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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 Options Paper of December 2008. 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 supports the concept a Single Balancing Agent in principal. However the bulk of the work related to this option was completed prior to the removal of the Legacy Gas provisions in the Maui Pipeline Operating Code (MPOC). Mighty River Power is concerned, based on recent conversations with various participants within the gas industry, that the number of balancing actions taken on the pipelines post-12 December 2008 appears to be significantly lower than those pre-12 December and this, therefore casts some doubts as to the viability of this concept.
3. Significant improvements in pipeline balancing behaviour could be made if an acceptable daily balancing solution could be found for the daily allocation of Retailers' mass market gas loads. Mighty River Power, therefore, recommends the GIC make this the priority issue rather than a review of pipeline tolerances and the development of the Single Balancing Agent concept.
4. Further, Mighty River Power considers it is likely there will be additional entrants into the balancing gas market, such as ourselves, that in the long-term will have an impact on the number of balancing actions required to be carried out by the pipeline operators.

5. The impact of both a Daily Allocation process and the entrance into the market of additional balancing gas will in the long-term have an impact on the cost benefits associated with the Single Balancing Agent option.
6. In summary, we believe the Single Balancing Agent option should be revisited to ensure that all the assumptions that were made within the Transmission Balancing Options Paper are still valid. In addition, we believe it would be desirable to delay any decision on this option for 12 months or, as a minimum, until we have a clearer understanding of the long-term impact of changes the removal of the Legacy Gas provisions from the MPOC will have on pipeline balancing behaviour.
7. Mighty River Power believes a robust cost benefit analysis of both the introduction of a Single Balancing Agent and the proposed review of the pipeline tolerances should be completed prior to committing to implement either of these proposals.

Concluding remarks

8. 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 name.

Jim Raybould

Retail Gas Operations Manager

Appendix A Format for Submissions

To assist the 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.

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

QUESTION	COMMENT
<p>Q1 Do you consider that the objectives identified in Section 2 are appropriate for the analysis of balancing options? If not, what other objectives would you propose?</p>	<p>Yes</p>
<p>Q2 Do you agree that it is necessary to review tolerances as described in Section 3.1?</p>	<p>Whilst we agree with the proposal to review pipeline tolerances we are concerned that the pure application of the balancing principles that work in a very large Gas Industry such as Europe with zero tolerances, may not be practical and could result in higher overall compliance costs in what is a very small Gas Industry here in New Zealand. It is therefore possible that some very small socialising of pipeline balancing costs may, in certain cases, be the most cost efficient way of balancing the pipelines.</p> <p>Any reduction in tolerances prior to the resolution of the problems with Daily Allocation of the mass market loads would undoubtedly result in increase costs. Mighty River Power is therefore of the opinion that until such times as the Daily Allocation solution is implemented for the mass market load tolerances may be increased but under no circumstances should they be decreased.</p> <p>Finally on this question we have to ask the question as to what will the costs be for this part of the work programme. Also will the potential benefits will outweigh the costs associated with engaging an independent expert to review the tolerances</p>
<p>Q3 Do agree that it is necessary to consider MPOC changes as described in Section 3.2?</p>	<p>Whilst Mighty River Power believes MPOC Changes as described in Section 3.2 should be considered there are issues that need to be addressed prior to any changes being implemented. The main issue for us is the need to address the lack of a Daily Allocation process so that we can accurately manage our positions on the pipelines and to prevent us causing “cash outs”.</p>

QUESTION	COMMENT
<p>Q4 Do you agree that the primary balancing obligation should remain with pipeline users?</p>	<p>Yes</p>
<p>5 Do you agree that there should be a single independent Balancing Agent?</p>	<p>In principle we have no objections to the introduction of a Single Balancing Agent so long as it improves the economic efficiency of pipeline balancing.</p> <p>Given the work on this consultation paper was completed prior to the removal of the Legacy Gas provisions in the MPOC on 12 December 2008 Mighty River Power recommends the GIC review whether there has been any significant changes in pipeline balancing since the MPOC changes were introduced.</p> <p>We believe the number of balancing actions that have been carried out since the 12 December has reduced considerably. The development of the concept of a Single Balancing Agent over the next 18 or so months is a substantial body of work for both the GIC and the industry members involved. If the GIC were to find the attitudes and more importantly, the actions of shippers on the pipelines post 12 December have changed significantly then the GIC may need to reconsider this concept prior to undertaking the next stage of its development. Mighty River Power believes a decision on progressing this concept should be delayed until there is a clearer understanding of the impact of the removal of the Legacy Gas provisions from the MPOC on balancing within the pipelines.</p> <p>A further reason for reviewing the Single Balancing Agent proposal is that, in our opinion, there are still issues to be resolved that will affect the number of balancing actions required in the long-term. These include the entrance into the balancing market of other potential balancing gas providers and purchasers in which we include ourselves plus the potentially important introduction of daily allocations of mass market loads.</p> <p>With regard to the economic efficiency of introducing a Single Balancing Agent, it should be remembered that there is a balance between the theoretical ideal principles that could be applied to issues and the costs associated with achieving those principles. Gas is, after all a fuel of choice for only 250,000 customers and it is facing severe competitive pressures particularly in the mass market. Any increases in compliance costs will ultimately be bourn by end use customers, the majority of whom are residential customers.</p>

