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Dear Ian

Transmission Balancing Options Paper

Introduction

1. Thank you for the opportunity to comment on the Gas Industry Company's (GIC) Transmission Balancing Second Options Paper of July 2009. No part of our submission is confidential and we are happy for it to be publicly released.

Mighty River Power's views

2. Mighty River Power in general agrees with the GIC's preferred Participative Option solution with regards to the proposed framework for providing balancing gas services.
3. Mighty River Power is however concerned that all of the proposed framework solutions appear to us to be potentially quite costly both to develop and to operate. This is of particular concern to us as no cost benefit analysis apart from a few paragraphs within last year's Options Paper have been carried out for any of the options. We believe it is important that the costs and benefits of each of the options are clearly identified prior to the industry committing to any of the 4 options within the paper.
4. Whilst Mighty River Power understands why a Daily Allocation methodology is not included within the scope of this Options Paper we note that the GIC has stated the certain principals with regards to balancing arrangements within its Paper including that:-
 - "Users should be able to manage risks associated with balancing charges including having good knowledge of their ability to hedge price risk."

- “Shippers should not be exposed to risks that they cannot manage, and where information is not available consideration needs to be given to how these risks may be mitigated’
 - “The Balancing Agent must allocate Balancing Gas title and cost as soon as practical after committing to the Balancing action”
 - “The Balancing Agent must promptly notify Users of the allocation of Balancing Gas title and cost.... . The TSO’s must immediately adjust the Users’ gas entitlement.”
5. For Shippers operating within the reticulated gas market Mighty River Power does not believe that that above principals can be achieved until the fundamental problem of the lack of a daily allocation/information service is resolved. The provision of a daily allocation/information service, which has an acceptable degree of accuracy, would in our opinion allow Shippers to effectively manage their balancing gas risks which they cannot do at present and would in turn reduce the need for balancing gas actions by the Balancing Agent.
6. Having regards to the above Mighty River Power is of the opinion that work on a Daily Allocation process must be run in parallel with the balancing gas framework workstream with a view to it being completed in time for the implementation of the Single Balancing Agent regime. We accept that there will be a degree inaccuracy in any Daily Allocation arrangement for the reticulated market and that it may be that it is not possible to design such an arrangement with an acceptable degree of accuracy. If ultimately it is not possible to design a Daily Allocation arrangement within an acceptable degree of accuracy then Mighty River Power believes that the alternative is that reticulated gas, specifically Allocation Groups 4-6, should be subject to some alternative form of balancing regime.

Concluding remarks

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

Yours sincerely

A handwritten signature in black ink that reads "Jim Raybould". The signature is written in a cursive style with a horizontal line above the first few letters of "Jim".

Jim Raybould
Retail Gas Operations Manager

Format for submissions

Company Name:

To assist Gas Industry Co in the orderly consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed throughout the body of this consultation document. This Appendix also includes five optional questions in relation to the outlines of regulations in Appendix B and C participants are invited to respond to.

Respondents are also free to include other material in their responses.

QUESTION	COMMENT
Q1: Do you consider that the objective identified in section 2 is appropriate? If not, what other objective(s) would you propose?	Yes

QUESTION	COMMENT
<p>Q2: Do you agree that the scope of the proposed regulatory options for this paper identified in section 2.2 is reasonable? Are there any items that should be considered in the scope that Gas Industry Co has not identified? Alternatively, are there any items in the scope that Gas Industry Co has included that should not be included?</p>	<p>Mighty River Power agrees that the scope of the paper on the framework of high level principals of possible balancing regimes is reasonable.</p> <p>Mighty River Power agrees with the Gas Industry Company that balancing arrangement should enable gas supply at least cost to New Zealand over time. In our opinion whichever of the option within this paper is ultimately adopted it must ensure that all market participants who want to participate in the balancing gas market are able to do so. This will in turn create a more competitive balancing market and create downward pressure on balancing gas prices.</p> <p>We therefore believe that the development of an open and transparent market for procuring and selling balancing gas is a key aspect of any effective balancing regime. Whilst the development by MDL of the Balancing Gas Exchange is a welcome step in the right direction there are restrictions on who can and cannot participate in this Exchange.</p> <p>One issue that is not clear from the papers is whether the Balancing Agent will be continue to view the pipeline system as the current 5 zone plus Maui pipeline arrangement or whether the Balancing Agent will view the system as single balancing zone, the Single Transmission System concept, which allows imbalances to be traded across the current balancing zones.</p> <p>Mighty River Power supports the introduction of a Single Transmission System as we believe that it would increase the flexibility available to shippers in managing their mismatch positions and ultimately would lead to a reduction actions required to be taken by the Balancing Agent.</p>

