



Wholesale Market Update

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Gas contingency management



Scope of the problem

Security of supply covers a wide range:

- day to day supply/demand balance
- forecasting & planning for future needs:
 - energy supply
 - bulk transport
 - distribution

Largely, left to the “market” to provide

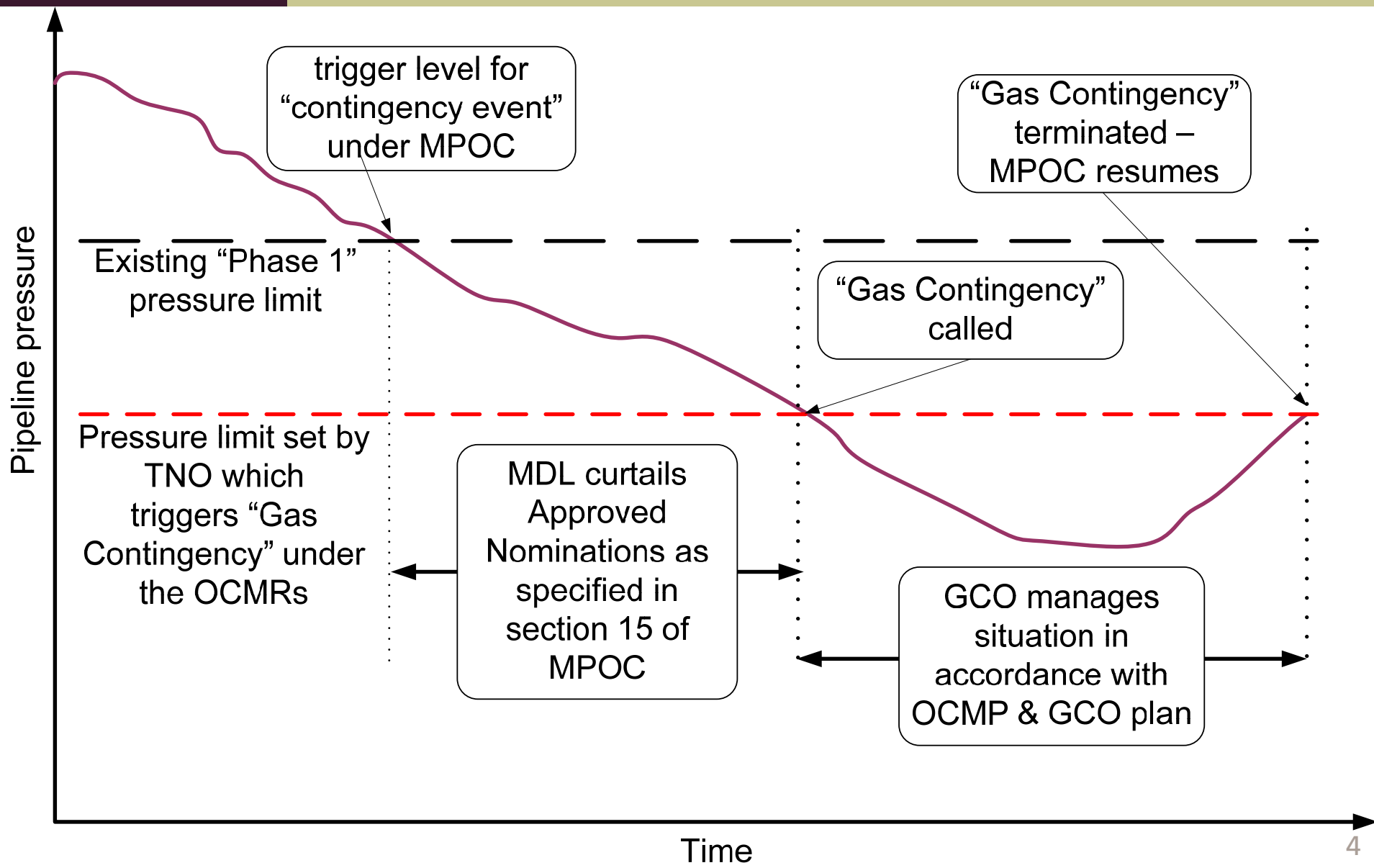
What happens when the wheels fall off?

