GREYMOUTH GAS

Statement of Proposal: Transmission Pipeline Balancing

Submissions close 30 October 2009

Greymouth Gas New Zealand Limited (Greymouth Gas) is pleased to make a submission on the Statement of Proposal: Transmission Pipeline Balancing (the paper) published by the Gas Industry Company in October 2009.

1. **Do you agree with the GIC's decision to pursue the ICD process? If not, why?**

Greymouth Gas notes that our comments were largely canvassed in our response to the Transmission Pipeline Balancing Second Options Paper. The decision to charge users to participate in the ICD process was innovative.

Whilst it has been beneficial to have high-level discussions with the whole industry, time will tell as to whether the ICD process will be economically efficient and effective.

2. **Do you agree with the GIC's decision to pursue the participative regulation option? If not, why?**

Whilst many, if not all of the issues can be progressed outside of a regulated framework (and indeed significant improvement has been made during 2009[1]), to do so within the timeframe expected by the GIC would be difficult.

Factoring this into account, Greymouth Gas agrees with the GIC's decision to pursue the participative regulation option, subject to the outcome of the ICD process and as long as any Balancing Plan passes the test in clause 30.1.3 of the Draft Gas Governance (Balancing) Rules 2009 (the rules).

3. **Do you agree that the draft regulations adequately address issues with respect to residual pipeline imbalance? If not, why?**

This question is structured to elicit feedback that the regulatory approach will fix some of the core issues.

Whilst this is true, a contract-based solution and an incremental improvement solution would also adequately address the issues, and would perhaps do so more wholly (assuming D+1 gains traction under these frameworks). Therefore the proposed rules do a less comprehensive job in a faster timeframe, but at what cost?

[1] Page 6 of the paper

Greymouth Gas considers the rules to be a compromise between scope and timeframes.

4. Do you have any comments on the major operational provisions?

Greymouth Gas notes the general substance of the rules and we have provided detailed commentary at the end of this submission. In summary:

- There is a mismatch whereby neither the rules nor the critical contingency regulations cover balancing during a regional critical contingency,

- The Balancing Agent is not defined as a user, but they must be a user because they allocate any leftover Balancing Gas to themselves,

- Obligations to balance are inferred to be once per month and do not specify nature, e.g. daily and/or cumulative. The wording also implies that users must manage allocated quantities derived by an Allocation Agent/Gas Transfer Agent (which is not possible), rather than manage their physical situation on a real-time basis,

- Balancing Gas is a very specific term which places emphasis on the Balancing Agent only allocating that portion of gas which was bought/sold and that made a physical difference to line pack,

- The Balancing Market must also include a mechanism for the Balancing Agent to be able to transact non-Balancing Gas as per clauses 15.1.1 and 15.2.1,

- The Interconnected Party obligations appear to be written solely for the Maui system and do not take into account that there is no extended nominations framework on the Vector system,

- The provisions for TSOs to improve their non-Business Day provision of information appear to rely more on intent than mandate,

- Some mechanism should cover socialised costs, e.g. a self-funding solution such that all transactions on one day would be cost neutral, or peaking could be the back-up allocation tool and only apply if socialised costs exist after passing on cash-out costs to causers,

- A back-to-back regime may allocate more costs to causers, but it will mean users need to spend more time/money managing balancing. Efficiency is paramount,

- All our flexibility should not be taken away because users should continue to be able to manage balancing at least cost.

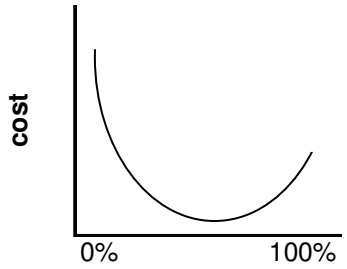
These issues aside, the operational provisions are similar to the current system, if not a little better on the integration, transparency and governance front.

5. Do you agree with GIC's decision not to include curtailment, damages and tolerances? If not, why?

Greymouth Gas makes no comment on curtailment and damages.

With regard to tolerances, during the ICD process, MDL presented participants with an illustration that tolerances need to be significantly reduced, but not all the way to 0, in order to achieve full cost recovery.

