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By Email

Dear Ian

Vector's Supplementary Submission on
MDL's MPOC Change Request of 17 December 2009

1. This is a supplementary submission to Vector's main submission of Friday, 5 February 2010 on MDL's MPOC Change Request. In paragraph 9 of our main submission, we noted that in addition to Vector's concerns that this Change Request would materially adversely affect its transmission business, we had concerns with the drafting of the Change Request from a workability perspective.

2. To assist, **attached** is a table highlighting various sections which we consider need further drafting and consideration in order for the back-to-back balancing purpose to be able to be implemented correctly.

3. We have also taken this opportunity to briefly raise the following general concerns which have arisen out of further consideration of the Change Request. These concerns are:

   - MDL could decide to change the operation of the balancing market at its discretion. While Standard Operating Procedures (SOPs) are required to be consulted on, they are not required to go through a formal change request process with GIC protection. Any changes to those SOPs could have an impact on the VTC, which would require a formal change control process. As the compatibility provisions of section 2.14 of the MPOC would not apply, greater disparity between the two transmission systems could arise;

   - There is no certainty that the MDL Change Request will open up the balancing market to producers on the Vector Transmission System; and

- While Vector supports the changes to obligations on parties to balance (in particular, the intention to ensure imbalance costs go to causers), the provision of hourly information will not necessarily provide the participants with a comprehensive 'tool-kit' to assist with self balance.

4. Please feel free to contact me at john.rampton@vector.co.nz if you would like any clarification of the matters raised in this supplementary submission.

Kind regards

John Rampton
Manager Industry Governance and Policy

Section	Comment	Impact
1.1	Removal of AEOI	The removal of the AEOI from the MPOC removes all tolerances on running position for Welded Parties. The discussion at the ICD process had reached the point of having small tolerances that diminish over time. Suggestion would be to keep the concept of AEOI and only provide a tolerance to a Welded Party on its imbalance created on the day i.e. a % of the day's scheduled quantity in relation to its running position.
1.1	'Balancing Gas'	This definition needs to be aligned with the Balancing Principles in section 3.
1.1	'Balancing Gas Call'	This definition excludes Cash-Out Transactions and any operational Balancing Gas. It is unclear therefore what the scope of the definition is intended to cover. Clarification is required.
1.1	'Balancing Gas Put'	Similar comment to Balancing Gas Call.
1.1	'Cash-Out Quantity'	Clarification is required on the definition, as there is some confusion with its relationship with the definition of Running Operational Imbalance. This is due to the mix use of time periods between day and hour. There is no removal of TSO imbalance from the Cash-Out Quantity so therefore Welded Parties who are cashed out will wear a proportion of MDL's imbalance costs. It is unclear from the definition whether it is MDL's intention to include small stations. If it is then it must consider carefully the costs associated with the investment required for small stations, how part GJ will be allocated between Welded Parties and most importantly how this will operate with Vector's regime, which is only daily.
1.1	'Cash-Out Transactions'	This definition only covers Welded Parties. It does not cover Shippers. It is not clear therefore how Shippers will be invoiced for their Mismatch.
1.1	'Excess Daily Imbalance'	From the overpressure workshops held it was clearly identified as one of the fundamental flaws of the MPOC that daily and hourly imbalances only worked in one direction and not in both, therefore diminishing the impact of parking gas on the pipeline. This definition still only deals with the depletion of Line Pack. Can an explanation be provided on why MDL decided not to make the change to double-sided? Similar comments apply to Peaking.
1.1	'Force Majeure'	This definition treats the approach to critical contingencies differently to that in the VTC. They should be compatible in terms of section 2.14 of the MPOC.

Section	Comment	Impact
1.1	'Incentives Pool Debit'	The inclusion of the Incentive Pool for claiming Balancing Costs could increase overall costs to the industry for balancing. Eg If after the Cash-Out Transaction there is 5TJ of unallocated balancing gas, the cost associated with this is recovered from the Incentives Pool. This leaves the Balancing Operator with 5TJ of gas that it still needs to either purchase or sell to ensure title tracking for the gas is maintained. This would also require the Balancing Operator to carry out a further transaction to buy and sell Balancing Gas and the price differential between the buy and sale price would need to be recovered. Vector proposes that an alternative solution be to first Cash-Out parties on their running positions and if there is any remaining balancing gas to be allocated this is done on their daily position. This same principle could be applied to peaking as the third mechanism to recover balancing costs if it was unable to be allocated to either running or daily positions.
1.1	'Incentives Pool Trustee'	As a separate legal entity the Incentives Pool Trustee should be a signatory to each Welded Party's ICA with MDL which has particular relevance to section 38 (Privity of Contract)(below)
1.1	'MDL IX'	The correct web address for OATIS is www.oatis.co.nz
	'Mean Call Price' and Mean Put Price'	Unclear how this works with "B" as the Cash-Out Quantities are excluded.
1.1	Removal of 'Mismatch Notice' etc	MDL has removed all tools available to a Shipper to self balance when MDL decides to allocate Line Pack during a Contingency Event. Vector believes that the tools should be re-instated if MDL proposes to keep Mismatch otherwise the whole concept should be removed.
1.1	'Peaking Limit'	This definition in its current form can apply to hours that have already passed. The 0% tolerance should only apply for hours remaining in the day. Further, it is difficult to relate this change to the purpose of a 'Back to Back' balancing regime. It would be beneficial to the industry if MDL provided some information on the impact currently of peaking on the operation of the pipeline.
1.1	'Running Operational Imbalance'	This definition provides for hourly calculation rather than daily, whereas substantive provisions retain ROI as a daily matter to align with daily balancing. At present the balancing period should remain at dally until the current proposed balancing regime changes are implemented and operational for a period of time.

