



5 October 2006

Ian Dempster  
Gas Industry Co  
PO Box 10 646  
Wellington

Dear Ian,

### **Late Submission from Nova Gas regarding Gas Emergency Arrangements**

Please find attached from Nova Gas a late submission with respect to the review of gas emergency arrangements.

Unfortunately we were unable to review the document and record our views by the date required due to a lack of resource at the time combined with a number of other activities that required our attention at the same time. We apologise for any inconvenience that this causes.

Nova Gas agrees with the Gas Industry Co's view that robust emergency arrangements are required to ensure that contingent events are managed appropriately and that residual gas available can continue to be transmitted during such events. It serves no ones purpose for partial supply curtailments to end up in the situation where transmission pressure drops so low that residual gas supply is unable to flow as well.

### **Fundamental changes to industry structure**

Historically, such plans as the NGCOP were created in an environment where a significant percentage of gas supply was from one gas field – Maui. This meant that if Maui had an outage, there were no other supply options available and most, if not all participants, who took their supply from Maui were in the same position in having to curtail demand in an orderly manner.

With new supply sources now available and facilitated by open access arrangements on the Maui pipeline, the situation has fundamentally changed. New sources of supply include Pohokura, Mckee, Mangehewa and Turangi mean that an interruption at any supply source will only result in the need for a partial curtailment instead of a full curtailment.

### **Market mechanisms preferred option**

Nova Gas believes that aspects of the arrangements proposed to manage emergency events are sub optimal and will lead to a number of outcomes that are contrary to the objectives of the Government Policy Statement.

In particular we note that:

- a) the proposed arrangements will conflict with the Maui Pipeline Operating Code(MPOC) and in particular the operation of the incentives pool regime that acts as a liquidated damages regime
- b) the balancing mechanisms including a tender process for the procurement of balancing gas provided for in the MPOC and the Vector Transmission agreements are taken into account
- c) the use of an independent expert to determine ex post fair value prices will:
  - i) reduce incentives for demand participation during curtailment events
  - ii) reduce incentives for innovation in supply contracts where demand side users may prefer to make the trade off between security of supply and price themselves rather than have it opposed on them
  - iii) reduce incentives for investment in the oil and gas industry due to the ability of others to require gas be produced and sold at prices determined not through or market mechanisms but by parties who will be exposed to pressure to cap prices
  - iv) reduce the likelihood that a market for short term spot gas will develop
  - v) increase the incentives for free riding by those who choose not to act to manage risk
  - vi) increase the incentives for the evasion of market mechanisms for establishing price

Nova believes that the most appropriate vehicle for gas emergency arrangements will be through:

- adding emergency arrangements for load curtailment in the MPOC
- ensuring that the balancing gas tender process included within the Vector transmission system arrangements is able to operate at short notice

This will ensure that producers have the ability to increase supply of gas and demand side participants are able to reduce demand or switch fuels in return for consideration based on market prices to the extent possible

- using the incentives pool regime under the MPOC to compensate parties that have had their gas entitlements curtailed by others continuing to take gas when their own supply arrangements have been interrupted.

While the MPOC arrangements are untested and are likely to need refinement, we believe the general principles and concepts are appropriate, especially when the legacy gas issues are addressed or have expired and cease to be a factor in open access arrangements.

Yours sincerely

Charles Teichert  
Nova Gas

## Nova Gas Submission re Gas Emergency Management Arrangements

Questions	Comments
<p>Q1 Do you agree that mechanisms to implement arrangements for emergency or contingency situations must be mandatory? If not, please explain.</p>	<p>Yes.</p> <p>Although we note that shippers of gas on the Maui pipeline are subject to the MPOC which provides for parties being contractually obliged to comply with the System Operators instructions.</p> <p>In effect there is already a mechanism for mandatory compliance available as all gas trading is affected by the Maui pipeline operating code and the Vector transmission arrangements that work alongside.</p>
<p>Q2 Do you agree Gas Industry Co has identified the most likely alternatives for mechanisms to implement arrangements for emergency or contingency situations? If not, please provide details of any other likely alternative mechanisms.</p>	<p>No.</p> <p>The discussion document fails to consider the MPOC as a vehicle for the implementation of emergency arrangements.</p>
<p>Q3 Do you agree with Gas Industry Co's analysis of a Pan-Industry Agreement as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.</p>	<p>No.</p> <p>The Commerce Commission has already declined the opportunity to review the MPOC arrangements following an application made by Todd Energy in October 2005.</p> <p>The MPOC includes curtailment arrangements and a liquidated damages regime that is similar to the arrangements that are proposed in the discussion document although they are not as robust.</p> <p>Regulating and upgrading the MPOC arrangements would also be a viable means of providing a vehicle for implementation of gas emergency procedures if there are perceived Commerce Act issues.</p>

