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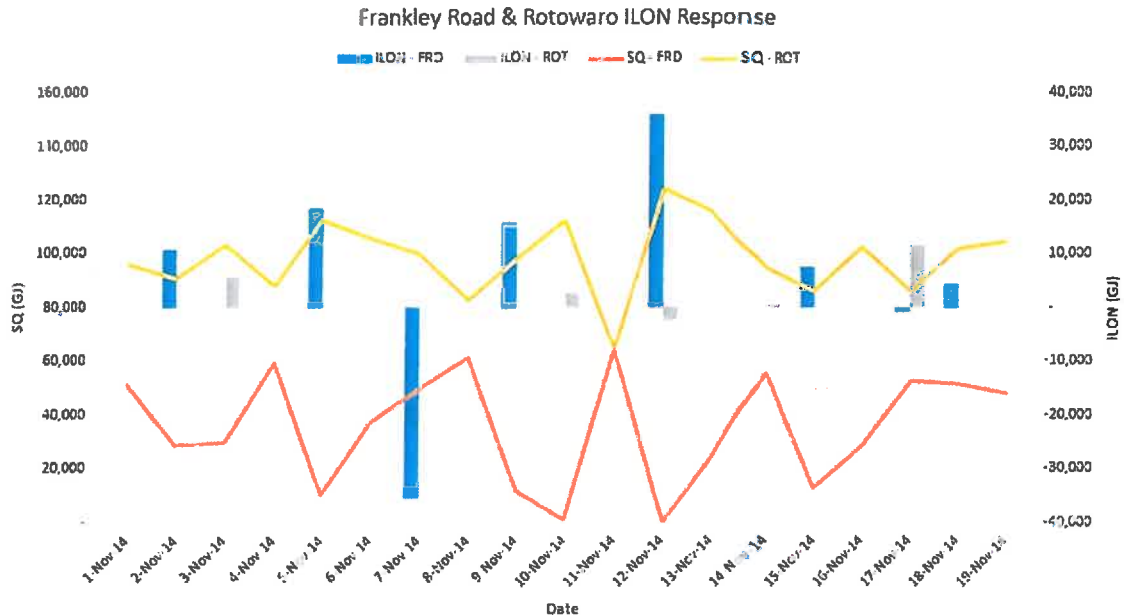
Draft Recommendation on 10 October 2014 MPOC Change Request

Introduction

1. Vector welcomes the opportunity to make a submission on the GIC's draft recommendation on MDL's 10 October 2014 MBB Change Request (**MBB**), dated 25 February 2015 (the **draft recommendation**) and its attached Market Based Balancing on the Maui Pipeline: Cost Benefit Analysis (the **CBA**). This submission is made on behalf of both Vector's gas transmission and trading businesses, and no part of it is confidential.
2. Vector's contact person for this submission is:
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3. Vector believes that a single unified balancing arrangement across both pipeline systems is the best way to effectively resolve balancing issues and provide the necessary information and tools to all participants.
4. Vector's views on MBB have been previously set out in its pre-consultation submission to MDL dated 19 September 2014, its initial submission to the GIC dated 24 November 2014 and its cross-submission dated 13 January 2015. The points made in this submission are in addition to those made in the earlier submissions.

ILONS and Imbalances

5. The draft recommendation and the CBA both refer to the small number of ILONS that are cashed out as evidence of Shippers' ability to manage imbalance in a daily cash-out regime. However, the ILON regime gives Shippers up to 36 hours to manage their imbalance, so corrections after an ILON is issued is only evidence of Shippers' ability to manage their imbalance in the 2 days following the day on which the imbalance was incurred and notified to them.
6. Further, the manner in which imbalances are often corrected would not avoid cash-outs under MBB. ILONs are only cashed out at the point at which they were issued. At the moment, we often see swings between one point and another as Shippers move their imbalances away from an ILON.
7. Figure 1 shows the period from 2 to 19 November 2014 when there were several ILONS but no cash-outs:



8. This graph shows how Shippers changed the scheduled quantity (SQ) at each point, within the ILON period, to clear the imbalance. This caused swings at each point, including a negative ILON at Frankley Road immediately following a positive ILON, and shows that while there was the ability to manage imbalance at a specific point, the overall imbalance across the system was not cleared.

Cost to Vector of providing additional tools and information

9. At the GIC's workshop on MBB held in Auckland on 11 March, John Small indicated that costs which might be incurred by Vector as a result of MBB due to customer pressure to provide additional tools and information would be relevant to the cost benefit analysis – even though those costs might not be a direct result of the MBB change itself.
10. Vector has estimated the following costs which would be incurred if systems were upgraded and staffing increased to provide:
- more frequent metering information, including over weekends; and
 - daily gas trading allocation processes to provide Shipper imbalance positions and the proportion of the cash out allocated to the Shipper:

Requirement	Development	Staffing	Support
Software upgrade and weekend validated metering data	\$200,000	\$50,000/Year	No Change
Daily GTA process	\$150,000	No Change	\$50,000/Year
D+1 Shipper positions	\$15,000	No Change	\$50,000/Year
Total	\$365,000 One off	\$50,000/Year	\$100,000/Year

11. We have not been able to determine the extent and cost of any changes to OATIS that would be required to implement these processes, or whether they could even be made.

Barriers to new entry

12. Section 5.4 of the draft recommendation refers to the potential (or not) for MBB to be a barrier to new entrants to the gas market. We believe there are other ways in which MBB could pose a barrier to new entrants, including the uncertainty around the percentage adjustment for cash out prices, which can be up to 10% and is at the sole discretion of MDL, will create difficulties for parties making decisions about investment in the industry. This is particularly so for new entrants, who will not be able to accurately determine the costs they might incur under MBB when deciding whether to enter the market. Even with historical information all participants and new entrants have uncertainty on what the adjustment will be. Investment decisions assuming a 2-3% adjustment to the market price is very different from decisions made assuming a 9-10% adjustment.

Fuel Gas Costs

13. MDL has estimated that roughly 90% of fuel gas costs for the compressor are related to flexibility requirements of the pipeline. This figure includes both flexibility requirements where supply does not match demand, and demand shifts that typically occur between week days and weekends. As the first point is the only one which will be improved with primary balancing associated with MBB what proportion of the 90% is allocated to this flexibility requirement?

Material Adverse Effect

14. On 27 March 2015, Vector gave notice to MDL that MBB is a Relevant Change Request pursuant to clause 12 of its Agreement for Interconnection with Maui Pipeline and has proposed meeting dates during the weeks of 6 and 13 April.

Yours sincerely,



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– Networks (acting)