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1.1	'UFG'	This definition gives MDL discretion. We consider that the discretion should have some objective parameters around it, or alternatively there should be a specified method for determining UFG as per the VTC.
2.14 and 2.15	Transmission Pipelines	It is difficult to relate this change to the 'Back to Back' balancing regime.
2.15	Removal of indemnity for Welded Party	The reason for the removal of MDL's indemnity to Vector for Shipper breach is unclear in relation to the purpose of a 'Back to Back' balancing regime and is also commercially unacceptable.
3.2(a)	Normal pipeline operations	As MDL's agent, the Balancing Operator should be obliged to carry out its roles in an efficient and transparent way. Further, it is not clear how the Balancing Operator will distinguish between UFG as part of a Balancing Gas transaction and ensure that it does not become an Incentive Pool claim.
3.2(b)(ii)	Buying and selling balancing gas	Should the reference to 'Operational Imbalance' be changed to 'Running Operational Imbalance', as Operational Imbalance is just daily imbalance? Further, we assume that subparagraph (i) applies to on the day flows, and subparagraph (ii) applies before the day flows.
3.5(a)	Reasonable endeavours	The Balancing Operator should be required to comply with the Balancing Principles as opposed to the lower test of simply using reasonable endeavours to do so.
3.5 (b)	'Balancing Gas Call' and 'Balancing Gas Put'	When read with their definitions the reference to these terms is circular. There may also be a double meaning with this clause, as 'Balancing Gas calls are bought' since this Gas is also then sold to the Welded Point.
3.5(d)(iii)	Real time information for all Welded Points	Real time metering information for small stations may not be feasible. The costs of metering small stations will need to be carefully considered.
4.1	Tariff 3	Publication of Tariff should be within 3 business days after the month end. This will ensure industry certainty.
4.1	Operational Imbalance for each Welded Point	This probably should be limited to large stations on a daily basis, otherwise SCADA will need to be installed at all stations. Moving the Maui regime to hourly would potentially have limited impact on improvements to balancing without the Vector regime also moving to hourly, which is not feasible.
4.1	Running Operational Imbalance for each Welded Point	As above. Further, it is unclear how this will work with ROI now being hourly eg what quantity will be used for Cash-Out transaction?
4.1	Cash Out Quantities	It is unclear why these cannot be published within an hour of the transaction?

Section	Comment	Impact
4.1	Unfinished drafting	The drafting appears to be incomplete for ‘Frequency of Posting’ for all items at the end of the Table.
4.1	General	The times for nominations should be by way of Schedule, which can be easily revised through the normal change request process.
8	Removal of TP Welded Party rights for Balancing Gas	The removal of TP Welded Party rights for Balancing Gas does not appear to support the purpose of the ‘Back to Back’ balancing regime.
8.27	Intra-Day Cycles	Changing the priorities of nominations is a significant move away from the position that no approved nomination is able to be bumped by another Shipper during nomination cycles, and it is unclear how this change supports the purpose of the ‘Back to Back’ balancing regime. This change may also have significant OATIS costs due to the considerable effort required to re-test. Further, priority for Balancing Gas seems appropriate to support the purposes of a ‘Back to Back balancing regime.
9.10	Post Intra-Day Cycle	It is inappropriate and commercially unacceptable for Vector’s rights to be removed prior to a comprehensive balancing solution within the framework of regulation.
11.5	Shipper Mismatch	Vector does not consider it fair for Shippers which are forced into Mismatch to be cashed out without access to tools to be able to self balance. This change may also have significant OATIS costs so Vector proposes that the costs are carefully considered before proceeding with this change.
12.4	Running Operational Imbalance	This provision needs to be aligned with the definition of that term in section 1.1.
12.5	No changes to Cash-Out Quantities	This provision does not allow for gross errors by the Balancing Operator. To avoid this, the provision should make it clear that it only applies to quantities and not costs or allocation. This provision also has implications depending on what data is used to calculated cash-out quantities. Vector suggests that Cash-Outs should be based on validated data and not unvalidated.
12.6 (and general)	Removal of Daily Operational Imbalance Limit’	While the Incentives Pool is the mechanism for claiming Balancing Gas it does not deal with transfer of title for Gas so is not in line with the purpose of the ‘Back to Back’ balancing regime. Further, as title to the Gas is not transferred, the Balancing Operator will still need to take subsequent action. The costs of that action will therefore be socialised under Tariff 3.

