

19 August 2009

Ian Wilson  
Senior Advisor  
Gas Industry Company  
Level 8, The Todd Building  
95 Customhouse Quay  
WELLINGTON

Dear Ian

Multigas (NZ) Limited ("Multigas") is grateful for this opportunity to provide a submission on the Transmission Balancing Second Options Paper published by the Gas Industry Company ("GIC") in July 2009.

Multigas overall has identified merits in most of the content of the second options paper, and appreciates the effort by GIC to seek solutions going forward in this vital area of the supply chain.

- 1. Do you consider that the objective identified in Section 2 is appropriate? If not, what other objective(s) would you propose?**

Multigas believes the GIC has gone to extensive lengths to understand and offer options based on the mechanical issues that make up the processes which determine Transmission Gas Balancing regime. However in our opinion, GIC has overlooked and failed to appreciate and understand the 'effects' of these options on all parties.

After reviewing the options put forward by the GIC, we propose that both the upstream and the downstream systems are co-jointly re-evaluated and re-assessed as to the implications and effect of each system on the other.

Compared to previous systems the costs of these new systems are very high and ultimately it will be to the end consumer's detriment and expense.

- 2. 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 GIC has not identified? Alternatively, are there any items in the scope that GIC has included that should not be included?**

Overall, the following points address the remaining questions in the Balancing Options document.

Generally we agree, however our position is reserved due to the lack of content and definition relating to the following:

- (1) Costs of Administration – any option for consideration will need to be costed out in a manner that no further cost burden is added to the end consumer. The effects on any new system will need fiscal evaluation undertaken by the GIC and will require proper measurement. The true cost impact of the Reconciliation and Switching regimes are yet to be fully realised and with increasing GIC levies will attract attention from critics as to it's overall value .
- (2) Management and accountability of a proposed Balancing Agent function – Multigas accepts that a Balancing Agent process is potentially the answer to minimising wastage. However is the balancing function suitably undertaken by:
  - (a) an individual company or organisation, or
  - (b) a system derived from the input and representation of the parties involved in the process ?
- (3) The regulative option which in our opinion will result in high administration costs also may not deliver the commercial outcomes required.
- (4) Performance management and allocation of mismatches. Mismatches are derived by information availability and its a genuine penalty as far as non-TOU shippers are concerned as we rely on the majority of our delivered gas load information at the end of each month. Conversely TOU shippers should not be expected to subsidise or be penalised for gas load that is 'late on arrival'. The current system pushes the majority of mismatches towards those non-TOU shippers and in this environment there needs to be closer examination to develop a system that accounts more equitably for these gas quantities.
- (5) The cost of balancing gas by MDL to sustain a level of load equilibrium on the system appears doomed before it has had the chance to evaluate:
  - (a) the causer, and
  - (b) suitable remedies.

The current mismatch valuation is unrealistic. There is no evidence that current gas prices that deal with positive and negative situations follow any commercial logic. They appear to be based on gas content valuation determined by a mechanism which has no real and actual relevance to the sale and purchase of the raw material.

In addition, if that indicator has any substance or validity should that weighted price be incorporated as a market price or a penal price? If it is a penal price, on what basis and terms is that penal formulae calculated?

The question then arises as to whether in the open competitive market is that mismatch price sustainable? If any consumer was expected to sell their surplus at \$4 and buy short fall at \$13.50, MDL will need to have very strong and justifiable arguments to validate the price extremes and this can only be done under a fair and proper Ministerial market review and scrutiny of the commodity value.

The closest associated product is that of a convertible bond to market currency because ultimately it's what the market will accept and tolerate.

Given the distressed fabric of the market it is very unlikely that these extremes are commercially acceptable or viable in the long term in an open access competitive gas market. The end effect of these decisions ultimately will result in additional cost to the end consumer.

- (6) Accountable auditing of performance of gas daily balancing – following on from (4), the new option of balancing needs to have robust supply of information and a rational recount of gas uplifted to nominations both at the upstream and the downstream levels. With this in mind, Multigas strongly believes that the Vector high pressure downstream system and calculation process also needs to be evaluated and assessed under the same framework as the balancing issues facing the Maui Pipeline. It seems very impractical to assume that all questions will be answered by arranging balancing options for upstream when a major contributor to the balancing problems is derived from the downstream system which until now has escaped scrutiny.
- (7) Parallel systems - Is there any interconnectivity between the Vector Transmission system and the main Maui Pipeline? There appears to be little motivation in this document of a serious attempt to align both systems closer so that:
  - a) gas load management is more accountable,
  - b) capacity on one system reflects out put from the other, and
  - c) that by marginalising deliverable risks, can any mileage be gained through a more transparent flow of information?