Questions	Comments
<p>Q4 Do you agree with Gas Industry Co's analysis of rules or regulations as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.</p>	<p>Nova Gas would support the Maui Pipeline Operating Code being implemented through regulation as opposed to contract.</p> <p>Benefits would include reducing concerns regarding discriminatory treatment by the pipeline owners and as well as the introduction of more robust emergency arrangements.</p>
<p>Q5 Do you believe the gas emergency arrangements are most appropriately implemented by rules or regulations recommended to the Minister of Energy? If not, please explain..</p>	<p>Nova believes a combination of rules and regulations would be best.</p> <p>Regulations could support the high-level governance processes and rules would provide a degree of flexibility for the detailed procedures that are inevitable require in the implementation and execution of any emergency contingency plans.</p>
<p>Q6 Do you agree with Gas Industry Co's analysis of the framework design for emergency management arrangements? If not, please explain.</p>	<p>Yes</p>

Questions	Comments
<p>Q7 Are there any other principles you believe should be included? If so, please provide details of those additional principles.</p>	<p>The emergency arrangements should foster, and not dampen or remove, the incentives for participants to manage risk appropriate and be innovative in the way they do so</p> <p>Nova believes within any contingency plan, consideration needs to be given to:</p> <ul style="list-style-type: none"> <li>- consumers being able to make the trade off between price and security of supply;</li> <li>- appropriate incentives for consumers who have alternative fuel options;</li> <li>- consumers who may provide for their own security of supply arrangements directly or through contractual means;</li> <li>- suppliers who are able to increase production capacity but need to invest in infrastructure and who will require a return on that investment</li> <li>- protection of property rights</li> </ul> <p>Given the increasing diversity of gas supply, more options for delivering security of supply will be available.</p> <p>As future contingent events are more likely to only lead to partial curtailments, arrangements will need to reflect the fact that:</p> <ul style="list-style-type: none"> <li>- Some consumers may pay a premium to producers for a higher degree of security of supply. Emergency arrangements should not interfere with those supply arrangements</li> <li>- The MPOC and Vector transmission arrangements already include procedures and processes for additional supplies to be made available</li> </ul>

Questions	Comments
Q7 (Continued)	<p>using market mechanisms. Under the MPOC, the Commercial operator contracts with providers of balancing services on a standing basis and under the Vector arrangements, there exists a balancing services tender process that is activated as and when required.</p> <p>Emergency arrangements such as those suggested creates an incentive for those mechanism to be bypassed and interferes with the property rights of owners of gas supply facilities and customers whose supplier is not necessarily affected by a contingent event.</p>
Q8 Do you agree with Gas Industry Co's approach? If not, please explain.	<p>If Emergency arrangements were to be adopted, then those arrangements should be limited in scope such that:</p> <ul style="list-style-type: none"> <li>- balancing mechanisms as provided for by the MPOC and Vector transmission arrangements must first be implemented.</li> <li>- The purpose of those arrangements should only be to oversee the orderly curtailment of customer offtake in order to maintain the integrity of the core pipeline pressure to enable continuous supply of available gas throughout the emergency period.</li> </ul>
Q9 Do you agree that the gas emergency arrangements should be progressed now, rather than waiting for completion of the wholesale market review? If not, please explain.	<p>Yes</p> <p>Everyday that goes by without robust emergency arrangements exposes the industry to the situation that a contingent event is managed inappropriately and in a way that damages the reputation of the industry.</p>
Q10 Do you agree that the current definition of "Gas Contingency" should be amended? If not, please provide reasons.	<p>Yes</p>

