



A Responsible Care® Company

27 April 2010

Gas Industry Company Limited  
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## SUBMISSION BY METHANEX NEW ZEALAND LIMITED TO GAS INDUSTRY COMPANY

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Methanex makes this submission in respect of the Transmission Pipeline Balancing: Supplement to the October 2009 Statement of Proposal issued in April 2010.

### **1. Regulation is not preferred**

Methanex has previously submitted to the Gas Industry Company that it strongly favours industry-led solutions to issues affecting the gas industry including pipeline balancing and does not believe all-encompassing regulation by the Gas Industry Company is warranted or desirable. Our chief concern is that the regulatory approach proposed by the GIC may actually add significant cost and complexity to the industry for little if any actual benefit. We believe that more opportunity should be given for the gas industry to resolve its own issues before regulation is imposed upon it.

### **2. ICD Process was not given a fair opportunity to develop a balancing regime**

Methanex does not believe the ICD Process was given a fair opportunity, being provided insufficient time and operating within a context where the Gas Industry Company had already made its recommendation in support of regulation. This pre-determination distorted the negotiation process and provided an added incentive for hold-outs. This provided the conditions for the Gas Industry Company to draw its own conclusion that industry-led solutions would not be achievable.

### **3. A single balancing regime is not necessary**

Methanex does not agree that a unified (single) balancing regime is a necessary or even a desirable pre-condition for the efficient settlement of pipeline imbalances and is concerned that, to the contrary, forcing a unified balancing regime on the gas

industry may lead to increased costs, complexity and risks in respect to pipeline balancing.

#### **4. Some of the draft rules run counter to broad consensus view**

In some instances the proposed rules run counter to recommendations reached as a broad consensus by market participants (such as the clear preference for average daily clearing price) and we don't believe that this is reflective of a participative approach. We recommend that at the very least where there is a consensus view (including that developed out the ICD Process) it should be adopted as part of any regulations that are established by the Gas Industry Company.

#### **5. GIC's objective of improving outcomes for pipeline users**

One of the Gas Industry Company's key objectives supporting it recommending the imposition of regulations is based on improving outcomes for pipeline users. As a pipeline user ourselves we support this objective, but we also believe that good intentions will not necessarily result in those outcomes being realised and fear a contrary outcome where adding complexity and cost to the operation and governance of the gas market will make pipeline users materially worse off.

#### **6. Regulations will not necessarily lead to timely and cost-effective solutions**

We don't believe that a regulated outcome will resolve outstanding issues any quicker or more cost-effectively than allowing for the continuation of industry-led development of balancing arrangements. The Gas Industry Company may be required to establish rules in certain specific areas where there is a deadlock among market participants but this does not require the establishment of all-encompassing balancing rules at the outset.

#### **7. Need for a balancing plan to determine detail provisions of balancing rules**

Methanex is concerned that in respect to the draft rules much of its interpretation requires knowledge of the balancing plan which is yet to be determined. We consider it to be inadvisable to establish such detailed and prescriptive rules prior to the establishment of the balancing plan. Our preference is that if a regulated model is inevitable, comprehensive rules should not be finalised until the balancing plan has been developed.

### **COST BENEFIT ANALYSIS**

#### **8. Cost-Benefit analysis does not provide conclusive support for regulation**

We do not consider the Cost-Benefit Analysis has added any particular insight. We consider the conclusions drawn are somewhat biased towards supporting a recommendation in favour of regulation, particularly if one considers that the Pessimistic Scenario may well be the most likely outcome given the risk factors associated with establishing the balancing plan between the TSO's. A cost-benefit that was specific to comparing a single unified balancing regime with the counter-factual would have actually provided a more valuable analysis.

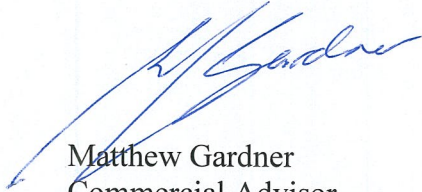
**9. Cost of establishing/re-designing the balancing market under the proposed rules is under-estimated**

We believe the proposed Rules will require a new balancing market to be established, or at the very least a significant redesign of existing systems. Accordingly we consider that the costs under both Optimistic and Pessimistic scenarios are seriously understated in this regard.

**10. Pessimistic Scenario needs to be given more weight in drawing conclusions from CBA**

Under the Pessimistic scenario, costs are considerable (and we believe under-estimated) and the future benefits are low when comparing against the “code change” alternative. We don’t think this scenario was given enough weight in the commentary. In addition, it was not sufficiently explained in the analysis as to how the significant cost and benefit differences between “code change” and “ICD MOU” scenarios were derived or justified.

Yours sincerely,



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