26 August 2008

Mighty River Power Limited
Level 14, 23-29 Albert Street
Auckland 1010
PO Box 90399
Auckland Mail Centre
Auckland 1142

Phone: +64 9 308 8200
Fax: +64 9 308 8209
www.mightyriverpower.co.nz

DDI: +64 4 4609231

Ian Wilson
Gas Industry Company
PO Box 10-646
Wellington

Dear Sir

MRP Submission MPOC Change Request Aug 08

Introduction

1. Thank you for the opportunity to comment on the application by Maui Development Limited (MDL) requesting amendments to the Maui Pipeline Operating Code (MPOC). No part of our submission is confidential.
2. Mighty River Power notes that the amendments relate to the deletion of those parts of the Operating Code that relate to Maui Legacy Gas including those provisions which relate to retrospective allocations of Maui Legacy Gas and changes to certain parts of the MPOC relating to the Target Taranaki Pressure.
3. Mighty River Power supports the proposed amendments with the exception of the proposal to remove the section 3 provisions relating to the retrospective allocations of Maui Legacy Gas.

Section 3 and issues of mismatch

4. In our opinion Section 3 should not be deleted from the MPOC in isolation given the significant implications that this will have for shippers with regards to the unresolved issues surrounding balancing gas within the Maui pipeline and its flow on effect into the Vector transmission system.
5. The effect of removing Section 3 of the MPOC would be to allow MDL to issue both Mismatch Notices to their shippers and Imbalance Limit Overrun Notices to their Welded Parties on a daily basis. The ultimate result of the issuing of these notices is that parties are required to correct their positions within periods of between 1 and 7 days or be faced with their positions being "cashed out".
6. Mighty River Power is not opposed to the ultimate objectives of the MPOC with regards to daily balancing but we do not believe these can be achieved in any fair and equitable manner until the Industry agrees on a methodology that allows shippers to determine their daily balancing positions, in particular with regards to downstream non time of use market. A gas retailer who supplies the retail non time of use market will be required to guess their mismatch position on a daily basis. The retailer will need to react to cashouts with no information regarding their current mismatch position due to the lack of daily allocations. At times, a retailer will make the

wrong judgement (e.g thinking incorrectly that they have a positive mismatch position when it's actually negative) and as a result will be cashed out (unbeknown to them at the time) which will increase the judgement error and may lead to further cashouts in the unexpected direction. As can be seen, mismatch costs may quickly accumulate without the knowledge of the retailer. This will create unnecessary additional costs that will need to be passed on to retail customers. As the GIC is aware this has been a contentious issue within the Industry ever since Early Open Access on the Maui pipeline. On this subject we note that a discussion paper on transmission pipeline balancing has recently been put on the Gas Industry Company website for consultation with submissions due by 12 September 2008. We will look forward to reviewing and commenting on this paper.

7. The other issue that is of concern is the Positive and Negative mismatch prices for gas in the event of a "cash out". Section 11.10 of the MPOC states the Positive and Negative mismatch prices should be based on spot market prices if or when a liquid gas market develops. Mighty River Power agrees with this position and recommends the Wholesale Gas Trading Hub be the basis for setting the mismatch prices.
8. Having regards to the foregoing Mighty River Power is opposed to the removal of Section 3 in isolation of addressing and implementing an agreed process for identifying shippers mismatch positions on a daily basis that will allow them to effectively and efficiently manage their risks on the pipeline. We propose there be a coordinated approach to these matters that delivers resolution to the main issues including the effective allocation of all gas on a daily basis, balancing, price setting for cash outs and the removal of Section 3.
9. Mighty River Power accepts we and all other shippers have a responsibility to manage the transportation of our gas through the transmission networks and that there are risks associated with these processes. However, the current proposal to simply remove Section 3 of the MPOC exposes all shippers to unreasonable, unacceptable and unmanageable risks.
10. If Mighty River Power and the other gas retailers have to deal with the removal of Section 3 of the MPOC in isolation then the very real additional costs we will incur will need to be passed onto our customers. In our opinion these additional costs are avoidable and are contrary to one of the fundamental objectives of the Government Policy Statement on Gas Governance 2008 which is to have sustained downward pressure on gas prices[1].
11. Mighty River Power proposes the GIC adopts the above coordinated approach. The GIC has already indicated it will impose a solution on the industry if the industry cannot resolve these matters for itself. In our opinion it would be better for the GIC to set a deadline for resolution of the outstanding matters, the implementation of which can then be synchronized. The removal of Section 3 of the MPOC could therefore be agreed in principal at this point in time but its implementation be placed in abeyance until such times as the other issues with regards to the allocation of non time of use gas consumption has been resolved and the Wholesale Gas Trading Hub has been established.

Concluding remarks

[1] Government Policy Statement on Gas Governance, 2008, paragraph 11 d).

12. One final point, it would greatly assist Mighty River Power, and others like us, if the GIC was able to spread its consultation demands more evenly over the calendar year.
13. If you have any queries regarding this submission please contact the writer.

Yours faithfully

Sharron Came
Regulatory Strategist