Questions	Comments
<p>Q11 If you agree that the definition should be amended:</p> <p>(a) do you agree that an 'effects-based' decision is most appropriate?</p> <p>(b) do you have any suggestion as to a basic operational minimum level to underpin the definition?</p> <p>(c) what, if any, degree of discretion should there be to determine that a Gas Contingency has occurred?</p> <p>(d) how would you define "Gas Contingency"?</p>	<p>Yes</p> <p>The operational minimum level should be a level that the pipeline owner believes is necessary to maintain a continuous supply of remaining gas available.</p> <p>Little discretion if any around process should be necessary</p>
<p>Q12 Do you consider there should be a separate definition for regional and national contingencies, or some other split? If yes, please indicate how and why (including draft definitions)</p>	<p>Yes,</p> <p>In addition to significant supply outages that affects the entire transmission system, transmission system constraints due to compressor outages or due to pipeline events can mean that only a part of the transmission system is affected. It is appropriate in such circumstances that the emergency arrangements only apply to shippers, welded parties and consumers in the affected areas. Participants should be able to continue on with their business as usual in unaffected regions.</p>



Questions	Comments
<p>Q13 Do you agree that the current definition of "Transmission System" should be amended? If not, please provide reasons. If yes, please provide a draft definition.</p>	<p>Yes</p> <p>The definition should be limited to open access high pressure transmission systems.</p> <p>Systems whose access is restricted and not connected to the open access network should be responsible for managing their own system security arrangements.</p> <p>In general, we note that emergency arrangements such as that proposed are only required where there are multiple parties accessing the pipeline in such a way that free-riding is possible.</p>
<p>Q14 Do you agree that the current definition of "NGC Transmission" should be replaced with a more generic definition of "System Operator" (or similar) as proposed? If not, please provide reasons.</p>	<p>Yes</p>
<p>Q15 Do you agree with the scope of the proposed obligations to be imposed upon industry participants? If not, please provide reasons.</p>	<p>Yes</p>
<p>Q16 What, if any, other carve-outs to the proposed obligations of industry participants do you believe are necessary?</p>	<ul style="list-style-type: none"> <li>- Other legal requirements; ie a participant should not be placed in the position of having to breach another law or regulation such as a resource consent, in order to comply with an order given under the emergency arrangements;</li> <li>- Plant safety as well as personnel. Participants should not have to put their investment capital at risk unless they are willing to accept the risk of doing so.</li> </ul>

Questions	Comments
<p>Q17 Do you agree with the proposed approach to the liability of industry participants? If not, please provide reasons.</p>	<p>Yes.</p> <p>We agree that a key issue to address is with respect to liability and how any arrangements implemented will interact with the incentives pool system of the MPOC.</p>
<p>Q18 Is Gas Industry Co's belief that the proposed gas emergency arrangements will not require significant additional processes and systems to be developed correct? If not, please explain.</p>	
<p>Q19 Do you agree that any gas emergency arrangements should be consistent with the processes set out in the MPOC in respect of contingency and emergency situations? If not, please indicate your preferred approach and reasons.</p>	<p>Yes.</p> <p>Nova believes that if the proposed arrangements are implemented there will be conflict with the existing MPOC and Vector transmission arrangements that will result in perverse incentives.</p>

Questions	Comments
<p>Q20 Do you have a preference for the point at which MPOC is superseded by the gas emergency arrangements (e.g. when Phase 2 commences under NGOCP?)</p>	<p>As the MPOC provides for a number of processes including system warnings, curtailment notifications and balancing gas provisions, emergency arrangements should only be invoked as a last resort and should be an extension of the MPOC as opposed to a separate regime.</p> <p>The MPOC arrangements for balancing and curtailment also flow through to the Vector transmission system where there are further mechanisms including a tender for the procurement of balancing gas services.</p> <p>The MPOC regime has a liquidated damages regime that should cater adequately for issues relating to compensation so long as it is extended to include payments to producers who inject quantities additional to scheduled quantities.</p> <p>One of the main issues preventing parties receiving compensation is the preferential treatment of legacy gas users who are able to potentially avoid responsibility for their contribution to an emergency situation. Resolution of legacy gas issues will be an important step in the creation of fair and equitable arrangements for gas emergencies.</p>

