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24 November 2014

Gas Industry Company Limited
Level 8, The Todd Building
95 Customhouse Quay
Wellington

BY E-MAIL

Dear Sir,

SUBMISSION BY METHANEX NEW ZEALAND LIMITED

MAUI PIPELINE OPERATING CODE – CHANGE REQUEST 10 OCTOBER 2014

Methanex makes this submission to Gas Industry Company Limited (“GIC”) in respect to MPOC Change Request dated 10 October 2014 (“Change Request”).

This submission is further to a previous submission made directly to Maui Development Limited (“MDL”) (and copied to GIC) in response to an earlier draft of the proposed change request dated 13 August 2014. A copy of the earlier submission is included as an attachment to this submission.

In a number of cases the concerns we raised in our earlier submission have been addressed or partly addressed by amendments made to the 13 August draft in the Change Request. Accordingly we confine our further comments to the outstanding issues and concerns we have with the Change Request.

Pricing Adjustment

We do not support MDL setting an adjustment fee as contemplated in Section 12.12(d) and in any event consider that a fee that could be set as high as 10% is excessive.

Further, the adjustment fee mechanism needs to be revenue neutral and in this respect MDL has not provided information on what legitimate costs, if any, the adjustment fee is intended to cover.

We consider that an adjustment fee has not been justified and secondly it should not be determined by MDL at its discretion. In this regard we consider that the GIC as co-regulator should be responsible for:

- (a) determining whether an adjustment fee is necessary;
- (b) setting the level of the fee; and
- (c) collecting the proceeds and, in consultation with pipeline users, determining how any surplus is distributed.


ROIL Tolerance Limits

We recognise that MDL has proposed a longer “soft landing” on reduction of the ROIL tolerance limits than it proposed in the original draft.

However, we have always considered that the planned reduction of ROIL tolerances to 1% or 1,000 GJ imposes undue risk on pipeline users given the present limitations on their ability to self-balance (e.g issues with start of gas day, insufficient ID cycles and timing of deadlines). To reduce pipeline users immediate exposure to excessive balancing costs our recommendation remains setting the ROIL tolerance limit at the higher of 2% or 2,000 GJ, as proposed by MDL. However, instead of reducing the tolerance in March 2016 we propose a review is undertaken by GIC after 12 months to determine if it is appropriate to further reduce ROIL tolerances, and if so by how much, taking into account progress made by MDL in the interim improve self-balancing mechanisms.

If you wish to discuss any of the matters raised in this submission please don't hesitate to make contact with me on 09 356 9296 or by e-mail at mgardner@methanex.com.

Yours sincerely



Matthew Gardner
Commercial Advisor
Methanex New Zealand Limited

Attachments:

Submission – MPOC Drat Change Request Date 14 August 2014

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19 September 2014

Matthew Wilson
General Manager
Commercial Operator, Maui Pipeline

BY E-MAIL

matthew.wilson@mauipipeline.co.nz
cc: jamie.patton@mauipipeline.co.nz
cc: jan.dempster@gasindustry.co.nz

Dear Matthew,

**SUBMISSION BY METHANEX NEW ZEALAND LIMITED
TO COMMERCIAL OPERATOR, MAUI PIPELINE**

**MAUI PIPELINE OPERATING CODE - DRAFT CHANGE REQUEST DATED 14
AUGUST 2014**

Methanex makes this submission to Commercial Operator in respect to the following documents provided to us:

- The draft Application for Gas Industry's Recommendation on Proposed Amendments to the Maui Pipeline Operating Code dated 13 August 2014 ("**Draft Application**")
- The marked-up Maui Pipeline Operating Code, "Market-based Balancing Change Request" dated 13 August 2014 ("**Proposed Code**")

Methanex has appreciated Commercial Operator providing us with copies of the Draft Application and Proposed Code together with allowing for a period of consultation ahead of any decision it intends to make as to whether to submit a Change Request for consideration by GIC. We would have preferred to have had more than one industry forum and more time to discuss matters collectively before making our submission but we are encouraged by the positive steps that have been taken by Commercial Operator to increase the level of engagement between it and the wider industry. We are strongly of the view that more frequent consultation between MDL and the industry would have positive benefits in addressing and resolving the various issues that MDL and the industry face regarding use and operation of the Maui Pipeline.