As an injecting party on the Maui pipeline, we strongly favour some tolerance to take account of the natural swings associated with operating a production station. To achieve 100% cost recovery for the Balancing Agent, tolerances should be set at a level whereby the industry does not incur significant additional cost. We foresee a scenario like the following:



- Balancing Agent costs (non-allocated $s) reduce with the reduction in tolerances – essentially more costs are going to causers
- The bottom of the curve is where we want to be – 100% cost recovery, with no extra costs for causers
- Past this point, if tolerances are reduced too far, then significant additional investment will be incurred by users to manage daily swings

A back-to-back balancing regime is a fundamental change and removes significant user operational flexibility. To this regard, if real time balancing occurs, then we should keep some tools to encourage self-correction at minimal cost to users, e.g. removing peaking and/or retaining tolerances.

Greymouth Gas considers that if tolerances reduce too close to zero, we might need to hire an extra person. This would significantly increase our costs and for what? Just to keep doing what we do already…

The aim of tolerances should be to encourage economic self-correction. Accordingly, there should be a scenario whereby the sum of tolerances is less than the range between the upper and lower line pack trigger points, i.e.:

upper line pack limit

Σ of tolerances

lower line pack limit

An optimal level of tolerance should therefore be derived based on these two concepts. However, peaking charges also need to be added into the mix. Let's say tolerances need to reduce 70% to recover 100% of balancing costs. Then:

a) Peaking charges should be scrapped because total cost recovery has occurred, or
b) Peaking charges could remain, but tolerances could be reduced by maybe 50% of current levels to allow an aggregate 100% recovery of Balancing Gas costs via both mechanisms

We take reassurance that the GIC will only approve a Balancing Plan that achieves an efficient balancing arrangement. Such a decision must factor in tolerances and the relationship between cash-outs and peaking.

6. Do you agree with the details of the balancing plan? If not, why?

Greymouth Gas agrees with the framework but notes that the details of the plan will come later.

The high-level nature does give TSOs more scope, but with GIC approval needed, it should generate a fair system, as long as the solution is efficient.

7. Do you have any other comments on any aspects of the proposal?

Greymouth Gas notes that significant industry resources are being poured into a very small problem; one that is attributable to <1% of throughput[2].

The industry is facing a much bigger problem: limited capacity in the Northern pipeline. When this problem is combined with Vector's contract carriage regime and the VTC, there are significant problems and barriers to competition. We consider that if effort was focused in this direction, significantly more benefits would emerge.

Nevertheless, balancing is a problem and should be addressed.

However, we do not want to see a $2m Balancing Agent that costs $0.5m pa to run, does not reduce the level of balancing transactions and only allocates an extra $0.2m pa of balancing costs to causers. End-users would be the losers.

The GIC must consider the efficiency of the balancing arrangement within any Balancing Plan, including their own. Accordingly, they must ensure that any Balancing Plan delivers economic value, with benefits outweighing costs. Application of clause 30.1.3 of the rules will be paramount. Some of the core efficiency issues may be:

- Allocative – do those who benefit get more than those who lose?
- Dynamic – is the industry adapting quickly and at least cost, with regard for both short-term and long-term concerns?
- Productive – will the economy fully utilise its resources and will the production of the service be at least cost?
- Socialisation – is this less than pre-regulation levels?

[2] Estimate based on discussions during the ICD process and MDL's first presentation on tolerances during that process

The GIC has a difficult task at hand particularly factoring in timeframes. There is a risk that the GIC will be stuck between political drivers and the need to ensure the project has a positive economic benefit.

Perhaps then, the only two options that meet the purpose of the rules might be the contracts-based iterative solution, or if one of the TSOs was the sole Balancing Agent across both transmission systems.

If the rules do come into force, we trust the GIC to ensure that any proposed balancing plans meet the purpose of the rules.

8. Do you agree with the proposed next steps? If not, why?

Greymouth Gas notes that the proposed next steps are primarily driven by external timeframes.

9. Comments on the Draft Gas Governance (Balancing) Rules (the rules)

Clause 1

- The clause refers to the Gas Governance (Balancing) Rules 2009; however the title of the rules excludes the date.

Clause 3

- The purpose must stay because it is the means by which the GIC will assess draft Balancing Plans for approval.

Clause 5.1 – 'balancing gas'

- The definition is quite specific, and excludes the ability of a user to buy or sell gas to bring their cumulative imbalance close to zero. Such a transaction would not improve physical line pack but it could increase the Balancing Agent's options especially if on-the-day decision timeframes are short and circumstances are marginal. It may also limit disputes in circumstances where Balancing Gas bought or sold has not flowed.
- If Balancing Gas has to make a physical impact to the pipeline (but does not), then the non-flowed gas cannot be classed as Balancing Gas nor allocated to causers.

