

24 November 2014

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Dear Ian

Maui Pipeline Operating Code Change Request

Mighty River Power welcomes the opportunity to provide this submission on the Maui Pipeline Operating Code (MPOC) change request on Market Based Balancing (MBB) submitted by Maui Development Limited (MDL) on 10 October 2014. No part of the submission is confidential and Mighty River Power is happy for it to be publicly released.

Mighty River Power recognises that some unresolved issues around pipeline management remain but does not believe that those outstanding issues have been properly identified or defined. We therefore consider that it is not possible to form a proper view about the appropriateness of the MBB change request without a better understanding of all of the unresolved pipeline management issues.

The causes and effects of balancing issues occur throughout the industry, including upstream (producers) through to downstream (end users). Balancing issues are not confined to the transmission system therefore solutions should not be confined to transmission arrangements.

We were interested to read that the proposed change request was inspired by the European Network Code on Gas Balancing on Transmission Networks (EU Code). We note that the EU Code not only places balancing gas obligations and responsibilities on both pipeline operators and shippers but also specifies tools to enable both pipeline operators and shippers to meet their balancing obligations.

Mighty River Power believes that only a collaborative approach by industry will provide a robust and lasting resolution to the remaining unresolved pipeline management issues. Significant progress has been made in addressing transmission access issues through the Vector and MDL convened industry working group. Mighty River Power submits that a similar approach, encompassing wider industry stakeholders to represent the various interests affected by balancing, could draw on the momentum and success experienced by the transmission working group to produce collaborative solutions to pipeline management issues.

Mighty River Power would support the design and/or adaption, development and adoption of an arrangement similar to the EU Code here in New Zealand. The design of this type of arrangement however has to be based on New Zealand requirements, be comprehensive and have input from all interested industry participants from gas producers through to end users.

It is therefore disappointing that MDL following its publication of its draft MBB change request rejected a request from the industry to park the MBB change request and to engage with the industry to clearly identify the current pipeline management issues and develop a comprehensive set of solutions.

As the Gas Industry Company (GIC) is aware Vector shippers have now established an industry wide working group to identify and address all outstanding pipeline management issues. We acknowledge that MDL attended and participated in the industry working group meeting on 15 October but that in our opinion that is akin to locking the stable door once the horse has bolted.

Mighty River Power notes that despite requests prior to and at the 27 August workshop that MDL held on the draft MBB change request MDL has not, to the best of our knowledge, as yet clearly identified the problems that the MBB change request is designed to address either qualitatively or quantitatively.

The balancing gas costs published by the GIC show that primary balancing gas costs have fallen significantly since 2009 and for the 6 months to the end of June this year only amounted to \$121,500. No figures on secondary balancing gas costs have been published. Based on the published balancing gas costs it appears to us that there is no obvious balancing gas problem. We do however accept that high pipeline pressures can cause problems for gas producers when they cannot inject their scheduled volumes of gas into the Maui pipeline however again this particular issue has not been quantified.

We commend the GIC for being pro-active in commissioning a cost benefit analysis on the MBB change request in advance of its submission. Mighty River Power looks forward to reading the final cost benefit analysis when complete with the appropriate financial calculations.

With regards to the current outline cost benefit analysis report we agree with the conclusions of the outline report specifically:-

- Balancing costs are (or appear to be) much less significant than they have been in the past
- There is no clear problem definition of the pipeline management issues
- There is a lack of tools available to shippers to efficiently or effectively manage daily cash outs
- It is unclear if the high pressure incidents experienced on the Maui pipeline are the result of shippers mismatch position, producers flat profile production, other reasons or any combination of these.

The GIC has asked if the cost benefit analysis should be based on a comparison between the status quo and the MBB change request. It is our view that unless the previously GIC approved back to back balancing MPOC change request is cancelled then the cost benefit analysis should compare the cost and benefits of both the back to back and MBB change requests against the status quo.

With regards to the MBB change request itself Mighty River Power supports the introduction of a market based arrangement for the purchase and sale of balancing gas. In addition we have no objection in principal to the introduction of a daily cash out regime. We do however oppose the introduction of a daily cash out regime when there is no likelihood of shippers with mass market customers (Allocation Groups 4-6) being able to effectively and efficiently manage their pipeline positions.

Mighty River Power's retail business comprises of over 43,000 customers all with a few exceptions are residential customers. We have no control over how and when our customers use their gas. Our daily gas nominations are based on a combination of historical data, adjusted for current customers numbers and weather. No information on actual daily deliveries is immediately available to us.