Questions	Comments
<p>Q21 Do you consider the Emergency Operator should automatically be the technical/system operator of the transmission system or an independent person? Please provide reasons for your views.</p>	<p>Nova's initial view is that it would be a practical step in the New Zealand context to have the technical/system operator also perform the role of Emergency Operator.</p> <p>However, the potential conflict of interest of Vector cannot be ignored. Vector is:</p> <ul style="list-style-type: none"> <li>- the system operator for the high pressure network in New Zealand,</li> <li>- the owner of the a network of transmission and distribution pipelines</li> <li>- a participant in the wholesale and resale gas market,</li> </ul> <p>As such there is significant potential for conflict of interest that will require management given the affects on property rights of a gas emergency and as the proposals are likely to be enacted through regulation then some of the normal remedies available to affected parties may not be available.</p>
<p>Q22 Do you believe the CCT should be maintained or that the Emergency Operator, or other person, should undertake that role? Please explain your reasons.</p>	<p>Nova recommends that the CCT be retained in order to facilitate implementation of any curtailment of customer demand required.</p> <p>As a last resort to maintain system integrity curtailment of demand is most likely to be the only response available. In order to manage demand curtailment efficiently, the Emergency Operator will require the assistance of retailers to communicate effectively with consumers, small and large.</p> <p>Response to requests for demand curtailment will be most forthcoming when there is good communication with the affected parties regarding the situation.</p>
<p>Q23 If you wish to retain the CCT, do you believe its current make-up is appropriate?</p>	

Questions	Comments
Q24 What other changes, if any, would you make to the CCT role? Please explain your reasons.	
Q25 Do you agree with the scope of the proposed powers to be given to the Emergency Operator? If not, please provide reasons.	<p>In principle, the proposed powers appear appropriate however we make the following comments:</p> <ul style="list-style-type: none"> <li>a) Any declaration of an emergency should only follow established transparent conditions being met,</li> <li>b) Directions given should be given in accordance with established processes and procedures.</li> <li>c) Given the interference with the market mechanisms and property rights, the emergency arrangements should be revoked as soon the system has been stabilised.</li> </ul>
Q26 Do you agree with the proposed approach to the liability of the Emergency Operator? If not, please provide reasons.	
Q27 Do you agree that the declaration process under the gas emergency arrangements should be more certain (as proposed)? If not, please indicate your preferred approach and reasons.	Yes
Q28 Do you agree that the process for moving between phases is currently clear/definite? If not, please indicate any proposed changes.	

Questions	Comments
<p>Q29 Do you agree that all industry participants (and other affected entities, such as major plant owners/operators) should be obliged to comply with directions from the Emergency Operator? If not, please provide details of reasons and any other proposed alternatives for providing certainty.</p>	<p>No.</p> <p>Nova Gas believes that the purpose of emergency arrangements should be to ensure that demand curtailment occurs in an orderly fashion.</p> <p>The Emergency Operator should not have the authority to order producers to increase supply unwillingly.</p> <p>Ordering suppliers to produce gas interferes with property rights especially when competitive market mechanisms available have been utilised such as the Vector balancing tender process and their has been a failure for buyers and sellers to agree a price for supply.</p> <p>Forcing producers to supply when they are unwilling will create incentives for the emergency operator to invoke the emergency arrangements at an early stage. This is especially important if the emergency operator is Vector as they have a conflict of interest with their interests in wholesale and transmission.</p> <p>Implementing regulations that require producers to supply gas at an uncertain price to be determined by an independent expert in an ex post analysis will reduce incentives for investment in exploration and development for oil and gas. Such a mechanism will also reduce incentives of demand side participation in the gas market.</p> <p>In addition there will also be certain physical or legal reasons why participants may not be able to comply with instructions such as:</p> <ul style="list-style-type: none"> <li>- personnel and plant safety</li> <li>- conflict with other contractual, legal or regulatory requirements</li> </ul>

Questions	Comments
<p>Q30 Do you consider there is any merit in a two-stage approach, with stage one allowing for voluntary response and stage two imposing binding instructions? If yes, why?</p>	<p>No. Voluntary responses should be driven by existing industry arrangements and should not play a part in any emergency arrangements established.</p> <p>A mix of voluntary and mandatory responses:</p> <ul style="list-style-type: none"> <li>- complicates compensation decisions</li> <li>- can create confusion as to the legal obligations when systems are likely to be under stress</li> </ul>
<p>Q31 Should the Emergency Operator be required to maintain a detailed load shedding plan? If so, should all (relevant) industry participants be required to provide detailed supply, demand and load shedding information to the Emergency Operator?</p>	<p>Yes.</p> <p>The main role of the emergency operator will be to implement and execute a curtailment plan to the extent necessary to stabilise the transmission network.</p> <p>Industry participants information will be required in order to execute any such curtailment plan.</p> <p>Industry participants are in the best situation to maintain appropriate records regarding load that can be curtailed.</p>

