSOs to jointly develop a Balancing Plan in consultation with industry.

#### **5.21) Section 38 Amendments: Privity of Contract**

Greymouth Gas does not support the proposed amendments in section 38 of the MPOC because the marked up version of clause 38.2 of the MPOC adds in further concepts about conferring rights upon the Incentives Pool Trustee. From a process perspective we also think the application is misleading because it says that the only Rationale for Proposed Change is "*[to] reflect the redundancy of provisions relating to Maui Legacy Gas contracts*", but there is more to it than this.

We understand that there is no explicit Privity of Contract between Welded Parties and the Incentives Pool Trustee at present, and our interpretation is that the proposed amendments seek to make such contractual relationship explicit.

Greymouth Gas is concerned that embedding the Incentives Pool concept within the MPOC is the opposite of what MDL was proposing during the ICD process. Fundamentally, retention of the Incentives Pool concept should be made jointly

between MDL and Vector and in consultation with users, as part of the overall package of tools and penalties pertaining to a best practice balancing environment, such that Dynamic, Productive and Pareto efficiency is achieved.

Part of the package should also include an assessment about:

- Whether the current tools from the Incentives Pool should be retained and how (i.e. peaking and daily movement tolerances),
- Whether it is more efficient for the single Balancing Agent to perform all tasks
- The level and impact of piggy-in-the-middle disputes that could linger if pass-through Incentives Pool arrangements were to remain
- Whether there is alignment with the purpose of the rules, namely "*to achieve an efficient, unified balancing arrangement for managing imbalance...*"
- Whether there is alignment with section 43ZN (a) of the Gas Act, namely "*to ensure gas is delivered...in a safe, efficient...manner*"

Even if there were no issues with embedding the Incentives Pool, Greymouth Gas would not support the proposed amendment, before discussion to address detailed concerns like ability to liaise with/dispute with the Incentives Pool Trustee and what relationship/terms are conferred on the Incentives Pool Trustee by MDL, e.g. regarding rights, obligations and change processes, given that the Incentives Pool Trustee is not a signatory to the MPOC.

However, the proposed amendment to section 38 of the MPOC reinforces our earlier process concerns that this application is 'jumping the gun' and ignores efficiency concerns, and is in breach of the Gas Act and GPS.

#### **5.22) Section 39 Amendments: Consumer Guarantees Act Exclusion**

Greymouth Gas supports the proposed changes in section 39 of the MPOC.

#### **5.23) Schedule 1 Amendments: Technical Requirements for Welded Points and Stations**

Greymouth Gas supports the proposed changes in schedule 1 of the MPOC.

#### **5.24) Schedule 3 Amendments: Welded Party Agreement Form**

Greymouth Gas supports the proposed changes in schedule 3 of the MPOC.

#### **5.25) Schedule 4 Amendments: Confidentiality Protocols**

Greymouth Gas supports the proposed changes in schedule 4 of the MPOC.

#### **5.26) Schedule 5 Amendments: IT Requirements**

Greymouth Gas supports the proposed changes in schedule 5 of the MPOC.

#### **5.27) Schedule 7 Amendments: DOIL and Peaking Limits**

Greymouth Gas does not support the proposed changes in schedule 7 of the MPOC. Specifically, we do not support the removal of tolerances.

We do not support the reduction of Peaking Limits from 150% to 125%, as MDL has not provided evidence that this is required. If back-to-back Cash-outs occur then the funding gap should close, meaning the current Peaking Limits should be able to be retained.

It is inequitable to remove tolerances and reduce peaking limits and embed and reduce daily movement limits and implement back-to-back Cash-outs. There are no wins here for shippers, welded parties or customers.

The reduction in Peaking Limits would also severely limit Greymouth Gas and other parties' ability to make reductions to nominations during the Intra Day 3 and 4 cycles, thus reducing industry's ability to self-balance.

Reducing the Peaking Limit reduces industry's ability to self-manage. This breaches the Gas Act, sections 43ZN (a), and in particular (b) (v) as it relates to security of supply.

#### **5.28) Schedule 8 Amendments: Welded Points**

Greymouth Gas supports the proposed changes in schedule 8 of the MPOC, but we note that the data should be complete and not highlighted.

#### **5.29) Schedule 9 Amendments: TP Welded Party Shipper Principles**

Greymouth Gas supports the proposed changes in schedule 9 of the MPOC.

#### **5.30) Schedule 10 Amendments: Tariff Principles**

Greymouth Gas supports the proposed changes in Schedule 10 of the MPOC relating to Tariff 1 and Tariff 2.

Greymouth Gas does not support the proposed changes in Schedule 10 of the MPOC relating to Tariff 3.

Further, we consider Tariff 3 (b) does not reflect the whole picture as it gives no consideration to a single efficient balancing environment as envisaged by the rules (i.e. should the Balancing Agent appointed under the process of the rules carry out any of the Incentives Pool functions?).

Tariff 3 (c) raises the issue whether the Balancing Operator outlined in the MPOC and the Balancing Agent envisaged under the rules are, in fact, the same or different entities.

Allocating Other Balancing Costs across every GJ of gas delivered from the Maui pipeline is inequitable as it may exclude MDL from paying MDL's share of costs for own-use gas, e.g. fuel for compressors.