Under the current allocation arrangements if mismatch is cashed out daily then not only will we have to estimate our daily position of nominations against deliveries but cash out volumes that we incur throughout the month probably resulting in increased inaccuracy in our daily nominations.

Our retail business does not know its actual gas deliveries on the pipeline until the 5th working day of the month following and are only advised of their actual mismatch positions on the pipeline when the BPP invoices are issued on the 14th of the month following. These mismatch positions are also subject to month 4 and month 13 wash ups under the Gas Downstream Reconciliation Rules. Under the MBB Change request these timeframes remain the same therefore we will be finding out that we have been cashed out and the cash out volume up to 35 days after the event. The compounding nature of the daily cash outs makes our pipeline management operations significantly more difficult and most probably more inaccurate.

It will be virtually impossible under the MBB changes for us to efficiently manage our running mismatch position to the level that MDL requires without the introduction of a daily allocation arrangement. It therefore follows that we and other mass market gas retailers will incur increased balancing gas costs which ultimately will have to be passed on to our customers.

As the balancing gas problem has not been clearly defined or quantified we have no idea of what the additional balancing gas costs will be under a daily cash out regime. Moreover we have no way of knowing that the MBB change request will actually resolve whatever the pipeline management issues are.

The GIC has asked submitters to try to identify the costs and benefits that they would incur if the MBB change request was implemented. At this point it is difficult for Mighty River Power to identify any obvious benefits that would apply to our gas management operations. Southdown Power Station has on line metering and decisions are made on the operation of the station by members of staff who provide 24/7 cover. Southdown's operations therefore are unaffected by the change other than we will probably tighten the tolerances that we apply for running mismatch at the station.

Our retail business will however be impacted by the change. On the assumption that the current allocation arrangement is unchanged then it is highly unlikely that Mercury will be able to improve the accuracy of their gas nominations, it is more likely that these will become more inaccurate. The most likely impact is therefore that we will then be subject to increased and on-going balancing gas charges. The value of these charges is impossible to predict particularly given that MDL has not quantified the size of the current problem.

In addition to the above increased balancing gas charges we would anticipate that Vector Transmission will incur additional costs as a result of the introduction of the MBB change request. In particular Vector does not provide validated delivery data at weekends. Under a daily cash out arrangement we believe that as a minimum Vector would be required to provide this information for every day of the week. The increased cost of this and other changes that Vector implements will ultimately be passed onto their shippers and from the shippers onto their retail customers.

The GIC will be well aware that Mighty River Power has long been an advocate for work to be completed on the design and costing of a daily allocation arrangement for mass market customers. We understand that the GIC intends to issue a paper on a daily allocation arrangement before the end of this year. If a daily cash out arrangement is to be introduced under this MBB change request then this workstream has to become a priority for the GIC.

It is our firm belief that a direct consequence of the introduction of a daily cash out regime is a requirement to implement a daily allocation arrangement. A daily allocation process would significantly improve Mercury's gas management operations and at the same time would help

reduce our balancing gas requirements on the Maui pipeline. A daily allocation arrangement does however come at a cost but we are unable to estimate what that cost would be both to our retail business and to the gas industry as a whole.

In order to produce an accurate cost benefit analysis on this change request we believe that both the costs and benefits of the balancing problem and the cost and benefits of a daily allocation arrangement need to be accurately calculated and included in the MBB cost benefit calculation.

One minor issue on the drafting in the MBB change request is that Section 2.2 (b) of the MPOC requires MDL to operate as “a reasonable and prudent operator”. There is therefore no need in numerous sections of the change request including the new 3.4 (f) of the MPOC for MDL to add “acting as reasonable and prudent operator”.

Mighty River Power appreciates that the GIC’s discretion on MPOC change requests is limited and that a final recommendation on the MBB change request will probably be significantly influenced by the result of the cost benefit analysis. It is however our opinion that:-

- The MBB change request should be placed in abeyance until the industry workgroup reports back on its investigations into pipeline management issues. A decision can then be made as to the best way to address any and all outstanding pipeline management issues.
- In the event that the MMB change request cannot be “parked” and should the GIC approve the change request then implementation of the daily cash out regime should be delayed until a decision is made on the introduction of the daily cash out arrangement. Preferably if a daily allocation arrangement is to be introduced then the daily cash out regime should be delayed until that arrangement is in place.
- The GIC recommend to MDL that the soft landing with a ROIL multiplier of 2 should be for a period of 1 year after the change request is implemented and the multiplier of 1.5 for a 6 month period thereafter.

If you would like to discuss any of our above comments directly with Mighty River Power, then please do not hesitate to contact me on 06 348 7926 or jim.raybould@mightyriver.co.nz .

Yours sincerely



Jim Raybould
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