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**TRUSTPOWER SUBMISSION:
Review of Market-Based Balancing**

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Trustpower thanks The Gas Industry Company (GIC) for the opportunity to submit on the Review of Market-Based Balancing (MBB).

Trustpower commends the GIC for undertaking a review of MBB one year after implementation. The introduction of MBB was contentious, and we believe that some issues, such as the impact MBB will have on competition in the retail markets, and the potential to increase barriers to entry due to increased complexity, were not fully addressed due to limited information at the time. Trustpower retains the view that MBB has increased the complexity of participating the gas industry, and that this has created an additional barrier to entry for a new entrant retailer.

We agree, however, that the introduction of MBB has led to improvements to primary balancing as participants appear to be managing their position closer, and not causing the pipeline to carry large imbalance positions. With the early days of implementation aside, MBB has increased the amount of primary balancing, and assisted in the development of a daily gas market. The question that remains is whether the gas market could have been developed in a better way, and without the need for the pipeline operator contributing a significant proportion of volume through the market.

Trustpower believes that some of the improvement in managing imbalance is a result of improvements in systems and information, such as the gas market, and the introduction of daily reconciliation and cash out. These have provided a valuable set of tools and information which greatly assist each party to manage their position. This information has allowed Trustpower to manage Welded Point positions to a higher degree than before MBB. These changes were implemented as a result of the information short comings, and not because MBB provided more information. We believe that the greater level of primary balancing is primarily a result of improved information and the introduction of the gas market as an avenue to manage and trade daily imbalances.

We appreciate the GIC asking whether there is any merit in undertaking the analysis of MBB now that it has been operating for a year, however we see little benefit in the time and effort this requires given that the costs incurred by participants are largely sunk, and the industry is focussed on the Code Development currently lead by First Gas. We believe the industry effort is best focused on developing the future of the gas industry, and not re-litigating past issues.

For any questions relating to the material in this submission, please contact me on 07 572 9888.

Regards,

CRAIG SCHUBAUER

WHOLESALE MARKET MANAGER

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Appendix A: Responses to consultation questions

| Question | Response |
|--|---|
| 1 Do you think our approach to the analysis is reasonable? If not, what further analysis do you think is necessary? | Yes. We believe that the GIC has produced a balanced review of MBB. |
| 2 Do you consider that there is merit in extending the analysis so that a full year pre- and post-MBB-implementation analysis can be done? | No. We believe that industry attention is best focused the Code development work stream. We see little benefit in re litigating the past given that most of the costs are sunk. |
| 3 Do you consider that there is merit in asking pipeline users to re-assess the costs of changing their systems and business practices to accommodate MBB (given that some stakeholders believe the original cost estimates used in the CBA were too low)? | No. For the same reasons as above. There is a significant amount of time and effort being spent on the Code development, and industry attention is best focused on this work stream, which will have a material impact on the future of the gas industry. We believe that re-litigation of the past will have little benefit to the industry. |