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Dear Ian

Transmission Pipeline Balancing Issues

1. Thank you for the opportunity to comment on the consultation document "Transmission Pipeline Balancing Issues" issued August 2008. No part of our submission is confidential.
2. Mighty River Power considers that transmission pipeline balancing issues are significant enough to warrant the Gas Industry Company (GIC) undertaking further work. However, Mighty River Power is not convinced that what is required is a clean slate redesign of the balancing arrangements. We consider a better approach would be to prioritise the issues that need to be addressed and to focus attention on the most important issues first. Any attempt to try and tackle all the issues at once runs the risk of placing too great a burden on the GIC resulting in a risk of getting bogged down and making insufficient progress. Mighty River Power therefore recommends that the GIC take a targeted or incremental approach to the question of what parts of the balancing regime may benefit from intervention.
3. The GIC has asked whether submitters agree that the European Regulators Group for Electricity and Gas (ERGEG) Guidelines of Good Practice for Gas Balancing are appropriate to use as a framework to evaluate alternative balancing market design options for New Zealand. As stated above, Mighty River Power is not convinced that the entire balancing regime should be reviewed in a single sweep. We favour a targeted or incremental approach. Notwithstanding our preferred approach we have reviewed the guidelines and consider they are an appropriate guide to bear in mind when investigating any particular aspect of the balancing regime. The guidelines should not, in our view, be considered a substitute for the Gas Act and the relevant provisions of the Gas Governance Policy Statement. In addition they should be used only for guidance purposes and not adopted as a blueprint to apply here. The

guidelines are likely to require some adaptations to suit New Zealand's small gas market.

4. Mighty River Power considers that the consultation document identifies the key transmission pipeline balancing issues that need to be addressed. We would point out however, that prioritisation should take into account not only the relative importance of any given issue, but also the interrelationships between the issues and the need and scope for the GIC to tackle each issue through regulation.
5. In terms of issue priority we consider poor information on balancing status, (issue 3) to be the most important as well as being an issue that, because of its links to the other issues raised; if resolved may substantially assist with improving the overall efficiency of the balancing system.
6. The main barrier to effective balancing of the transmission pipeline from a gas retailer's perspective is that we do not know what our actual daily position within the pipeline has been until the month end allocation process has been completed.
7. The adoption of some form of profiling of the non time of use market as happens in other countries is Mighty River Power's preferred solution. Whilst profiling may not accurately determine our actual position on any given day it can determine an estimated (profiled) position that we can then manage on a day to day basis. While the final allocation process should be applied to capacity reservations, network and gas charges we do not believe that there should be a retrospective application of the final allocations to balancing as this represents double jeopardy for a retailer. If the retailer manages their balancing position based on their profiled position then it should be accepted that they have balanced their position on the pipeline.
8. It is crucial that retailers can accurately identify their risk position so they are able to manage their risk. If retailers are not able to do this then ultimately the risks associated with the pipeline balancing may become unacceptable for some players who may decide to exit the market, likewise this issue constitutes a barrier for new market entrants.
9. In terms of the priority that should be given to the remaining issues, issue 8, high transaction costs is next for us. The cost of any balancing process has to be as low as possible given the relatively small size of the New Zealand market. We believe that the issues relating to single or dual balancing agents and tolerances are fundamental parts of any debate on the economies of the balancing system.
10. The next most important issues are issue 1, poor governance and issue 5, poor transparency. Mighty River Power considers that it is important that any balancing system is robust as this will help it to get participant buy in and alleviate fears that the system unfairly favours some participants over others. However, Mighty River Power recommends that the GIC focus its attention on further consideration of poor

information on balancing status (issue 3) before considering issues 1 and 5. At first glance, as well as being relatively less important these issues do not strike us as issues requiring a regulatory solution at this time.

11. With regard to the question of whether there are any additional design elements, not identified in the consultation paper that should be addressed, as we have indicated above, Mighty River Power considers that the long term solution to transmission pipeline balancing will require the development and application of some form of profiling of non time of use customers. Mighty River Power recommends that profiling be considered by the working group. Otherwise, we consider the balancing regime options proposed for inclusion in forthcoming options analysis are satisfactory.
12. In summary, Mighty River Power recommends that the GIC adopt a targeted or incremental approach to the consideration of interventions to address problems with the transmission pipeline balancing regime rather than attempting to solve each and every potential problem in one hit. In terms of prioritising the issues to address we recommend that the GIC consider both the relative importance of the issues, the extent to which they interact and the extent to which a regulatory intervention may be appropriate. In our view, the first issue that should be addressed is the poor information on balancing status. In relation to this issue we recommend that profiling be considered by the GIC.
13. If you have any questions regarding this submission please contact Sharron Came sharron.came@mightyriver.co.nz or Jim Raybould jim.raybould@mightyriver.co.nz.

Yours faithfully

Sharron Came
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