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Dear Ian

Statement of Proposal Transmission Pipeline Balancing

Introduction

1. Mighty River Power welcomes the opportunity to respond to the Gas Industry Company's (GIC's) Statement of Proposal Transmission Pipeline Balancing issued at the beginning of this month. No part of the submission is confidential and Mighty River Power is happy for it to be publicly released.

Comments

2. The GIC's decision to provide the opportunity for Mighty River Power and other industry members to participate in the Industry Contract Development ("ICD") discussions that are currently underway is we believe a positive step forward on these matters. We consider that an industry led contract based solution is preferable to a Regulated option. In our view, regulation should only be considered as a last resort.
3. Mighty River Power is however concerned with the tight timeframes that the GIC has set down for the ICD process. We also have some concerns that the GIC has not specified exactly what outcome from the ICD process is required to stop or at the very least delay the GIC in proceeding with and incurring the costs of developing a regulatory option.
4. Our response to the consultation questions are attached as an Appendix. We have limited our comments to the regulatory option discussed in the in the paper issued by the GIC. As indicated above Mighty River Power would prefer to see a non regulatory resolution or at a minimum a largely non regulatory solution to the current pipeline balancing issues.

5. We would summarise the key components of the Statement of Proposal as looking to implement the following:-
 - Single Balancing Regime
 - Single Balancing Agent
 - Back to Back Balancing
 - A more open market for balancing gas
 - Effective governance, including greater transparency
6. Mighty River Power is generally supportive of these objectives however we are firmly of the opinion that all or most of the objectives can be more effectively implemented at lower cost to the industry and provide a greater degree of flexibility if implemented via the ICD process as opposed to via Regulation.
7. Mighty River Power is concerned that to date neither of the two Transmission System Operators have shown any enthusiasm to be responsible for a single balancing regime. If ultimately the GIC has to exercise its powers under Subsection 2 of the Balancing Rules and appoints the Balancing Agent then we believe that this could add significant costs to the industry.
8. Based on the GIC's Second Options Paper the cost of a Single Balancing Agent appointed as a result of Regulation could be circa \$2 million. Mighty River Power finds it difficult to see the justification for industry and ultimately our customers having to incur this level of cost until all non regulatory options have been examined and found to have failed.
9. We appreciate that the GIC wishes to provide the maximum flexibility for the Transmission Services Operators in designing the Balancing Plan. It is important that the Balancing Rules are as unambiguous as possible. For example, we believe it is important that there is a clear definition of "unified balancing arrangement". We would also like to see a clear definition of the Balancing Agent's function to "manage linepack". What exactly are the Balancing Agents responsibilities with regard to this function and do they impinge on the sovereignty of the Transmission System Operators ability to manage their pipelines?
10. With regard to the creation of a Single Balancing Agent role we consider that while there is currently in theory two balancing agents, that since 12 December 2008, there has in practice been only one of the Transmission System Operators buying and selling balancing gas. Therefore Mighty River Power believes that the current arrangements

could be developed under the ICD process to provide essentially the same outcome as the GIC's objectives under regulations from a single balancing agent.

11. Mighty River Power is fully supportive of the GIC's objectives of opening the balancing gas market to allow all shippers to be able to participate rather than restricted only to Maui pipeline shippers as it is currently.
12. Given that one of the underlying principles of an efficient balancing regime is the availability of good information to allow shippers to manage their mismatch positions Mighty River Power is disappointed that the Statement of Proposal is focused solely on upstream issues.
13. With the GIC proposing a move to a back to back balancing arrangement it is Mighty River Powers view that any such move must also include the implementation of a daily allocation process. This would be in line with a fundamental principal that we believe the GIC has adopted which is that users of the pipeline should have good quality information on their pipeline position in order to better manage that position.
14. Mighty River Power commends the GIC for the work that they are undertaking on a D+1 Allocation process in conjunction with M-Co. As stated in previous submissions on pipeline balancing Mighty River Power see a daily allocation process as a key component in providing us with information to effectively and efficiently balance our pipeline positions. This is especially important if the industry moves to a back to back balancing arrangement and tolerances are reduced or even removed from the pipelines.

Concluding remarks

15. If you would like to discuss any of our above comments directly with Mighty River Power, then please do not hesitate to me on 06 348 7926 or jim.raybould@mightyriver.co.nz .

Yours sincerely



Jim Raybould
Retail Gas Operations Manager