Clause 5.1 – 'user'

- The clause excludes the Balancing Agent being classified as a user, but this contradicts clause 19.3 which allocates residual Balancing Gas to the Balancing Agent.

Clause 5.2 – 'balance (a)'

- The wording basically says that a shipper should ensure that the allocated receipts to them and the allocated deliveries to them match.
    - The Gas Transfer Agent and the Allocation Agent carry out the allocation functions, not the shipper, meaning the shipper cannot influence past allocations to ensure they match.

- Also allocation functions appear to be monthly for the foreseeable future, meaning this definition has a strong 'month-end' wash up flavour, i.e. wait until allocated data is known and then balance. This is different to the themes of the VTC and the MPOC which encourage real-time balancing.

Clause 5.2 – 'balance (c)'

- The wording basically says that an Interconnected Party should ensure that it injects or takes what was agreed or scheduled under the terms of an Interconnection Agreement.
  - The Vector transmission system does not have a downstream nominations process, thus future agreement of receipt/delivery quantities is not required, hence is zero. Interpreted literally, this means that any gas receipted/delivered will cause an imbalance.
  - Discussions during the ICD process have flushed out the intent, which recognises that any receipts/deliveries will be aggregated on a per-user level. Aside from the less-than-thorough Interconnection concept in the draft rules, this definition may encourage some larger participants to push that downstream nominations are essential to meet the rules. We see that as a separate discussion or perhaps an option for the Balancing Plan.
  - To address the above points, we suggest that a clause be added such that the Interconnected Party has the option of aggregating its receipts and deliveries under its 'parent' user.

Clause 5.2 – 'imbalance'

- The wording is ambiguous and does not refer specifically to a daily or a cumulative position.
- Interpreted literally, the interplay between receipts allocated and deliveries allocated has strong daily connotations.
- '(b)' appears in the wrong place as there is no '(a)'

Clause 6.1.2

- This makes reference to 'paragraph (a)', of which there isn't one.
- The intent is also a bit muddled because of the ambiguous definition of imbalance.

Clause 6.2.1

- This appears to be an addendum to the definition of imbalance, so should be incorporated into clause 5.2.

Clause 6.2.2

- This opens the scope for Balancing Plans to allocate on the basis of daily or cumulative positions – was this the intent?

Clause 6.4

- The clause refers to 'this rule', which could mean clause 6 or clause 6.4. If it means the latter then the clause is self-defeating. The intent appears to refer to clause 6 and we suggest 'this rule' is made more specific.
- The clause refers to the Gas Governance (Critical Contingency) Regulations 2008 which do not exist. We suggest this reference is changed to refer to the Gas Governance (Critical Contingency Management) Regulations 2008 (the regulations).

- The Balancing Agent has a disincentive not to purchase Balancing Gas if line pack gets so low that it might trigger declaration of a critical contingency (because the Balancing Agent won't be able to recover costs from causers). We suggest that the interplay between the rules and the regulations is strengthened to encourage the Balancing Agent to always try and solve the problem by buying gas. In this regard, we suggest that another clause be added covering the obligations of the Critical Contingency Operator (CCO) in relation to balancing. Such clause could fit between clauses 11 and 12 and could cover heads-up discussions at a minimum, to ensure that one doesn't counteract the other, and the CCO gets information and options.
- The intent of clause 82 of the regulations is that price and imbalance provisions [during a critical contingency] do not apply to regional critical contingencies. Clause 48 of the regulations implies that a critical contingency can be either regional or national. Therefore there is a gap where no rules or regulations apply to balancing because the rules do not apply when there is critical contingency and the regulations do not apply when such critical contingency is only regional. We suggest this is addressed or any gas purchased during a regional critical contingency will be socialised.

Clause 8.1

- Currently Vector does not publish validated gas gate delivery data or unvalidated data of the same during non-business days. **This, together with Vector not providing TOU data for commercial sites during non-business days, is a big impediment for users to balance, particularly in a back-to-back environment.** At Interconnected Points owned by Vector, shippers are flying blind during weekends and public holidays with regard to balancing their imbalance.
- Therefore we suggest that the intent of clause 8.1 is adequately communicated to Vector and/or the wording is tightened such that the word 'unreasonably' does not delay a fix to the above problem on the basis of cost.

