



## **Concept Design for Wholesale Gas Market**

### ***Response to GLC Consultation Paper***

***Submission to  
Gas Industry Company Limited  
by  
Powerco Limited***

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# Concept Design for Wholesale Gas Market

## Summary

As Powerco has only a limited range of comments, its response focuses only on those matters that in the company's view require attention at this juncture. The GIC has undertaken a thorough analysis in reviewing the concepts for a wholesale gas market.

Powerco supports the initial findings to further pursue the option of platform bilateral trading, subject to the comments detailed below.

## Market Definition

The work to define the potential market size and number of secondary/short term gas market participants is incomplete and needs to be quantified before further requirement of the preferred option is undertaken.

We believe an expectation exists that the trading mechanism is accessible by all significant purchasers of gas, including large commercial and industrial consumers, essential services such as hospitals etc, in a manner that meets their needs. This, we could expect, would be based around a direct access capability and as well permit retailers and energy traders transacting on behalf of consumers. In this regard there are a range of contractual and related matters that would need to be addressed to permit secondary trading; presently most underlying retail gas purchase contracts do not contemplate secondary trading.

Despite the uncertainty around the scope of the market, Powerco agrees there is demonstrated need for a structured short term trading mechanism. There may not be a high level of uptake initially, however Powerco expects a significant market will develop over a 2-3 year timeframe.

## Need for Secondary Trading Market

In order to be comprehensive and to deliver the maximum benefits, Powerco considers that the market should be accessible by large end consumers that have Time of Use metering (proposed for those customers with greater than 5,000 GJ per annum – currently 9,000 to 10,000 GJ pa).

Participation would enable these consumers to trade on a daily basis. Such a trading capability becomes more important and desirable in the context of the “new” contract structure for gas - typically characterised by a high fixed charge component. The high fixed charge aspect makes it imperative that consumers (and other participants) have the ability to buy additional gas to meet peaks, and also sell surplus gas when it is not required.

## Interdependencies with Other GIC Workstreams

The ability to undertake short-term trades has a number of interdependencies that would need to be implemented in order to enable this type of trading to effectively take place. For example, it relies on the outcomes of the GIC Working Group on Gas Allocation and Reconciliation – daily reconciliation in particular. Similarly, the workstream on proposals for a gas registry will also be important (in order to enable timely balancing to occur by ICP).

### **Cost/Benefit Analysis**

Based on the analysis to date, the platform bilateral option appears to strike the best balance between benefits and costs and is therefore Powerco's preferred option for further investigation. The next step of the analysis should include a more detailed (quantitative) cost/benefit analysis, and also investigate to a greater degree the practicalities around implementation, e.g. industry arrangement vs. regulation.

A quantitative cost benefit analysis will indicate affordability that may in turn determine the appropriate scope of a gas market design. It may not necessarily be the lowest cost option that should be favored, but rather the option that provides the best optimisation of costs and benefits.

### **Trading Point**

There is a need for a trading point or hub to enable trading to take place for the lower North Island. In Powerco's view the logical point for this would be the NGCT receipt point at the Kapuni Gas Treatment Plant.