

think differently



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Ian Wilson
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Dear Ian

Nova Gas Submission on Supplemental Consultation paper regarding Transmission Pipeline Balancing Regulatory Proposal

Nova believes that the regulatory proposal is too limited in scope to achieve the benefits that are provided for in the cost-benefit analysis performed by NZIER.

The limited scope of the proposal – ie residual pipeline balancing only, is not likely to give rise to the level of benefits claimed as a result of gains in efficiency described in Appendix B to the NZIER report. In particular, the analysis rests on the assumption that productive efficiency gains of 0.5%, or 4c/GJ on 150PJ per annum - \$6m per annum. The 0.5% is an arbitrary level and is not supported by any empirical evidence.

We note that since the removal of Maui legacy gas contract provisions from the Maui Pipeline Operating Code (MPOC), balancing gas requirements have reduced significantly and continue to reduce.

Period	Total Put and Call volumes as per OATIS
Jan – April 2008	1,174,266 GJ's
Jan – April 2009	639,624 GJ's
Jan – April 2010	67,769 GJ's

On a calendar year basis

2008	5,069,434 GJ's
2009	1,397,705 GJ's

2010 is expected to requiring less balancing activity than 2009 based on the first quarter activity.

The balancing activity noted above also includes substantial quantities of UFG that are not separately accounted for in OATIS information.

The substantial reduction in balancing gas requirements is due to a number of factors including:

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- reductions of UFG on distribution networks caused by a retailer that is alleged to have breached the Reconciliation Rules;
- improvement in aggregate retailer demand forecasting;
- increased use of pipeline linepack flexibility by the System Operator¹
- Removal of Maui legacy gas contracts provisions which required MDL to provide balancing services to certain parties up until December 2008.

Future scope for reductions in pipeline balancing volume is likely to be limited and therefore so is the scope for efficiency benefits. It is difficult to see where improvements to balancing arrangements through regulation or any other process will result in \$6m per annum of benefits.

That is not to say that there not areas for improvement in transmission pipeline arrangements that could potentially result in efficiency gains but they are more likely to exist in areas not covered by the proposed regulations such as:

- efficient operation of transmission pipelines through the use of compression equipment to optimise linepack management; and
- transmission pipeline investment decision making; and
- provisions governing interconnection to open access transmission pipelines;

Nova Gas and other participants have indicated to the Gas Industry Company that pursuing improvement in these areas should be a priority and that while contractual balancing arrangements continue to improve together with reductions in requirements for residual pipeline balancing, the Gas Industry Company should take the opportunity to put on hold or defer this work stream and refocus on higher priority areas.

Yours sincerely



Charles Teichert
Trading Manager

¹ Previously, the Maui pipeline system operator operated the pipeline to a particular linepack and made many small corrections to linepack by calling on the Maui gas field to swing on a daily basis and regularly more than once per day. Now line pack is able to increase and decrease between defined limits.