QUESTION	COMMENT
<p>Q3: Do you consider that the evaluation criteria set out in section 3 are appropriate for evaluating options for pipeline balancing arrangements? If not, why?</p>	<p>Yes, however of the various aspects within the process Mighty River Power is of the opinion that Production Efficiency is hugely important when evaluating pipeline balancing arrangements.</p> <p>Mighty River Power believes that Production Efficiency is hugely important when considering the overall efficiency of the balancing gas arrangements including issues such as the need to “encourage participation and promote competition in balancing gas supply”</p> <p>In our opinion if the balancing gas market was more inclusive then the cost of balancing gas could be reduced significantly from its current levels of \$13.80/GJ selling and \$2.81/GJ buying.</p> <p>An increased emphasis on Production Efficiency would, in our opinion also assist in minimising barriers and managing supply risks in the GIC’s evaluation against the Gas Act and GPS Objectives, Table 4, as well as improving effective price signals to users with respect to the evaluation against the Evaluation Criteria and ERGER Principals in Table 5.</p>
<p>Q4: Do you consider that Gas Industry Co has correctly identified the need to consider the alternative options based on our conclusions from the consultation process outlined in section 4?</p>	<p>The options that the GIC has identified appear to be logical and we cannot suggest any alternative options.</p>
<p>Q5: Do you agree that the contracts based option identified in section 5 is reasonably practicable? If not, why?</p>	<p>Mighty River Power generally agrees with the GIC’s assessment of the Contract Option. We do not believe that a pan industry consensus would be likely. This option could be made more attractive if the GIC was able to impose a deadlock breaker function similar to that included within the other options within the Contract Options. With such a function this option could have an implementation timeframe similar to the other options and could therefore be implemented in Q4 2010.</p> <p>In terms of introducing a deadlock breaking function, Mighty River Power considers that the option could include a requirement that any contract include the requirement for disputes to be dealt with under the Gas Governance (Compliance) Regulations 2008. This would require the GIC to recommend to the Minister of Energy that the regulations be amended to provide for this.</p>

QUESTION	COMMENT
Q6: Do you agree that the prescriptive regulation option A identified in section 6 is reasonably practicable? If not, why?	Yes.
Q7: Do consider that the outline of the prescriptive regulations in Appendix B is appropriate? If not, why?	Yes, however as indicated above Mighty River Power believes that there has to be an emphasis on Production Efficiency in order for any of the options to provide the lowest cost outcomes.
Q8: Do you agree that the prescriptive regulation option B identified in section 7 is reasonably practicable? If not, why?	Yes
Q9: Do you agree that the participative regulation option identified in section 8 is reasonably practicable? If not, why?	Yes subject to the same emphasis on Production Efficiency as stated above.
Q10: Do you consider that the outline of the participative regulations in Appendix C are appropriate? If not, why?	Yes
Q11: Do you agree with Gas Industry Co's approach to evaluating the options identified as reasonably practicable in section 9? If not, why?	Mighty River Power agrees with the qualitative approach adopted by the Gas Industry Company in evaluating the various options. Whilst there could be many arguments regarding the specific values apportioned against the different criteria the overall outcome is in our opinion not unreasonable.
Q12: Do you consider Gas Industry Co's assessment of the options presented is fair and reasonable? If not, why?	Yes

QUESTION	COMMENT
<p>Q13: Do you agree that Gas Industry Co has, through the evaluation of options, correctly identified the participative regulation option as its preferred option? If not, why?</p>	<p>Yes however Mighty River Power would be more confident that the Participative option was in fact the most attractive option going forward if a cost benefit analysis had been carried out on all of the options enabling a comparative cost analysis. We are concerned that the only cost estimates provided with in the paper were related to the potential development cost of Prescriptive Option A and amounted to \$2 million with operating cost of \$1.5 million while the unquantified cost of the other options would be funded by tariffs.</p>
<p>Q14: Do you agree with the next steps identified in section 11? If not, why?</p>	<p>Yes however we believe a separate work stream to address the balancing problems associated with the downstream reticulated gas is required to run in parallel to this workstream and that this should be implemented at the same time as the new balancing arrangements.</p>

Optional questions	Comment
<p>Appendix B: Outline of prescriptive regulations</p> <p>OO1: Gas Industry Co is still considering whether the scope of the regulations for prescriptive regulation options A and B should include provisions for curtailment and damages. They are currently drafted in the outline for prescriptive regulation option A. However, Gas Industry Co seeks submitters' views on whether provisions for curtailment and a damages¹ regime should be included in the regulations or left to industry agreement and codes.</p>	

¹ Where there is insufficient balancing gas available then the Balancing Agent could curtail users prior to a critical contingency being called, in order to endeavour to prevent a critical contingency. In this situation a well behaved user that is curtailed will want to claim for damages from the causers of the imbalance that lead to curtailment. Therefore curtailment and damage claims go together.

Optional questions	Comment
<p>OO2: If the scope of the regulations includes damage claims, the quantum of these can be determined through the dispute resolution process (by the Rulings Panel) or predetermined as 'liquidated damages'. Do you consider that the quantum of damages should be liquidated or are better determined by the Rulings Panel at the time of the claim?</p>	
<p>OO3: In schedule 2, Base Linepack and Thresholds, Gas Industry Co has not yet determined a process for setting and revising this table. Do you have a view as to how this might be best achieved under the regulations?</p>	
<p>Appendix C: Outline of participative regulations</p> <p>OO4: A design issue is how to define flexible linepack available to the Balancing Agent and ensure that this is a fair share of the flexibility available. In proposed regulation 5.f. Gas Industry Co has drafted it to be set as 'wide as practical' with any dispute to go to the dispute resolution process. An alternative would be to establish a special purpose process for establishing the flexible linepack. Do you agree with the current drafting, or would the alternative to create a special purpose process be more appropriate?</p>	

Optional questions	Comment
OO5: The outline of regulations has been drafted to include tolerances. Do you consider tolerances should be included?	Yes. Certainly until such times as the problems related to the daily allocation of the reticulated market are resolved it is essential that the maximum flexibility within the pipelines is maintained.