



GREYMOUTH GAS

10 March 2014

Ian Wilson
Senior Technical Adviser – Infrastructure
Gas Industry Company Limited
PO Box 10 646
Wellington 6143

Cc: MDL

Dear Ian,

RE: 14 February 2014 MPOC Change Request

Greymouth Gas New Zealand Limited (“Greymouth Gas”) makes this submission on Maui Development Limited’s (“MDL”) 14 February 2014 Maui Pipeline Operating Code (“MPOC”) Change Request (the “MPOC CR”), following an invitation from the Gas Industry Company Limited (“GIC”) on 18 February 2014.

Greymouth Gas considers that the MPOC CR is far from minor in nature and has concerns around:

- whether the proposed changes to an open-access code are fair and reasonable (or whether MDL is acting as a Reasonable and Prudent Operator (“RPO”)) as MDL may be intending, or appears to be providing for the possibility of it, to buy/sell gas in the balancing gas transaction process at prices, which are then passed on to Welded Parties, that do not reflect the best available prices (there being another wholesale market in the industry which can transact intra-day gas, other than the BGX); and
- whether the MPOC CR complies with the Commerce Act 1986 (“Commerce Act”) with MDL appearing to favour its own market at the exclusion of another wholesale market in the balancing gas transaction process.

In connection with these points:

- s5.6 of the MPOC CR application says that “MDL does not plan on displaying the prices of markets that do not offer gas under the terms required for Balancing Gas”;
- s3A.4(a) of the MPOC CR gives MDL carte blanche ability to instruct the Balancing Agent by referring to published terms and conditions which are not codified and which were not put out for consultation at the time of the MPOC CR or this letter;

- s4.4 of the MPOC CR refers to a price stack of 'quotations *submitted* to MDL or its Balancing Agent' (on the BGX) which suggests that MDL intends for the BGX to be the only trading hub or intends to ignore markets that do not submit quotations to the BGX;
- s11.10 of the MPOC, in relation to a liquid gas wholesale market, is proposed to have some/all of the caveats above applied to it.

With another market in the industry which can transact intra-day gas, the central issue appears to be whether MDL, as an RPO, must be able to see the impact of its balancing gas transactions on line pack before use of that market is acceptable for use in balancing gas transactions.

Greymouth Gas' initial thoughts on the matter are that a lot of gas is already sold on nominations, and physical flow and imbalance manifests itself in participants' imbalance positions which correct or are cashed-out. It does not therefore appear critical to be able to see every molecule flow during the title transfer of gas.

However, this dynamic needs to be properly and independently tested for the industry.

All industry needs to know is that the balancing gas market is fair and competitive, and that the impact of any cash-out/peaking penalties is minimised when passed through.

Greymouth Gas requests MDL to:

- a) Publish, in accordance with paragraph 3 of Attachment 1 of the Memorandum of Understanding between MDL and the GIC, at MDL's own cost and expense, the steps and legal advice regarding the Commerce Act as MDL considers reasonably necessary and for MDL to post the advice on its website; and
- b) Explain, in accordance with s29.4 of the MPOC, why MDL has not granted consent to its back-to-back MPOC change request despite the GIC supporting this in April 2012 when MDL is required to act as a RPO and to not unreasonably withhold or delay the consent¹.

Greymouth Gas also requests GIC to:

- c) Commission an independent² paper, specific to New Zealand (but having some regard for overseas experiences), with industry to have input on the terms of reference and throughout the process, that opines on whether or not, in the current context, MDL must be able to see the physical impact of its balancing gas transactions on line pack before using a market to transact balancing gas;
- d) Consider its regulatory, governance and legal risk in this matter (and in balancing); and

¹ The current delay, and/or the submitting of the MPOC CR, could prejudice any attempt of MDL to give consent to its back-to-back change request. Greymouth Gas reserves its position and rights in this regard.

² The paper must be independent because MDL is conflicted (it is their MPOC CR) and the GIC is conflicted (having previously expressed views in favour of progressing a balancing solution outcome notwithstanding the extent of any balancing problem).

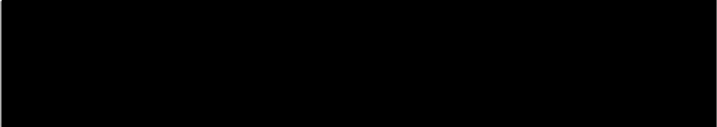
- e) Reconsider its decision to consider the MPOC CR outright or make further consideration subject to points a) through d) above.

For completeness, this is not an attempt to delay implementation of back-to-back balancing. But quite frankly, these hurdles are what may be expected when a work-stream, without a regulatory counterfactual, skirts around the core issues until late in the process.

Greymouth Gas also sets out further specific comments on the MPOC CR in an appendix attached to this letter.

Greymouth Gas looks forward to hearing from MDL and the GIC.

Yours sincerely



Chris Boxall
Commercial Manager

Appendix – Specific Comments

Process:

- MDL's lack of consultation on the MPOC CR is disappointing.
- Regardless of the outcome of the MPOC CR, the next balancing hurdle for industry may well be what is in the balancing gas standard operating procedures as they are amended in anticipation or ahead of the MPOC CR and/or for back-to-back balancing.

Content:

- “Balancing Gas Call/Put” – the revised definition caveats that gas transactions need to impact Line Pack in a certain direction. There are situations where the impact may be in the opposite direction. There is also no carve-out for relevant critical contingency volumes. This proposed change perpetuates the ability for MDL to purchase UFG gas and call it balancing gas. Vector splits this out – so should MDL.
- “Mean Call/Put Price” – this change seems to imply that MDL can make day-ahead balancing gas transactions, which doesn't seem right.
- s3A – it does not appear right that a balancing agent can buy fuel gas for MDL as a Welded Party but cannot buy fuel gas (or other gas) for other Welded Parties. Prima facie, this should be disallowed or allowed for all Welded Parties as envisaged by s2.10 of the MPOC.
- s12.10 – this says that Cash-Outs are applied to Shippers' ROIs at the end of the day, but this appears to conflict with the proposed change to the definition of ROI which suggests that Cash-Outs are applied to Shippers' ROIs at the end of the next day. Numerical examples and/or consultation may help here.
- s12.12(c) – Greymouth Gas requests clarity from MDL (including how this manifests itself in the MPOC CR) about s3.3 of the MPOC CR application which seems to refer to different Cash-out prices for physical and notional Welded Points. Cash-out prices should be the same for all parties who are Cashed-out.