QUESTION	COMMENT
<p>Q6 Do you agree with the section 7.1 preliminary assessment of balancing procurement options?</p>	<p>We agree caution is necessary before moving to the GIC’s current preferred solution. In particular there is an underlying assumption that the Balancing Agent or Agents will have as suggested in Section 6.1 of the options paper “possibly limited - but numerous - sources of flexibility in supply and demand”. The proposal for the Balancing Agent(s) utilising a spot market does in fact all hinge on the so far unproved availability of liquidity in a secondary spot gas market from a relatively small pool of suppliers.</p> <p>With regards to hedging products we would suggest the current MDL Call and Put Gas arrangements provide a degree of certainty of prices over a range of periods both short and long and provides not only a degree of transparency but also flexibility for both buying and selling parties. We would therefore recommend any Balancing Agent(s) should consider this type of purchase and sales arrangement as well as utilizing any spot market gas that may exist.</p> <p>We are sceptical about the likely availability of the secondary hedging products for small participants. Currently there does not appear to be any evidence that such products are available at affordable prices. Mighty River Power believes the lack of such products is for the same reasons the GIC has highlighted in their assessment of the “Portfolio of Contracts” in this section.</p>
<p>Q7 Do you agree with the section 7.2 preliminary assessment of daily allocation options?</p>	<p>No, in our experience in any Daily Allocation process you must account for all Time of Use volumes before carrying out any daily allocation of the mass market volumes, allocation groups 4-6. The cost of the additional telemetry equipment is about \$2-\$3/day depending on the GMS operator. We believe that there are currently about 325 customers with Time of Use metering but do not know how many of these already have telemetry. Those customers with telemetry pay for this service and we see no reason why this would not be the case if all 325 or so Time of Use customers are required to have this type of equipment installed. In addition to the Industry benefiting from the information provided by this type of equipment customers would also benefit in being able to monitor their daily consumption and as a minimum be in a better position to better manage their capacity reservations and the associated overrun charges.</p> <p>It is possible that the increased number of installations with this type of equipment could result in a lowering of the capital cost of this type of equipment and also in reducing the daily rental charges for this type of equipment.</p>

QUESTION	COMMENT
<p>Q8 Do you agree with the section 7.3 preliminary assessment of the extended nominations options?</p>	<p>We do not believe this proposal in its current format is desirable and therefore we agree there should be further investigation and evaluation.</p>
<p>Q9 Do you agree with the hybrid approach proposed?</p>	<p>Mighty River Power believes that it is too early to commit to the establishment of a Single Independent Balancing Agent. We believe it is desirable to reassess the potential benefits versus the costs of a Single Balancing Agent in light of the MPOC changes of 12 December before proceeding with this aspect of the workstream.</p> <p>We also have concerns regarding the potential costs and benefits associated with an independent review of the pipeline tolerances.</p> <p>We do, however, believe that it is very important that the work on developing a solution to the problems of daily allocation of mass market load proceed as quickly as possible.</p>
<p>Q10 Do you agree with the proposed work programme?</p>	<p>We agree with the proposed development work program around Daily Allocation/Extended Nominations Options with an implementation date of 1 October at the latest.</p> <p>Based on the consultation paper Mighty River Power agrees in principle with regards to the potential move to a Single Independent Balancing Agent but we would not at this time support a decision to implement the Single Balancing Agent function. However Mighty River Power recommends in light of the 12 December 2 MPOC changes, that the GIC review the current balancing situation to ensure that a Single Balancing Agent is still considered the best way forward prior to proceeding with the proposed development work on this issue within the work programme.</p>