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John Bright

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Gas Industry Company

WELLINGTON

Submitted via: Gas Industry Company Website

Dear John

VTC Appeal to Allow Balancing Arrangements Change Request

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("the GIC") on the "VTC Appeal to Allow Balancing Arrangements Change Request" dated 27 November 2012.

Summary

Genesis Energy agrees with the objective of this change request to ensure that the VTC is consistent with the new back to back (B2B) balancing arrangements in the Maui Pipeline Operating Code (the MPOC). However, we do not support the change request in its current form. In particular we consider that:

- the change request does not effectively allocate balancing costs in a way that accords with the causer pays objective underpinning the new B2B balancing arrangements;
- there are drafting issues with the peaking allocation methodology set out in schedule nine; and,
- the proposed amendments to "limit the scope for shippers to dispute invoices relating to balancing" are not necessary for the stated objective and may not be in the best interests of the industry as a whole.

Allocation of balancing costs to causers

In Genesis Energy's view, the amendments to the VTC are deficient in three key areas, when considered from the perspective of allocating balancing costs to causers:

1. The VTC has not been amended to ensure that Vector is allocated balancing costs in situations where it is the causer of these costs. We consider that the definitions of 'Vector Imbalance' and 'Vector Running Imbalance' should recognise situations where there are changes in line pack caused by Vector for operational reasons. The MPOC has standard operating procedures that deal with this matter, and the same processes should apply in the VTC. If Vector is not exposed to the balancing cost process it is not incentivised to manage line pack appropriately.

2. The allocation of cash-outs (clause 8.19) is by "relevant Pipeline". It is Genesis Energy's view that B2B balancing cash-outs should be allocated on the basis of a shipper's total running mismatch position on the Transmission System (as is done for critical contingency imbalances) rather than on a pipeline by pipeline basis. The problem with a pipeline by pipeline regime it that it is possible for a shipper with an overall positive RMM position, but a negative position at one Welded Point, to be cashed out under clause 8.19 (a).

3. It remains uncertain, as to whether non-code shippers will be subject to the same balancing and peaking arrangements. Approval to this change request needs to be conditional on non-code shippers also being subject to identical arrangements so that they too accountable under a causer pays approach.[1]

Proposed peaking allocation methodology

The methodology for the calculation and allocation of balancing and peaking charges must be drafted in a manner that is fair and transparent (this will also reduce the likelihood of future disputes). The peaking allocation methodology as set out in schedule nine:

- does not appear to cover points receiving gas into or out of storage facilities;

[1] Refer letter dated 30 October 2012 'VTC Change Request Changes to Balancing Arrangements', paragraph 27.

- should include a definition of "relevant quantities" (clause 1.3) to avoid any legal ambiguity; and
- should cap the peaking cost allocated to a shipper (under clause 1.6) at the $/GJ rate that Vector is invoiced by Maui Development Limited (MDL) for each peaking event.

There are also legacy arrangements, particularly around the determination of receipts and deliveries on the Frankley Road pipeline, that need to be addressed.

Proposed amendments to dispute provisions

Not necessary and detrimental to shippers

Genesis Energy remains unconvinced that there is a problem with shippers deliberately frustrating the dispute process for balancing charges, as suggested by this change. Genesis Energy has, in the past, raised legitimate disputes about balancing invoices under the current process. These disputes have been found in Genesis Energy's favour[2].

We also have strong concerns about the effect of the proposed changes to the current process. In particular, we do not support the proposal to confine rights of dispute to situations where only Vector has made a "manifest error". Shippers do not have step-in rights to address issues directly with MDL, and are therefore dependent upon Vector to exercise such rights. The current proposal would remove any incentive for Vector to do this on behalf of shippers. The economic assessment carried out by NERA acknowledges that this will increase shipper's user risks and that, for this reason, "it is not possible to say whether the net effect would be positive"[3].

Not within the intended purposes and scope of this change request

We strongly support the need for changes to ensure that the VTC is workable with the MPOC once the B2B arrangements come into place. However, we encourage Vector to make only those amendments that are reasonably necessary for this purpose, rather than delaying the process by introducing proposals that are not within this scope and possibly contentious.

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[2] We note that the GIC is currently considering this issue as part of the "31 July 2012 Vector Transmission Code ("VTC") Change Request Appeal". As part of this work, the table in Appendix 3 of this paper has been subsequently updated by Vector to reflect the fact that two of the disputes listed were actually resolved in favour of Genesis Energy (not in Vectors favour, as suggested in the paper).

[3] Appendix 2: NERA Economic Consulting, Memo to Katherine Shufflebotham, November 27, 2012, Assessment of the VTC Change Request (VTC Balancing Arrangements), refer pg 7.

In our view, the issue Vector is seeking to address with the current dispute resolution process does not fit within the purpose of alignment with the B2B arrangements. The new B2B arrangements will place strong incentives on shippers to avoid balancing and peaking charges by balancing their positions. We consider it is unlikely that the ability to dispute charges under the VTC would "dilute" this incentive, as suggested by Vector. We suggest that it is more likely that disputes could arise in the future, if the methodology for the calculation and allocation of these charges is not clear and transparent. We encourage Vector to focus its efforts in this area by addressing the issues that we have identified with the current methodology on page 2 of this submission.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely

Lizzie Wesley-Smith
Regulatory Advisor

genesis ENERGY