Section	Comment	Impact
12.7	"at all times"	The ROI is a fixed number so cannot 'tend to zero at all times'' Further, as the imbalance is 'running' a reasonable period of time needs to be included.
12.8	Cash-Out Quantity transferring from Balancing Operator to Welded Party at midnight	This change does not take into account NZ Standard Time.
12.11	'Forced' Operational Imbalances	This provision will require a VTC Change Request which shippers will need to agree to in terms of section 25.10 of the VTC.
12.11(b)	'Forced' Operational Imbalances	This affects Vector's rights as a Shipper. Vector does not agree to waiving this right.
13.	General	All provisions of section 13 should make it clear when changes to the respective obligations will occur.
13.4	Removal of Welded Parties protection to obligations under 13	This affects Vector's rights as a Welded Party and has downstream impacts its Shippers. Vector does not agree to waiving this right.
14	Incentives Pool	The inclusion of the Incentive Pool for claiming Balancing Costs, could increase overall costs to the industry for balancing. Eg If after the Cash-Out Transaction there is 5TJ of unallocated balancing gas, the cost associated with this is recovered from the Incentives Pool. This leaves the Balancing Operator with 5TJ of gas that it still needs to either purchase or sell to ensure title tracking for the gas is maintained. This would also require the Balancing Operator to carry out a further transaction to buy and sell Balancing Gas and the price differential between the buy and sale price would need to be recovered. Vector proposes that an alternative solution would be to first cash out parties on their running positions and if there is any remaining balancing gas to be allocated this is done on their daily position. This same principle could be applied to Peaking as the third mechanism to recover balancing costs if it was unable to be allocated to either running or daily positions.
14.5	Removal of 'negligence'	Removal of the term 'negligence' and the phrase 'as a trustee' limits the Incentives Pool Trustee's liability, which is unacceptable and does not appear to be related to the purpose of the 'Back to Back' balancing regime.
14.6	Balancing Gas Call quantities	Cash-Out Transactions are already excluded, providing for that again is unnecessary. It is unclear what quantity is being used to Cashed Out Shippers.

Section	Comment	Impact
14.7 and 14.8	Welded Party's remedy	This limitation to a Welded Party's remedy against MDL is unjustified and also does not support the purpose of a 'Back to Back' balancing regime.
15.9	"relevant provisions of this Operating Code"	The relevant provisions need to be identified.
16.5	Standards in place on 1 Jan 2005	These standards must be published so that all parties are aware of their content.
18.1	Daily Operational Imbalance Limit	As DOILs still exist, MDL will need to provide Line Pack to meet this flexibility.
18.13	Maintenance Limits	This provision should not be removed; its removal does not support the purpose of the 'Back to Back' balancing regime.
21.2(b)	Invoicing	This change does not seem to include invoicing of Shippers by the Incentives Pool Trustee.
21.2 21.6	Invoicing and Payment	These provisions should be compatible with the VTC in terms of section 2.14 of the MPOC.
21.11	Pay now dispute later	A comprehensive balancing solution within a regulatory framework is required before this provision would be acceptable. Furthermore it needs to be compatible with the VTC in terms of section 2.14 of the MPOC.
23.1	Dispute Resolution	TSA's and ICA's should only be with MDL to ensure all rights and obligations are directly between Shipper/ Welded Party and MDL.
23.5	Timing	Disputes should be raised as soon as possible irrespective of whether or not an invoice is paid.
29.4	Removal of 'and'	This small change significantly alters the intent of the benchmark for Change Request approval. There is a cumulative requirement currently for the GIC's support and the other requirements in paragraph (b). This should remain. It is also unclear how its removal supports the purpose of the 'Back to Back' balancing regime.
29.5	Additional matters in Change Request	It is unclear how this change supports the purpose of the 'Back to Back' balancing regime.
38	Privity of Contract	As a separate legal entity, the Incentives Pool Trustee should be a signatory to each Welded Party's ICA with MDL.
Schedule 5	Website address	The correct web address for OATIS is www.oatis.co.nz
Schedule 7	Ngatimaru Road	This item needs to be defined as Ngatimaru Road (Receipt) and Ngatimaru Road (Delivery).
Schedule 10	Tariff 3	The Tariff should be explicit where the cost goes for UFG. It is unclear whether TSO imbalance is recovered under Tariff 3.