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Dear Paul

Options for Amending Allocation and Reconciliation Arrangements in the New Zealand Gas Industry

1. Thank you for the opportunity to make a submission on the Gas Industry Company's (GIC) Consultation Paper *"Options for Amending Allocation and Reconciliation Arrangements in the New Zealand Gas Industry"* dated June 2006.
2. No part of this submission is confidential. Mighty River Power would be happy for our submission to be made publicly available.

Mighty River Power's views

3. As a general comment, Mighty River Power supports the GIC's approach to amending allocation and reconciliation arrangements in the New Zealand Gas Industry.
4. Mighty River Power's responses to the specific questions in the consultation paper are provided below.

Q1 Do you agree that it is sensible to divide the issues (with the downstream and upstream allocation arrangements) into short-term and long-term issues and to advance the short-term issues ahead of the long-term ones?

5. Yes; in the interests of improving the allocation and reconciliation process it is necessary to separate short term and long term issues. The GIC's rationale for the split is sound – allowing the GIC *"to proceed with some relatively simple ("short term") changes to industry arrangements, while continuing to develop options for the direction of more fundamental ("long term") changes."*¹
6. However, although sound in principle, the division between "short term" and "long term" issues is poorly defined at present and skewed in favour of down stream development – the division appears loosely to be between the upstream (wholesale) market ("long term")

¹ Consultation Paper at 27.

and the downstream (retail) market (“short term”). Given this, Mighty River Power’s is concerned to see that short term development of the downstream market does not preclude the future development of the wholesale market.

Q2 Do you agree that compliance with existing arrangements for downstream allocation is poor? Q3 Do you agree that governance arrangements (e.g. code modification processes, dispute resolution processes) are not working effectively?

7. Yes to both questions.

Q4 Do substantial difficulties arise as a result of the need for all shippers at a gate station to agree who to appoint as the allocation agent?

8. No, not at present. This is because currently there is only one functioning allocation agent. However, in the future a situation could arise where this becomes a problem.

Q5 Do you agree that the Gas Industry Co should implement a regime where the Gas Industry Co becomes the single industry body responsible for appointing an allocation agent (or allocation agents)?

9. Yes

Q6 Does the use of the “difference” allocation method and the resulting implications for the allocation of UFG variations create a substantial problem in the industry? Q7 If there are problems with the allocation of UFG variations, is working towards mandatory global allocation an appropriate response for the Gas Industry Co?

10. Not in our view. Mighty River Power prefers a difference approach, on the basis that it is then in the interests of the incumbent retailer to resolve issues that arise. It also results in a much simpler allocation process.

11. Nonetheless, Mighty River Power also believes that all parties should submit volumes for all gas gates (Global submission) to enable Identification of UFE. Further, the volumes traded should be made visible to all to encourage accuracy improvements by promoting visibility.

Q8 If global allocation is not made mandatory, how important would it be for 12 month rolling loss factors to be used in the allocation process?

12. Mighty River Power considers it would be important. However, irrespective of this, accurate calculation and review of UFE is both necessary and desirable.

Q9 Should all gas gate daily metered quantities be published daily? What difficulties (e.g. confidentiality) might arise from daily publication?

13. Yes. We don’t expect any difficulties.

Q10 To what extent do industry problems arise as a result of poor quality data supplied into the allocation process? Q11 Should the Gas Industry Co introduce formalised, regular wash-

ups of month end allocations after 4 or 6 months and after 12 months following the month in question?

14. "Poor quality data", reaches the allocation agent because of a number of technical reasons (aside from inadequate systems):
 - a. Referencing problems - there is no clear reference published that assigns the appropriate Gas Gate to an ICP (or vice versa). This leads to confusion as to what Gas Gate consumption volume should be submitted against by retailers. The necessity of this does not seem to be recognised by the gas pipeline owners.
 - b. The current allocation system forces retailers to submit their volumes on an "As Billed" basis which can vary by 20% from the final calculated volumes for a consumption month. This is especially the case in the months when large seasonal swings in consumption occur.
15. Regular wash-ups would assist in rectifying the confusion caused by the referencing problems identified in paragraph 14(a) above and would remove the problems caused by the variance described in paragraph 14(b).

Q12 Is it appropriate, as part of the initial changes to allocation arrangements, to require all retailers to read every non-TOU ICP at least once in every twelve month cycle? Q13 Should the Gas Industry Co establish accuracy criteria for estimates (in conjunction with an appropriate compliance regime)? Q14 Is it appropriate in the longer term (after the initial changes are made to the allocation arrangements) to introduce a requirement that submitted data contains a minimum percentage of historic read data?

16. Mighty River Power advocates that:
 - a. There should be quarterly reads as an absolute minimum. We believe that more frequent reading of meters is to be encouraged, as it gives rise to improvements in accuracy of both allocation and billing, benefiting both the market and the customer.
 - b. The GIC should establish accuracy criteria for estimates.
 - c. The GIC should introduce a requirement that submitted data contains a minimum percentage of historic read data - the way forward is to increase the frequency of meter reads.

Q15 Is it appropriate in the longer term to introduce a standardised data transfer format?

17. Any regular flow of information benefits from a standardised data transfer methodology, this is no exception.

Q16 Do you agree that the two main options that should be considered for making allocation and reconciliation arrangements mandatory and enforceable are a modification of the existing contractual arrangements, and Ministerial rules under the Gas Act?

18. Yes.

19. In respect of governance arrangements, Mighty River Power prefers a multilateral contractual approach to a rules based approach. However, we acknowledge that if a multilateral approach does not work then rules should be implemented.

20. Irrespective of whether the approach is contract or rules based, we see the role of the allocation agent as only compiling and determining allocation data. We consider the governance and compliance function must sit with the GIC, whether authorised by multilateral contract or rules. Accordingly, we favour the second and third options referred to at paragraph 10.6 of the GIC's options paper (with the third option backing up the first).

21. Whether multilateral agreement can be reached in respect of the GIC's role will determine whether rules are required.

Q17 Do you agree that potential problems with pipeline owner leverage and Commerce Act risks associated with the contractual arrangements favour the Ministerial rules solution.

22. In respect of pipeline owner leverage, historical behaviour would suggest that reaching contractual agreement will be difficult. However, in terms of following appropriate co-regulatory governance processes, attempting to find consensus is an important first step. It may take a little longer, and still result in the making of rules, but it will ensure issues and positions are properly canvassed and, should rules be necessary, assist parties in accepting that rules are necessary.

23. Mighty River Power acknowledges that Commerce Act risks exist. However, the GIC's analysis is undeveloped in that it does not assess the risk associated with actual pipeline owner behaviour. Accordingly, Mighty River Power is not able to properly assess from the GIC's analysis the degree of risk in relation to Commerce Act concerns.

24. Mighty River Power notes that the use of multilateral contractual arrangements to facilitate governance arrangements will always result in Commerce Act risks, regardless of industry. Mighty River Power is concerned to see that such risks are not overstated. Accordingly we recommend that the GIC produce a detailed analysis of Commerce Act risks, such that participants are able to effectively assess the Commerce Act risks associated with a multilateral approach.

Concluding remarks

25. If you have any queries regarding Mighty River Power's submission, or would like further information, please do not hesitate to contact either me (on 09 308 8213) or John Gilkison (on 09 308 8202).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Neil Williams', with a long horizontal flourish extending to the right.

Neil Williams