

Note to accompany Draft Recommendation on the 13 October 2011 MPOC Change Request

Gas Industry Co released its Draft Recommendation on Wednesday 22 February 2012 supporting a change to the Maui Pipeline Operating Code (MPOC) proposed by Maui Development Limited (MDL) to improve pipeline balancing (the October 2011 Change Request).

Consideration of proposed MPOC changes is a contractual role Gas Industry Co performs on behalf of MDL and the other Parties to the MPOC. Essentially, we are required to come to a view on whether a proposed change will better meet the objectives of the Gas Act; including whether efficiency will be improved. We cannot make our support for a proposed change conditional, or only support part of a proposed change, or alter the proposal in any material way.

We wish to commend MDL on the initiative it has taken to improve balancing arrangements. We consider this to be a significant step towards delivering on the industry's promise to improve balancing without recourse to regulation.

Since 2009, MDL has strived to resolve two major components of balancing reform – improved market arrangements for balancing gas (BGX2), and back-to-back allocation of balancing costs (B2B). In respect of BGX2, following successful design and testing, we understand implementation of the platform has come up against risk management issues for the joint venture, and discussions are taking place with third parties who may be better placed to address those.

In respect of B2B, following an unsuccessful change request in 2009, the October 2011 Change Request proposes a more focused set of MPOC changes to achieve B2B. Gas Industry Co believes that the proposed change will bring about an improvement over current balancing arrangements in the MPOC. Accordingly our draft recommendation supports the October 2011 Change Request.

In our broader role as industry regulator we are concerned about how this change relates to the overall development of industry arrangements. We share the concerns of submitters that the change should preferably be complemented by other balancing-related changes, both in content and timing. We also recognise that in isolation the change will increase the risk of some system users in some circumstances, and that this effect would be moderated if other elements of balancing reform were also in place. Specifically we support the views expressed in submissions that improved balancing gas trading arrangements, improved daily allocation, and extended nomination arrangements are desirable.

Balancing is a matter that industry participants have devoted significant resources to improving, and submissions show an eagerness to bring some resolution to the matter. Also, there is a large degree of consensus on the component elements that need to improve, but efforts to bring about improvements have been frustrated by differing operational and commercial considerations, and different views on the sequence of change. Pursuing the spectre of an ideal solution that satisfies the desires of all parties and more mundane complexities of dealing with 'carts and horses', have limited progress on resolving balancing issues to date. Our approach is therefore to promote some practical ways forward, using evident industry goodwill and desire to solve balancing problems.

Accordingly:

1. In our contractual role under the MPOC, our Draft Recommendation supports the October 2011 Change Request;
2. In our broader role as gas industry regulator we will:
 - a. request that MDL does not implement the change request until 1 June 2013, allowing time for other arrangements to be improved; and
 - b. provide assistance to industry participants in improving the other arrangements including, where appropriate, using the governance arrangements developed for the Gas Transmission Investment Programme (GTIP). In particular, the focus will be on improving the ability of all pipeline users to trade balancing gas, improving the timeliness of downstream allocations, and extending the requirements on users to make gas flow nominations.

Very shortly Gas Industry Co will be responding to a request made by the Associate Minister of Energy and Resources in September 2010 for a progress report by the end of February 2012 on pipeline balancing issues. We believe the above approach is a good basis for that response in terms of the industry's progress on balancing issues.

We welcome any feedback on this approach.