Scope of the problem

Gas Industry Co asked to review NGOCP

- very narrow focus:
 - NGOCP (and its replacement) is the “ambulance at the bottom of the cliff”
- applies after commercial initiatives exhausted
- aims:
 - not to distort normal market behaviour
 - incentives to prepare for contingencies

Interface with commercial arrangements



Key changes

<i>Existing (NGOCP)</i>	<i>Replacement</i>
Voluntary arrangement	Mandatory with compliance and enforcement regime
No requirement to pay for gas taken from others	Gas taken must be paid for (at the Contingency Price)
No incentive for shippers or producers to supply gas	Contingency Price will incentivise parties to supply where possible
Uncertain outcomes – parties may not follow requests	Greater certainty – directions followed or fines levied

Status

Statement of proposal issued

Submissions received

- seeking clarification from a number of submitters
- some minor drafting issues – e.g. nomenclature
- report to Board this month

Revisions to draft regulations

Further consultation likely



Access to Gas Processing



Background

GPS requests:

Protocols that set reasonable terms and conditions for access to gas processing facilities

Prior consultation concluded:

- prescriptive access protocols not needed
- changes—new fields coming into production
- defer final recommendation
- maintain a watching brief
- limited information disclosure

Implementing information disclosure

Recommendation to Minister of Energy:

- pursue industry agreement
- regulation as backstop option

Minister's response:

- accepted recommendation
- if no agreement by mid-2007, expected a recommendation to regulate

Status

- Disclosure agreements not forthcoming
- Statement of proposal issued
- Analysing submissions
- Report to Board this month
- Expect a recommendation to the Minister shortly



Wholesale market design



Think of “Trademe”—for gas

Simple, low-cost, electronic trading platform

Begin with a trial market

- “live” trial, i.e. real deals
- requires market rules, participants, trading system

Gas Industry Co, with assistance from potential traders, sought proposals from platform providers.

M-co has been chosen as the preferred party to host the

New Zealand Gas Exchange

How does it work?

- Participation is voluntary
 - majority of gas sold on long-term contracts
 - short-term, private deals remain as an option
- Standard set of “products” on offer
- Formation of bilateral deals
- Performance of contract is outside of the formal market

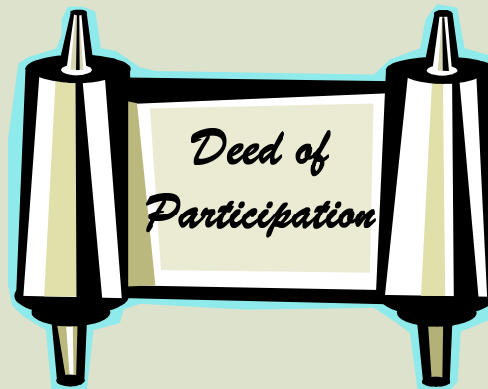


Governance structure

Contract-based:

- Parties bind themselves to the rules

Apply to join the market



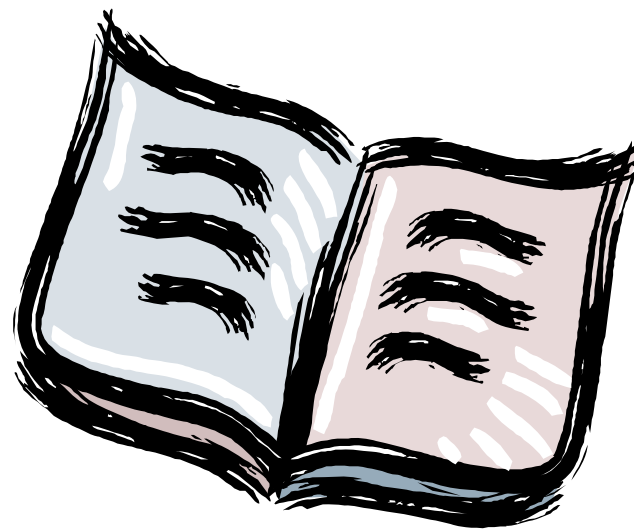
Undertake to be bound by the rules and honour obligations to:

- **the body overseeing the market,**
- **other traders, and**
- **the trading system operator**

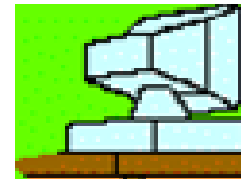
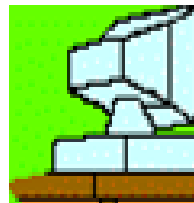
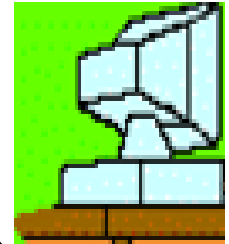
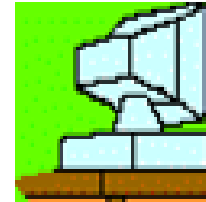
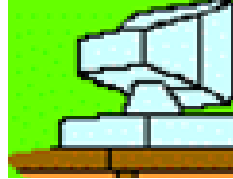
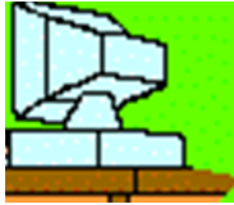
Governance structure

Contract-based:

- Parties bind themselves to the rules
- Rules govern:
 - entry to and exit from market
 - how offers are made and accepted
 - dispute resolution
 - rule changes, market hours, fees, conduct, etc



Doing deals



Process from here...

Finalising governance arrangements

Platform “tweaks” required

No firm “go live” date at this stage

In summary...

Increasing:

certainty

(contingency management)

information

(gas processing)

choice

(gas trading)