As to the Draft Application and Proposed Code, Methanex supports the objective of having a market-based balancing regime on the Maui Pipeline. We also support in general terms the proposal made by MDL to introduce daily balancing provided that certain changes are made to the Proposed Code.

Self-balancing by users should be the primary means of balancing the Maui Pipeline and we believe that MDL needs to go further than it has to date in enabling pipeline users to achieve this, rather than focussing only on incentives and policing. The introduction of a user-led intra-day/day-ahead gas market has been a significant step to enabling self-balancing to occur at market prices. But in addition to accepting the need to make use of a Trading System foreshadowed in the Proposed Code, further changes need to be made to the Maui Pipeline nomination/balancing regime to improve the ability of pipeline users to self-balance (changes that could include moving the start of the gas Day, altering the timing of ID cycles and perhaps providing more nomination cycles during a day).

Resolving these issues requires engagement between MDL and the industry. We have proposed in this submission that a working group is established to work through how best to restructure the nominations and balancing regime in MPOC. We are not however suggesting that the Proposed Code (subject to the modifications we have requested) is held in abeyance. On the basis the Proposed Code incorporates a "soft landing" transitional period of 12 months, we believe the intervening period can also be utilised for the wider consultation necessary to deal with the further changes that may need to be made to the Code (and potentially to OATIS).

General Recommendation: That the Proposed Code be amended to incorporate a 12 month transitional period during which time:

- Running Operational Limit ("**ROIL**") tolerances limits on Welded Points as described in Schedule 7 are fixed at not less than 2,000 GJ.
- No price adjustment (as currently proposed in Section 12.12) is applied to the Average Market Price (other than market trading fees that are or would be levied on a per GJ basis).
- An industry working group, preferably organised and chaired by GIC, is established and given a 12 month period to work through and attempt to resolve outstanding balancing issues as well as improvements that can be made to MPOC and related information systems to improve pipeline user's ability to effectively self-balance.
- At the end of the 12 month transitional period a review is to be undertaken by GIC, in consultation with MDL and relevant stakeholders, to determine whether tolerances can be reduced and whether an adjustment to the Average Market Price is necessary in determining the price of Cash-Outs.

Our support for the Proposed Code is also conditional upon MDL having agreed an interconnection agreement to enable a Trading System to be established in accordance with the criteria set out in Section 3.4 of the Proposed Code, effective prior to (or contemporaneously with) the code change coming into force.

DETAIL RESPONSES TO THE PROPOSED CODE

Section	Comment/Recommendation
3.2(b)	<p>Use of non-standard product</p> <p>We propose that MDL provides clarification in the Proposed Code that the standard product is the default to be used unless circumstances require the use of a non-standard product. The circumstances or principles under which a non-standard product would be used should also be set out in the Proposed Code.</p>
3.3	<p>Balancing Platform</p> <p>MDL has recognised that the Balancing Platform (as defined, a platform where MDL is on one side of all transactions) is justifiable only as an interim measure (Section 4.5 of Draft Application).</p> <p>We propose that a statement is made in the Proposed Code stating that the Balancing Platform is intended be an interim measure until a Trading System sufficiently meets the requirements of a fully mature balancing market.</p>
3.5	<p>Merit Order</p> <p>This section is not entirely effective in establishing an obligation on MDL to use a Trading System ahead of other Sources/Products, we propose that the provision is amended to reinforce the objective of using the Trading System ahead of other Sources.</p> <ul style="list-style-type: none"> • We believe the Reasonable and Prudent Operator requirement should relate to all of 3.5 not just 3.5(c); • Reference to “cost effective manner” is in our view insufficient. We are concerned that the term is open to uncertain interpretation compared with a more concise objective such as for balancing gas to be purchased at the lowest available price and sold at the highest available price; • “all things being equal” is an unhelpful phrase in terms of establishing the objective of using a Trading System ahead of other Sources, we propose words to the effect of “having regard to Sections 3.5(a) to (c)”
3.6/3.7	<p>Publishing BGIX information</p> <p>We do not understand why publishing information referred to in Section 3.6 and 3.7 requires only a reasonable endeavours obligation. We propose this is changed to an absolute obligation.</p>
12.12	<p>Price “adjustment”</p> <p>Assuming that the definition of Average Market Price is amended to cover per GJ market trading fees, the “adjustment” referred in this Section should be set at zero. As proposed in our General Recommendation, the need for and level of that the “adjustment” should be determined by GIC at the end of the 12 month transitional period.</p> <p>We are opposed to the pricing adjustment mechanism being determined at MDL’s discretion and find it hard to conceive of a need for it be as high as 10% in any</p>