Questions	Comments
<p>Q32 Do you agree with the proposed obligations in relation to alternative gas suppliers? If not, please provide reasons.</p>	<p>No.</p> <p>Market mechanisms already exist for the procurement of balancing gas by welded point parties such as Vector.</p> <p>Any mechanism that requires producers to increase supply without first agreeing price creates a disincentive for parties to enter into appropriate arrangements for backup supply or demand curtailment with customers to manage risk of non supply.</p> <p>The reasons that short term spot arrangements have not developed historically is that there was only one significant source of supply, ie the Maui field. If Maui could not produce sufficient quantities to meet demand there were never any alternative production sources to call upon. The only possible response was demand curtailment through the NGCOP arrangements. As all parties took from essentially the same source of supply, all parties were in the same position.</p> <p>This position has altered significantly in recent times with other gas supply sources being developed or made available through Maui Open Access arrangements – Pohokura, Mckee, Mangahewa, Rimu currently. In the future Turangi and Kupe will represent further supply diversification.</p> <p>Nova Gas believes that forcing producers to supply under emergency arrangements will provide a disincentive for the development of short term spot market processes. This in turn results in a lack of innovation on risk mitigation measures employed by suppliers and retailers and creates a reliance on emergency arrangements that should instead be only a last resort rather than the only option available.</p>



Questions	Comments
<p>Q33 Do you agree that a back up/reserve market is not merited? If not, please provide reasons.</p>	<p>Industry arrangements already provide for a market mechanism such as the Vector balancing gas tender mechanism.</p> <p>In addition, the Maui arrangement has a standing arrangement with a balancing gas services provider.</p> <p>Provided that the operators of Maui and Vector pipelines utilise the balancing mechanism available to them to the maximum extent, then the less likely it is that emergency arrangements will be called upon. If they are required, then these mechanisms should have provided adequate incentives for producers to increase supply in response to appropriate price signals. In addition to increased supply from producers, demand reduction or fuel switching can also participate in the balancing tender round.</p> <p>Market mechanisms are more likely to drive efficient behaviour by producers and consumers in the long run than the emergency arrangements proposed.</p>
<p>Q34 Do you agree that the Emergency Operator should have the ability to direct the supply of non-specification gas? If not, please provide reasons.</p>	<p>No unless it is determined that there would be no detrimental affects of doing so.</p> <p>Blending of non spec gas is an activity that has been excluded from the Maui pipeline operating code.</p> <p>Nova believes that if injection of non spec is acceptable under emergency arrangements then there is also a case for it to be allowed under normal market conditions.</p> <p>Gas specification issues can potentially create barriers to entry and prevent producers from competing in the wholesale market. The suggestion that non spec gas could be blended with no detrimental affects on consumers under emergency situations suggests that the gas specification should be relaxed at all times.</p>

Questions	Comments
Q35 Do you agree with the factors that an Emergency Operator must have regard to in making any such direction? If not, please provide reasons.	
Q36 Are there any other factors the Emergency Operator should have regard to in making any such direction? If so, please detail those additional factors.	
Q37 Do you agree with the proposed approach to restoration? If not, please provide reasons.	Yes
Q38 Do you have a view on guidelines for establishing a restoration table? Please specify.	
Q39 Do you agree that a post-contingency formal reconciliation process is appropriate? If not, please provide reasons.	<p>This is already provided for by industry processes through:</p> <ul style="list-style-type: none"> <li>- welded party operational imbalances on the Maui pipeline and</li> <li>- shippers Balancing and Peaking Pool accounts on the Vector transmission system.</li> </ul> <p>If participants have the entitlements to gas curtailed, then they are able to seek redress through making a claim against the incentives pool. The incentives pool pre-estimates loss at a value that is pegged to the electricity spot market price at the time.</p>

Questions	Comments
<p>Q40 Do you have any comments on the proposed groups of types of communications and related obligations? Are there any other communications protocols/information flows which you consider should be taken into account as part of this review?</p>	
<p>Q41 Do you agree with the proposed treatment of review, testing and documentation obligations under the NGOCP? If not, please provide reasons. If so, do you have any specific suggestions for how these should be dealt with?</p>	
<p>Q42 Please provide any comments on how best to set line pack limits and to review these over time.</p>	<p>Line pack limits set for the purposes of managing emergency's will require line pack to be "unencumbered" by the claims of others.</p> <p>Nova Gas believes that the Maui Legacy Gas users may claim ownership of Maui pipeline linepack and this represents a significant proportion of available linepack.</p> <p>In general, the setting of limits will involve a tradeoff between linepack being available to cater for routine demand and supply swings and contingent event management. Flexibility at welded points can reduce the line pack available for contingent event management.</p>
<p>Q43 Do you have views as to the appropriateness of any particular compliance regime? Please specify.</p>	