Given the inflexibility of the Vector Transmission System and the excessive mismatch gas prices, there seems to be a 'good cop, bad cop' syndrome occurring here and without some proper collaboration of information between both systems, a hybrid or even collective option will struggle to succeed because each relies and impinges on the other.

- (8) Multigas is also of the opinion that the Vector High Transmission system needs to be subjected to the same scrutiny and evaluation as the upstream system in order that counter balancing costs are spread across both systems rather than the reliance on one carriage regime (MDL) to accept the total aggregated costs. At the downstream level, shippers are expected to buy gas capacity for the peak of their demand, yet any surpluses at the off peak periods are not used to mitigate or off set against peak deliveries – by contrast, shippers on the Maui Pipeline are allowed to buy capacity daily as

and when their demand requires it. It is then in our opinion inevitable that the downstream system has been allowed to operate independently and with strongly insulated processes without any real accountability of its methodology – we urge the GIC to evaluate how spare downstream capacity can be treated as a gas credit / debit system to assist that shipper with the upstream under or over utilised carriage requirements.

The effect of the non integration of the two systems as they currently operate is akin to “double dipping” and adds significant costs and penalties to the final delivery of gas and services which is ultimately paid for by the end user - the customer at the end of the line. This cannot be deemed to be fair or equitable.

We conclude that none of the models proposed will work unless consideration of the following is conducted:

- (1) There are closer inter-relationships and co-operation between Upstream and Downstream Transmission systems.
- (2) Both systems operate to the same nominations and cost mechanisms.
- (3) The balancing agent – in our opinion should be a commercial entity made up of interested parties working under the rules designed and determined by participants and reporting to the GIC under an auditable model. The balancing agent should work towards improving industry balancing protocols and develop cost effective resolutions to disputes derived from both Upstream and Downstream systems. The GIC ultimately will play the role of regulator to ensure the enforcement of protocols is adhered to and report to the Ministry.
- (4) That mismatch prices should be relative to market prices and reflect true and actual gas prices sold on the wholesale market. Currently, it reflects price gouging which needs to be looked into and evaluated as to its appropriateness in the market.
- (5) Costs - The GIC needs to be very conscious that since its inception the additional costs of implementing reconciliation, switching and adjudication of policies need to have cost effective outcomes. Have these systems and outcomes resulted in the consumer paying less for their gas? Alternatively, has the GIC over complicated the industry to the point where costs have increased and are not justifiable. These increased costs, which still continue to escalate at an alarming rate, are not acceptable. Following on from this is whether the GIC is the right vehicle or entity to act as representative of all interested parties – or is it just an expensive operation that has done little to improve the way in which the industry operates and has added substantial costs for negligible gain?
- (6) Recommended Solution – Effective for both Transmission operations - a twin system is the answer - one that accommodates for the mass market (non-TOU orientated shippers) and the other for the dominant market (TOU Market). The mass market is always going to have an element of volatility about it,

hence the characteristics of this profile – but it should not be the 'piggy in the middle' payer for gas load imbalances, which are at the moment unaccounted for. If the mass market is expected to carry the burden of high-inflated mismatch prices (which should not be the case) then its allocated percentage needs to be controlled and it should only pay what is rightfully due ie. policy changes at the Vector Transmission system level would appear to be part of the solution given that there is surplus capacity and this system is rarely over taxed as it runs on excess capacity given that shippers are forced to book and pay for capacity based on their peak demand requirements.

### Steps forward?

A newly appointed forum made up of nominated representatives from the major users (TOU sector), Mass users (non-TOU sector), pipeline, and major consumers dedicated to result in a strategic solutions summit to identify how a **twin system** would operate on both Upstream and Downstream Transmission systems in a fair and equitable manner.


Tariff adjustments and minor line change policies will not deliver long term beneficial outcomes for the consumer. The continuance of the current separatist micro modules will eventually result in the consumer exposed to paying for an 'artificial gas product' which is neither real nor has any resemblance to their consumption.

The principles of the original GPS was for the GIC to deliver outcomes in the gas industry that are cost effective and the promotion of competition in an open access market. If GIC is to be successful in achieving this then it needs to take a holistic view and apply practical and effective commercial outcomes. Given the current penal regime that exists on both Transmission systems an immediate review is required in particular the Vector High Pressure system.

Multigas wishes to thank the GIC for its work to date. Our intention is to deliver to our consumers a cost effective product which if achieved will encourage new investment in the industry and natural growth from the public. The ultimate for all participants in our opinion is to reinstate confidence that natural gas as a valuable and viable resource and its' delivery is a stable and economical primary fuel option.

Thank you again for this opportunity.

Kind regards

A handwritten signature in black ink, appearing to read 'Syd Hunt', with a long horizontal line extending from the end of the signature.

Syd Hunt  
MULTIGAS (NZ) Limited