Section	Comment/Recommendation
	<p>event, let alone giving consideration for an even higher adjustment determined by GIC.</p> <p>We consider that the prospect of facing a Marginal Price outcome for doing nothing is incentive enough for pipeline users to attempt to self-balance. We also consider that until the overarching issues concerning the structure of balancing/nominations regime on the Maui Pipeline have been debated and where possible have been resolved, it is inequitable to impose a fee on users who seek to self-balance but are prevented from doing so by restrictions placed on them under the current regime.</p> <p>12.12(e): We propose replacing the currently proposed 12.12(e) with a provision that establishes that:</p> <ul style="list-style-type: none"> (a) No adjustment will be applied during the first 12 months (b) A review will then be undertaken by GIC to determine if an adjustment is required and at what level it should be set. <p>12.12(f)/(g): There is ambiguity as to how "sufficient" or "reliable" would be interpreted and we propose that wording is replaced with "where no trades have occurred, or no bids and offers are posted on a Trading System for that Day". In circumstances where the latter applies but no trades have occurred then the Average Market Price in 12.12(b) and (c) could be set as the relevant average volume weighted bid price and offer price for that day.</p> <p>We propose that the principles for otherwise determining the default rule for deriving the Average Market Price are set out in the Proposed Code. In particular the default values should never be less than the lowest Balancing Put price or exceed the highest Balancing Call price, per Sections 12.12(b)(i) and (c)(i) of the Proposed Code.</p> <p>12.12(g)</p> <p>We note in Section 5.9 of the Draft Application that MDL refers to the default rule being published in advance. However, there is no reference to a notice period in either Section 12.12 or Section 4.4 of the Proposed Code. We propose that in addition to setting out principles for reverting to a default rule, that a reasonable notice period is given when a default rule is introduced or changed.</p>
12.18	<p>ROIL Multiplier</p> <p>We consider that the Reasonable and Prudent Operator obligation should be moved to the start of the Section 12.18(c) rather than restricting it to the application of part (iii)</p>

Section	Comment/Recommendation
	<p>12.18(d)</p> <p>In line with our general recommendation regarding implementation of the Proposed Code we propose the following:</p> <ul style="list-style-type: none"> • ROIL Tolerances to be set at 2,000 GJ at each Welded Point in Schedule 7. • Section 12.18(d) is replaced with a provision stating to the effect that “at the end of the 12 month transitional period a review will be undertaken by GIC, having regard to the views of MDL and other stakeholders as to whether tolerances should be reduced and by how much, with final determination to be made by GIC”.
	<p><i>Amendment proposed to B2B Fix-up Change Request version dated 14 February 2014</i></p>
	<p>Setting of Daily Operational Imbalance Limits (Schedule 7)</p> <p>During the consultation on the B2B Fix-up Change Request we submitted on the matter of MDL setting DOIL's at Bertrand Road (Waitara Valley) and Faull Road at 1,500 GJ in Schedule 7, at one-half the level that apply at other similar welded points. (Refer to our submission made to GIC dated 10 March 2014).</p> <p>Following from that submission we were given to understand by Commercial Operator that this issue would be resolved in a subsequent code revision but this has in fact not been amended in the Proposed Code.</p> <p>We request that each of the Bertrand Road (Waitara Valley) and Faull Road Welded Points have DOIL limits in Schedule 7 set at 3,000 GJ as is the case for other Welded Points. As a matter of note, typically 40-50 TJ is delivered to those welded points each day which represents a level of throughput which supports our contention that to have a DOIL lower than other welded points is neither equitable nor consistent.</p>

If you wish to discuss any of the matters raised in this submission please don't hesitate to make contact with me on 09 356 9296 or by e-mail at mgardner@methanex.com. Once you have had the opportunity to assess the various submissions we request that Commercial Operator organises a further meeting with stakeholders to discuss the consideration it has given to the submissions and how it intends to proceed.

Yours sincerely



Matthew Gardner
Commercial Advisor
Methanex New Zealand Limited