Questions	Comments
<p>Q44 What is your view of WMWG's comment on the Farrier-Swier Consulting recommendations?</p>	<p>The Farrier Swier Consulting proposal takes no account of the existing liquidated damages regime included in the MPOC arrangements.</p> <p>The introduction of any emergency arrangements should be able to utilise that regime for the purposes of providing compensation for affected parties. This will avoid conflict that would arise from two arrangements and ensure that participants have the appropriate incentives to manage their own risk.</p> <p>Under the MPOC incentives pool scheme, parties that do not receive gas they are scheduled and entitled to receive (such as in a curtailment situation) can make claims upon the incentive pool. Parties that take gas that they are not entitled to, pay into the incentive pool. The liquidated damages regime calculates the value of gas in accordance with a formula linked to spot prices for electricity at the time the gas shortage occurs. This value represents a pre-estimate of losses due to the non supply of gas.</p> <p>The Farrier Swier Consulting recommendation of an independent expert is inefficient, costly and likely to create cross subsidies between different classes of customers.</p> <p>An independent expert regime would have to take into account the compensation received under the MPOC Incentives pool scheme to avoid the situation of a party being compensated twice.</p> <p>The rules around invoking emergency arrangements will need to ensure that perverse incentives are not created unintentionally. For example, parties who perceived themselves to be better placed under emergency arrangements than under the MPOC incentives Pool scheme, could act to escalate an event to ensure that emergency arrangements were invoked.</p>

Questions	Comments
<p>Q45 Do you agree the ex post fair price determination is a suitable model for developing emergency pricing? If not, please provide a description of your preferred approach to emergency pricing.</p>	<p>No for then reasons noted above in the previous question.</p> <p>The MPOC liquidated damages regime already exists in contract, is simple to implement and calculate and as such is low cost.</p> <p>Ex post fair price determination will be subject to significant lobbying by adversely affected parties and will reduce incentives for parties to manage their own risk of non supply.</p> <p>The threat of non market mechanisms for establishing the value of gas under emergency conditions will reduce incentives for producers to retain unused capacity since they will perceive that such capacity could be subject to expropriation by others.</p>

Questions	Comments
<p>Q46 Do you agree these are a comprehensive set of principles and objectives? If not please provide your augmentable list(s) and reasoning.</p>	<p>Principles:</p> <p>The problem with taking an “insurance” approach or imposing arbitrary caps and floors to reduce financial risks is that it:</p> <ul style="list-style-type: none"> <li>- creates incentives for parties to free ride</li> <li>- dampens incentives for innovation (interruptable demand, standby gas production capacity, etc)</li> <li>- weakens consumers perception that gas is a secure fuel if accessed via open access networks (unless you’re a domestic/small consumer)</li> <li>- weakens incentives for investment in gas exploration and development</li> </ul> <p>Nova favours a causer pays approach so that appropriate incentives for investment and risk management are maintained.</p> <p>Outcomes:</p> <p>Nova believes that the only appropriate outcomes are those specified by the Government Policy Statement: which could be interpreted to include those items notes in the discussion document.</p>

Questions	Comments
46 (cont)	<ul style="list-style-type: none"> <li>a. The facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;</li> <li>b. Energy and other resources are used efficiently;</li> <li>c. Barriers to competition in the gas industry are minimised to the long-term benefit of end-users;</li> <li>d. Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;</li> <li>e. The full costs of producing and transporting gas are signalled to consumers;</li> <li>f. Delivered gas costs and prices are subject to sustained downward pressure;</li> <li>g. The quality of gas services and in particular trade-offs between quality and price, as far as possible, reflect customers' preferences;</li> <li>h. Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties;</li> <li>i. Consistency with the Government's gas safety regime is maintained; and</li> <li>j. The gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency.</li> </ul>

