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By email: submissions@gasindustry.co.nz

Dear Ian

Transmission Pipeline Balancing

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company (GIC) on the consultation paper "Transmission Pipeline Balancing: Supplement to the October 2009 Statement of Proposal" dated April 2010.

Genesis Energy supports the GIC's conclusion that balancing should move to a rules-based governance framework, but has some suggestions for improving the way that the rules support continuous improvement of balancing arrangements. Given that the timing and outcome of the GIC's recommendation is uncertain, Genesis Energy will continue to work on enhancements to balancing arrangements via the Maui Pipeline Operating Code (MPOC) change process in the interim.

Genesis Energy appreciates the effort that the GIC has gone to since its original October 2009 statement of proposal to:

- facilitate improved balancing arrangements via the collaborative industry code development (ICD) process;
- refine the draft Gas Governance (Balancing) Rules ("the rules") through ongoing engagement with shippers and transmission system owners (TSOs); and

- develop a quantitative analysis of the costs and benefits of regulatory and non-regulatory options for improving balancing arrangements.

The ICD process is still running its course in that the GIC is currently considering a MPOC change request put forward by Maui Development Limited (MDL) to address some of the outcomes of the ICD process. Genesis Energy will continue to work on enhancing balancing via this code change route. If this proves successful within a short timeframe then it could remove the need for transfer to rules-based governance.

Although this dual-track development process complicates the assessment of whether the rules are likely to provide a better outcome than the status quo, Genesis Energy believes that the GIC should proceed with finalising its recommendation to the Minister. The industry and the GIC cannot wait indefinitely for the code change processes to run their course.

Genesis Energy considers that progress so far with the ICD process and MPOC changes has demonstrated that existing governance arrangements are not well suited to resolving cross-pipeline issues such as pipeline balancing. The monopoly TSOs have differing interests that they seem unlikely to resolve bilaterally in a satisfactory way via existing arrangements. This lack of resolution is detrimental to the interests of gas shippers, producers and consumers.

The proposed rules would improve existing governance arrangements by:

- requiring development of a balancing plan that cuts across the MPOC, the Vector Transmission Code (VTC) and Vector's interconnection agreement with MDL;
- creating incentives for more constructive and effective negotiation between the TSOs; and
- providing regulatory oversight of, and a regulatory backstop for, balancing arrangements.

The last point should also ensure that balancing arrangements reflect an appropriate balance between the TSO's interests and the interests of the market as a whole.

Genesis Energy considers that, on the basis of the analysis presented and experience to date with existing governance arrangements, it is reasonable to conclude that the rules are likely to lead to more efficient pipeline balancing than can be expected under existing governance arrangements. Genesis Energy also

considers that, on the basis of the cost-benefit analysis included in the consultation paper, it is reasonable to expect that there would be a net benefit from implementing the rules as proposed.

Suggested Improvements

Genesis Energy suggests three improvements to the rules to provide a better framework for ongoing improvements to balancing arrangements once the GIC has approved the initial balancing plan.

GIC's Gatekeeper Role

The rules establish the GIC as a gatekeeper for changes to the balancing plan sought by parties other than the TSOs. Genesis Energy recommends that the industry body should be required to document its reasons for declining to propose balancing plan amendments to the approved balancing plan. This would help to provide confidence to pipeline users and end consumers that the GIC is carrying out its gatekeeper role in a robust and transparent manner.

Genesis Energy suggests insertion of a new rule 40.3.1 as follows (or words to similar effect):

If the **industry body** decides not to adopt an amendment suggested under rule 40.3 then it must **publish** its reasons within 10 **business days**.

Balancing Operator

Rule 40.3 provides the mechanism for parties other than the TSOs to propose balancing plan changes via the GIC.

As drafted, it is not clear that the Rule allows the balancing operator to propose amendments. The balancing operator is a significant stakeholder and should clearly be able to propose balancing plan changes. Genesis Energy suggests the following amendment to Rule 40.3 to clarify that the balancing operator can request changes to the balancing plan (additions underlined):

One or more **transmission system owners**, the **balancing operator** or other **users** may request the **industry body** to propose an amendment under rule 40.2.2, and for that purpose may submit a suggested amendment to the industry body, which may, if the proposed amendment in its opinion complies with rule 32, in its discretion decide whether or not to adopt the suggested amendment and propose it under rule 40.2.


User-initiated Change Mechanism

Genesis Energy understands and accepts that the philosophy of the “participative regulation” option implemented by the rules involves leaving responsibility for detailed drafting of the balancing plan in the TSOs hands while providing appropriate regulatory oversight. Genesis Energy considers that the rules provide a good framework for this to occur with respect to drafting the initial plan, but suggests that the rules could provide a more streamlined process with respect to subsequent amendments.

There appears to be a risk that TSOs could stall amendments put forward by the GIC indefinitely by repeatedly re-submitting a balancing plan that the GIC does not wish to approve. Genesis Energy suggests that there should be a deadlock breaking provision to ensure that amendments beneficial to the industry as a whole cannot be stalled indefinitely by the TSOs in this way.

If you would like to discuss any of these matters further, please contact me on 04 495 3348.

Yours sincerely



Ross Parry

Regulatory Affairs Manager