Clause 11.13

- The wording in this clause is poor because TSOs cannot adjust receipt allocations made by the Gas Transfer Agent, nor can they adjust delivery allocations made by an Allocation Agent.
- Interpreted literally, any user-allocation of gas under rule 19 will never be adjusted for. We suggest that this clause is amended to reflect the above points and that the TSOs should adjust users' cumulative imbalances (or Running Mismatch, or Operational Imbalance to use code terms).

Clause 13.1.3

- Clause 13.1.1 provides quite strict terms on which the Balancing Agent must buy or sell gas, i.e. the gas must be added to or removed from the pipeline (and cannot be for the purposes of a user bringing their imbalance closer to zero). Accordingly, should the definition of Balancing Gas not change, then, to the extent that any Balancing Gas bought/sold does not result in a corresponding addition or removal of gas into the transmission system, then such gas cannot be classed as Balancing Gas. I.e. the allocation must only be for the gas that has made a physical impact on the pipeline.
- If we assume that the buyer/seller of Balancing Gas indemnifies the Balancing Agent for the quantity of gas that was not added to or removed from the pipeline, then this will be a disincentive to participate in the balancing market.

Clause 13.1.4

- Same as for clause 11.13.

Clause 15.1

- This clause refers to the Balancing Agent purchasing 'gas', any gas, whereas perhaps it should only refer to Balancing Gas? Alternatively, if the Balancing Agent purchases gas that is not Balancing Gas, then only the Balancing Gas component can be allocated to users under 13.1.3.

Clause 15.2

- Same as for clause 15.1.

Clause 15.3

- This clause implies that the Balancing Agent must only notify TSOs if they have not bought/sold gas within the price thresholds, but only if they have first determined that no user is willing to buy/sell gas that is not defined as Balancing Gas, i.e. excess/shortfall gas wrapped up in a cumulative imbalance positions.

Clause 17

- This only covers the purchase of Balancing Gas outside of the Balancing Gas market. It does not establish any rules for transactions outside the Balancing Gas market for non Balancing Gas.
- Therefore, the Balancing Gas market must provide terms for the purchase/sale of non-Balancing Gas to enable the Balancing Agent to fulfill clauses 14.1.1 and 15.1.1
- Ideally this clause should sit outside the 'Balancing Market' section of clauses.

Clause 20.1

- Same as for clause 11.13.

Clause 20.1.2

- Sub-clauses (a)(ii) and (b)(ii) seem irrelevant because no gas physically travels anywhere when a user's cumulative imbalance is adjusted up or down as a result of being allocated Balancing Gas and costs/revenues.

Clause 20.1.3

- We suggest that the Balancing Agent's loss associated with Balancing Gas allocated to itself, any other socialised costs and all overheads is funded by a margin to the cash-out price that is passed onto causers.
- The rules should not preclude this or preempt such a solution which would directly target costs to causers and be largely self-funding. Accordingly, we suggest the wording is amended or moved to the Balancing Plan.

Clause 25

- We suggest that once the Balancing Agent is aware of, and accepts that there is an error, then they are bound by reasonably practicable timeframes to act, in clause 25.2. Likewise in clause 25.3 for TSOs.

Clause 29.1

- This rule provides an option for TSOs to get out of indemnities associated with Balancing Agent losses. This is a positive option because the emphasis is on the Balancing Agent (and the Balancing Plan) to be self-funding.

Clause 29.3

- Whilst 'person' generally refers to a legal entity, it would be more appropriate to use 'legal entity' for example, because, to avoid doubt, if the Balancing Agent is operating 24/7, such an Agent cannot be just one person.

Clauses 30.1.3, 32.1 & 45.1.1

- We strongly support approval of the Balancing Plan on the basis that it is consistent with the purpose in clause 3.

Clause 39.1

- The trigger for the GIC Balancing Plan process is whether TSOs have submitted a proposed final balancing plan after 60 Business Days. However, this is different to clause 28.1.4 which implies that after 60 Business Days, only a draft balancing plan needs to be submitted (which then goes through the consultation process outlined in clause 31).

Clause 67

- Same as for clause 6.2.2.

B.b.ii of the Schedule

- We note that the upper and lower line pack limits must be set to give the maximum practicable flexibility for managing line pack without unreasonably interfering with the transmission of gas. Tolerances are not mentioned here, and we strongly support some tolerance to incentivise users to self-correct and without imposing significant extra cost.

D.c.i of the Schedule

- Same as for clause 6.4.

E.b.ii.C of the Schedule

- The Balancing Agent must itself be a user if all Balancing Gas is to be allocated.