Questions	Comments
<p>Q47 What is your view of the line pack being notionally allocated across shippers in proportion with their nominations? If you disagree, what would be your preferred approach and why?</p>	<p>Allocation of line pack in proportion to scheduled quantities would be the fairest outcome. It would be difficult to justify any other basis.</p> <p>We assume that in relation to partial transmission constraints, shippers with AQ quantities would receive their entitlements first before any proportional allocation of remaining line pack.</p> <p>We also note that as a situation deteriorates there would be incentives for parties to renominate to achieve higher scheduled quantities. Arrangements would somehow have to take this into account.</p>



Questions	Comments
<p>Q48 In the absence of a transparent, short-term market for gas in New Zealand, what is your view of using an independent expert to set emergency prices ex post?</p>	<p>The independent expert approach would be an impediment to the development of a short term market for gas as it will provide a means for parties to free ride at a “reasonable price”.</p> <p>It will dampen the incentives for participants to actively seek short term gas trading opportunities as they are able to rely on the independent expert to do this for them.</p> <p>It is only recently that the supply diversity from different gas fields aided by separate selling from those fields that short term trading of gas gives rise to an environment where there short term market should be feasible. Short term trading should be required for a number of reasons other than system wide emergencies.</p> <p>Both buyers and sellers may need access to short term gas contracts in order to cover plant outages, manage peak demand periods, manage short term surplus capacity situations. Equally there are a number of consumers who can adjust their demand according to price.</p> <p>Nova believes that it is premature to conclude that no short term market exists for gas in New Zealand.</p> <p>Historically, a short term gas market has not been required given that most gas came from Maui. As Maui runs down and is replaced with several smaller fields, the diversity means that contingent events are less likely to result in the requirement for full curtailment and that supply will need to be rationed. Price is the most appropriate mechanism for ensuring that in such circumstances gas is available for the most economically efficient use – ie the user who can afford to pay the most.</p> <p>The Vector balancing gas tender and the ROFR spot gas process are examples of where the market is beginning to adjust to the new market conditions.</p>

Questions	Comments
<p>Q49 If you disagree with the use of an independent expert, what should be used as the basis for determining emergency gas prices and how is this superior?</p>	<p>The MPOC Incentives Pool scheme.</p> <p>It will create the appropriate incentives for parties to manage their risk prior to contingent events occurring through:</p> <ul style="list-style-type: none"> <li>a) Backup supply arrangements</li> <li>b) Arrangements for demand interruption with consumers</li> <li>c) Short term trading between participants directly or through such processes as the Vector balancing gas tender.</li> </ul> <p>These arrangements will then be reflected in wholesale market prices to producers and retail prices to consumers as the appropriate trade-off between security of supply and price.</p>
<p>Q50 In the event of a pipeline interruption, how do you view the pro rata allocation of line pack among shippers as a means of consistently applying the emergency pricing framework? If you disagree, what alternative arrangement would you suggest and why?</p>	<p>Pro rata allocation of line pack to shippers based on scheduled quantities is the most appropriate.</p>
<p>Q51 Do you agree that for an emergency pricing framework to operate in a low-cost manner it will be essential for the overall emergency plan to be a mandatory arrangement (irrespective of whether that is implemented by rules, regulations or a multilateral contract)?</p>	<p>Yes.</p> <p>Nova believes that low cost mechanisms already exist and that the introduction of the independent expert regime will conflict with them and create inefficiencies.</p>

Questions	Comments
Q52 What is your view of requiring parties to endeavour to settle their positions in the first instance by trading among themselves?	Already provided for under the terms of the MPOC.
Q53 Do you agree that there should be a limit below which parties are not able to enter the emergency pricing framework?	No, deciding on what is a “de minimus” amount would be arbitrary and potentially prevent small commercial consumers in particular from receiving relief.
Q54 What is your view of the price determination process? Do you agree that using a desktop study is the best approach?	No. Nova does not support the independent expert approach.
Q55 Please provide any other comments on the procedural steps.	
Q56 What is your view of the appropriate body to undertake the role of determining emergency pricing whilst keeping the costs to a minimum?	<p>The Commercial Operator of the Maui pipeline has the responsibility for managing the incentives pool and requires no additional costs.</p> <p>Vector Transmission is responsible for the operation of their own transmission network and this includes meeting the obligations under the MPOC code where they intersect.</p> <p>To manage short term balancing requirements, a balancing gas tender process was developed specifically for the purpose of procuring additional gas or selling excess gas. This tender process is also used from time to time for other purposes such as the procurement of fuel gas for compressors and settlement of UFG quantities.</p>