



# Todd Energy

2 November 2009

Ian Wilson  
Gas Industry Company  
PO Box 10646  
Wellington

Dear Ian,

**Submission by Todd Energy regarding the Statement of Proposal for Transmission Pipeline Balancing**

Below is our response to the questions included with the Statement of Proposal.

If you have any queries regarding our submission, please let us know.

**Q1: Do you agree with Gas Industry Co's decision to pursue the ICD process? If not, why?**

Yes.

Todd Energy has participated in the ICD forum and believes that significant progress is being made to agree substantive changes to current arrangements that should avoid the necessity for regulation.

It would however be premature to claim that process to be successful and it may be that one or two issues remain unresolved at the close of the ICD process.

At the time of writing, although the ICD process is at only at a half way point, we are confident that the ICD process will culminate in a package of changes to industry arrangements that resolve most if not all of the issues that give rise to the consideration of a regulatory solution.

Certainly, we believe that a contractual solution will be:

- quicker to implement;
- less costly; and
- more efficient in the long term.

Conceptually at least there appears to be a high degree of support for changes to contractual arrangements to provide for:

- back to back allocation of balancing costs incurred;

- inclusion of rights and obligations of the entity performing balancing actions within the MPOC;
- wider participation by users on the Vector pipeline in the balancing market operated by MDL (although the best mechanism for this has not yet been identified)

In addition, there are several other improvements being considered that will further improve the ability of users to manage their imbalance and ensure that costs are allocated to causers where feasible.

**Q2 Do you agree with Gas Industry Co's proposal to pursue the participative regulation option? If not, why?**

Yes. The Participative solution was preferred over the prescriptive option in terms of a preferred regulatory route regulation be necessary.

Some of the discussions we have had during the industry consultation process have highlighted just how difficult the regulatory solution would be to execute.

Todd Energy is concerned about the tight timeframes involved in running the dual ICD/Regulatory process. Todd Energy has had insufficient time and resource to participate in both the ICD process and at the same time review the proposed regulations in detail. We understand that other participants are in the same position. This is likely to result in a less than desired level of detailed review of proposed regulations by industry participants that could lead to difficulties if the GIC decided to implement the regulatory solution. A better process to employ would have been to provide for the ICD process first followed then by the regulatory process.

It is also questionable whether regulation is required at all, however, certainly since decision by the GIC to make a proposal to regulate, their has been a strong focus by the industry in making changes to arrangements that should lead to more efficient balancing arrangements without the need for regulation.

**Q3: Do you agree that the draft rules adequately address issues with respect to residual pipeline imbalance? If not, why?**

Yes.

**Q4: Do you have any comments on the major operational provisions?**

Objective/Purpose:

We believe that the purpose should be restated to "achieve an efficient **integrated** (replacing unified) balancing arrangement for managing imbalance in the transmission system".

Users Obligations:

The method employed in determining receipts and deliveries be considered in the regulations such as the role of OBA on the Maui pipeline and the application of the Downstream (Reconciliation) Regulations.

Balancing Market:

The case for marginal pricing of balancing is made difficult by the fact that:

- balancing gas may be transacted at different times during the day and that participants are able to change their offers during the day including prices;
- gas is transacted on a daily basis.

This suggests that the balancing gas price for the day will need to reflect the cost of gas purchased at various times throughout the day but allocated only to causers at the end of the day as opposed to during the day.

Funding:

We support the tenet that the parties responsible for developing the Balancing Plan (in consultation with users) are responsible for the development and ongoing costs. That will ensure that there are appropriate incentives to design an efficient Balancing plan.

**Q5: Do you agree with Gas Industry Co's decision not to include curtailment, damages and tolerances? If not, why?**

Curtailments and damages: We believe that the regulations should require that the Balancing Plan contemplate and provide for transition to the management of linepack under the Critical Contingency Regulations.

A fundamental protection for welded parties and shippers is the ability of the TSO to curtail welded point offtakes and injections to maintain line services and as such should be provided for in the Balancing plan. There should be some obligation on TSO's or the Balancing Agent to use all of the tools available to them including issuing Operational Flow Orders to at least attempt to ensure that the actions of a user do not adversely impact on other pipeline users prior to the curtailments of potentially innocent parties under the Critical Contingency Regulations.

**Q6: Do you agree with the details of the balancing plan? If not, why?**

Yes, although there needs to be more explicit recognition of the need to deal with metering errors and estimations and how that may affect the allocation of balancing costs through time.

**Q7: Do you have any other comments on any aspects of the proposal?**

We believe the timetable for implementation is ambitious. The regulatory solution we believe will suffer from delays resulting from the fact that the main vehicle – the Balancing Plan – is a new arrangement.

The current ICD process has the advantage of making changes to existing contractual arrangements which should be easier and quicker relatively as the contracts already exist and the changes required are incremental.

**Q8: Do you agree with the proposed next steps? If not, why?**

It is unlikely that many participants have had sufficient time to review thoroughly the draft regulations due to their commitments to the ICD process. Should it be the case that the ICD process fail, or the outcomes of it be deficient, we believe that there would be value in providing industry participants the opportunity to submit further comments regarding the detail of the draft regulations.

Given the ICD process is scheduled to continue until the end of November, participants (and the GIC) should be able to gauge by then the success of that

process and determine if further effort should be allocated to reviewing the draft regulations. We understand that the GIC are reviewing the draft regulations currently and that changes are likely to be made anyway. It would make sense to provide industry participants the opportunity to review the amended regulations after the ICD process has been substantially completed.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Teichert', with a long horizontal flourish extending to the right.

Charles Teichert  
Todd Energy