

5 February 2010

Gas Industry Company Limited
PO Box 10-646
Wellington



By email:

**SUBMISSION BY METHANEX NEW ZEALAND LIMITED
TO GAS INDUSTRY COMPANY**

MPOC CHANGE REQUEST – 17 DECEMBER 2009

Methanex makes this submission in respect to the MPOC Change Request proposed by MDL on 17 December 2009.

Before we turn to specifics of the MPOC Change Request we would like to make the following statements:

1. Methanex has not been a participant in the ICD Process on Transmission Pipeline Balancing and is not a signatory to the subsequent MOU, however, we support in general terms the principles agreed in the MOU and the objective of the industry developing an appropriate balancing regime.
2. We disagree with the conclusions made by the GIC¹ that regulations will produce superior outcomes to an industry-led regime. We consider the GIC has not fairly represented the considerable progress made by industry in the short period allowed for the ICD Process in making its recommendation to the Minister². In drawing attention to the failings of industry-led solutions we believe GIC should also have made some recognition of the potential cost and timeframe risks associated with development and implementation of regulations.
3. In contrast with the MOU principles our view is that GIC has under-stated the potential costs and timeframe risks associated with implementing a regulated regime. Consequently we recommend that the ICD Process is given the opportunity to re-engage and continue its work toward developing an industry-led balancing regime. We also urge the GIC to re-evaluate whether the 1 October 2010 deadline is in fact realistic under either the MOU or regulated model and whether the objective of forcing a balancing regime by one means or another by 1 October 2010 is in fact necessary.

¹ "Consideration of Recent Industry Balancing Initiatives – December 2009"

² Letter to the Associate Minister of Energy and Resources dated 18 December 2009

4. The GIC has placed particular weight on the quantitative assessment performed by NZIER³ in drawing its conclusions. Methanex does not consider that the NZIER assessment has sufficiently demonstrated that participative regulations will be superior by any margin. We consider that the potential costs of a regulated model have been understated and the potential benefits overstated in their analysis.
5. We believe the costs associated with establishing and administering regulations together with the set-up costs for an independent balancing agent and rent-seeking behaviour by the balancing agent once appointed will be significantly higher than costs incurred under an industry-based model.
6. In our opinion the GIC has over-stated the benefits to the industry from establishing regulations and establishing a single independent agent, and we consider that to the extent there are any identifiable benefits they are likely to be outweighed by the additional costs in achieving them. We believe that using large overseas gas markets as a benchmark for development of a balancing regime does not fairly represent the small scale of the gas market in New Zealand where the significant fixed costs of establishing and administering regulations together with the cost of an independent service provider will be concentrated across a very thin market.

On balance we support the development of the industry codes as the best means of enabling an improved balancing regime. In regard to the proposed change request made by MDL on 17 December 2009, we have the following specific comments:

- (i) **(General comment)** The individual changes proposed in the Change Request are numerous and their interactions are complex. We propose that MDL convenes a workshop, possibly facilitated by GIC, so that it can more fully explain to the affected parties how the proposed changes will operate in practice and how they meet the objectives set out in the MOU. A further opportunity should then be provided for final submissions to be made to the GIC.
- (ii) **(Section 3)** We conditionally support the pipeline owner appointing the balancing operator. However, we recommend that a requirement is included in the rules that the appointment of the balancing agent be subject to a periodic review by the GIC after a reasonable period of time in order to assess whether an independent balancing agent is necessary.
- (iii) **(Section 12.5)** We consider that it is unreasonable that Cash-Out Quantities are made final and consider that adjustments should be required in the event of materially incorrect information or if material post facto adjustments have been made.
- (iv) **(Section 2.18 and Section 29)** We believe standard operating procedures should be subject to a change request procedure no different to the process

³ Appendix B, "Consideration of Recent Industry Balancing Initiatives – December 2009"

used for industry code rule changes. We do not consider that consultation alone is sufficient.

- (v) **(Tolerances)** We note the agreement in the MOU that tolerances will be reduced and that this has been reflected in the Change Request, however, we reserve our judgement on this issue and recommend that MDL more fully demonstrates that the reductions in tolerances it has proposed do not excessively reduce flexibility and in doing so impose unwarranted balancing costs on participants.

Yours sincerely

Matthew Gardner
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