

From: Jim Raybould [mailto:Jim.Raybould@mightyriver.co.nz]
Sent: Monday, 15 February 2010 4:50 p.m.
To: Ian Wilson
Cc: Melanie Strokes; Duncan Jared
Subject: Balancing Gas Rules

Hi Ian

Apologies for the late delivery of our comments on the above.

- As discussed during the ICD process and again at the Balancing Gas meeting on 5 February it is important that the defined terms are all unambiguous, e.g terms such as unified
- Definition of Clearing Price is based on the marginal cost of balancing gas but we agreed at the ICD process that the weighted average price should apply to cash outs and that tenders would get the price that they tendered at. MRP is on the opinion that weighted average pricing is the most appropriate clearing price option.
- Clause 5.2 defines what balancing is but does not actually define the balancing period which we assume is a day.
- Clauses 19 and 20 requires the Balancing Agent to allocate balancing gas as soon as practical but without a D+1 allocation process for downstream volumes this could in an extreme case be 5-6 weeks after the balancing action is taken.
- Clause 16.2 is important to MRP as it will allow us to access the balancing gas market for both the purchase and sale of balancing gas which we are unable to do at the moment.
- Clauses 16.4.3 and 16.5.3 the clearing price for balancing gas should not be based on marginal pricing. Balancing gas sales and purchases should be based on the individual tender prices for the sale and purchase of balancing gas.
- Clause 18.1.3 Removes any credit risk from the balancing agent and limits any payment made by them to the income they get from cash outs. This will reduce the confidence of sellers as to whether they will receive payment for the gas that they sell and therefore in our opinion is unlikely to enhance competition within the balancing gas market.
- Clause 19.3 Sees the title of any unallocated balancing gas pass to the TSO who has to pay the balancing agent for this gas which they will then attempt to sell for the TSO at some later date. Again as part of the ICD process it was agreed that the balancing agent would retain title to this gas. We are not necessarily opposed to this but believe that the GIC should reconsider to whom unallocated gas should be allocated.
- Clause 20.1.2 Cash outs calculation should be based on a clearing price which is a weighted average of the balancing gas tender prices.

- Clause 22.4 again limits the balancing agent's risks in not requiring them to pay out any more than they take in through cash outs and raises the question of how can sellers of balancing be certain that they will get paid for the gas that they supply?
- Clause 23 is not required if the balancing agent were to retain title to any excess balancing gas
- Clause 25 Errors in allocation. MRP would accept a change in gas titles if error is identified within a month but anything after that should only be a financial adjustment as we don't want to be reallocating gas 6 months after the event and all that that entails. Also why limit this to 6 months why not 13 months in line with downstream allocations. Also there should be a materiality threshold but what would that be..

Subparts 1 and 2 - Balancing Plans

- We have some sympathy with the suggestion that Parts 1 and 2 could be reduced in size by having a section of common clauses that apply to the balancing plans and then have specific clauses that differentiate the requirements between the TSO and GIC plans.
- Clause 43.2.2 should include that the records held by the balancing agent should belong to the GIC. In fact the GIC may wish to consider whether the GIC should also have proprietary rights on any software developed for the balancing system given that the industry will pay for its development.

If you want to discuss any of the above matters then please do not hesitate to call me.

See you tomorrow.

Regards

Jim

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