

16 December 2016

Nova Energy Limited
PO Box 10141, Wellington 6143
www.novaenergy.co.nz

Submissions
Gas Industry Company Limited
By email

Re: Review of Market-Based Balancing

Thank you for undertaking the review of market-based balancing. As expected, the increased focus on minimising cash-outs has increased the workload for our gas trading operations. We note the improvements in the imbalances, but are not totally convinced that the change has created net economic benefit overall. The Transmission Service Provider's (TSP) trading surplus represents a transfer of value rather than an efficiency gain as such.

The introduction of the Day+1 allocation arrangements have played a large role in mitigating the impacts of the MPOC code changes. Those changes have not been costless and mask the impact of the MPOC code changes which we believe would have been significantly detrimental for pipeline users and consumers had the Day+1 allocation process not been implemented.

It is also possible that the changes are impacting on end consumers.

There could be merit in surveying the actual costs of changing systems and practises to accommodate MBB, but that would only be warranted if it helps inform the design of the new transmission arrangements. We are not sure that would be the case.

It has been apparent with the operation of MBB there is still inadequate liquidity through EMS Tradepoint to determine a fair value for gas imbalances that are cashed out. That warrants reconsideration of the current cash-out arrangements.

Nova proposes that First Gas tender for the provision of providing or taking balancing gas up to predetermined levels on a daily basis, i.e. purchasing put and call options. Such tenders could be reissued each month. The price for settlement would therefore be known in advance and the process entirely transparent. The same process could be translated into the new transmission services arrangements. Such balancing services would be intended to manage only the minor day to day imbalances. Such an intermediate balancing step would not be dissimilar to what happens in the electricity market where Transpower procures frequency-keeping services from generators to manage real time system frequency.

Larger imbalances created by significant gas field outages or pipeline capacity constraints which are less frequent may be better served by a separate arrangement, with the fall back option being critical contingency arrangements.

In summary; while the analysis undertaken has helped inform the market, it should not be concluded from the report that implementation of MBB has provided an overall benefit to the gas market. The GIC should continue to monitor the performance of EMS Tradepoint as the primary means of establishing balancing gas prices. We would be happy to discuss this submission further if requested.

Yours sincerely



Paul Baker

Commercial & Regulatory Advisor

P +64 4 901 7338 E pbaker@novaenergy.co.nz