17 December 2009 MPOC Change Request: Final Recommendation

July 2010
Submissions due: 5pm Friday 16 July

GAS INDUSTRY COMPANY LIMITED

About Gas Industry Co.

Gas Industry Co was formed to be the co-regulator under the Gas Act.

Its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy and Resources on the performance and present state of the New Zealand gas industry, and the achievement of the Government's policy objectives for the gas sector.

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153738.1 19 June 2014

19 June 2014

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1 Introduction

1.1 Purpose

This paper presents an analysis and final recommendation on the Maui Pipeline Operating Code (MPOC) change request submitted by Maui Development Limited (MDL) on 17 December 2009 (the December Change Request).

1.2 Gas Industry Co's role under the MPOC

Section 29 of the MPOC assigns Gas Industry Company Limited (Gas Industry Co) a role in respect of any proposed amendment to the MPOC (a change request). Gas Industry Co's role is to consult on the change request with the gas industry and determine whether or not to support it. A change request proceeds only where required by law or where Gas Industry Co makes a written recommendation to MDL supporting the change request. MDL has sole discretion to reject a recommendation if it considers the change would materially adversely affect its business, or require MDL to incur additional capital or operating expenditure (that may not be recoverable).

Gas Industry Co has agreed a memorandum of understanding (MOU) with MDL describing how its role will be performed. The MOU sets out a process under which Gas Industry Co receives a change request, calls for submissions, issues a draft recommendation, considers further submissions, and finally makes a recommendation to MDL. For further information (including a copy of the MOU) please refer to Gas Industry Co's website at www.gasindustry.co.nz.

Capitalised terms used in this recommendation have the same meaning given to those terms in the MPOC, unless stated otherwise.

1.3 Process in relation to December Change Request

The December Change Request relates mostly to balancing arrangements on the Maui Pipeline. In particular, it proposes replacing current balancing arrangements with a 'back-to-back' arrangement. The proposed arrangement aims to recover balancing costs from the pipeline users most responsible for those costs being incurred (the 'causers').

Gas Industry Co posted the December Change Request on its website on 21 December 2009 and invited submissions. Eight submissions were received. These are available on Gas Industry Co's website.

Status update paper

In March 2010, Gas Industry Co issued a 'status update'. The update provided a summary of submissions on the December Change Request, considered issues related to processing the request, and sought feedback on these matters.

In summary, the status update noted Gas Industry Co:

- might find it difficult to approve the whole December Change Request unconditionally, considering its wide scope;
- did not consider the challenge to the December Change Request by Vector Gas Limited (Vector) under the terms of its interconnection agreement with MDL should affect processing of the December Change Request;
- did not consider Gas Industry Co's impending recommendation to the Associate Minister of Energy and Resources to introduce balancing rules should affect processing of the December Change Request;
- required more time to process the December Change Request than estimated in the indicative timetable it published in January 2010; and
- requested further information from MDL to aid analysis of the December Change Request.

In addition Gas Industry Co asked MDL to offer a forum for more discussion of the December Change Request. MDL agreed and held a workshop on 1 April 2010. Following that workshop, MDL advised attendees it would receive and consider suggestions for minor amendments to the December Change Request. MDL asked that suggestions for minor amendments be provided by 9 April 2010. MDL would then consider them and possibly up-date its change request.

In regard to our concern about the difficulty of reaching an unconditional approval of the whole December Change Request, submitters generally considered that Gas Industry Co could only approve, or not approve, a change request. Approval could be conditional only to the extent of correcting minor and technical errors. We sought legal advice on this matter and our advisors confirmed the views of most submitters.

Minor and technical amendments to the December Change Request

On 21 April 2010, MDL circulated a copy of the December Change Request with several minor and technical amendments. This revised December Change Request is available on Gas Industry Co's website. We have included these further drafting amendments in the evaluation.

1.4 Evaluation method

Scoring

Several submitters were concerned about Gas Industry Co's scoring method used in the Draft Recommendation. We had assigned a score to the various aspects of the December Change Request, and summed those scores without endeavouring to weight them according to their relative importance. We followed this evaluation approach to be consistent with previous evaluations of balancing options.[1] However, we acknowledge our approach might be unhelpful in the context of a change request that includes balancing and non-balancing related matters. Certainly the evaluation method does not need to be quantitative. Rather it involves qualitative judgements by Gas Industry Co, having considered the information presented to it, assessed the merits of the various aspects of the change request, and exercised reasonable judgement.

In this final recommendation we do not score or sum the net benefits, but describe our assessment in words.

Criteria for assessing non-balancing aspects of the December Change Request

The December Change Request included subject matter only tenuously related to the main issue being considered. In the Draft Recommendation we noted that this made it difficult to perform the overall analysis, and present it coherently. We suggested that, in future, submitters should identify more clearly the intended outcomes of a change request, and limit the content of their change request to that matter. We confirm that we will be considering how the MOU might be amended to achieve this.

In the Draft Recommendation we applied different criteria for evaluating the balancing related and non-balancing related changes. The balancing criteria had been specifically developed through Gas Industry Co's balancing workstream for the evaluation of balancing options. While the criteria are consistent with the objectives of the Gas Act, they were tailored for a specific purpose. It therefore seemed inappropriate to apply them to the non-balancing aspects of the December Change Request.

We accept our approach may have been confusing, particularly because we needed to arrive at an overall coherent view on whether or not there was a net benefit from the December Change Request.

[1] However, noting that in the *Transmission Pipeline Balancing Second Options Paper* we performed a sensitivity analysis on the results of the qualitative assessment of the reasonably practicable options by applying a weighting to see how the results would change.

In this final recommendation we apply the same evaluation criteria to the balancing and non-balancing changes.

Improvements to the December Change Request

Many submissions advocated improvements to the December Change Request. However, Gas Industry Co's role in relation to MPOC changes is a limited one, and essentially reactionary. It considers the merit of a change request against the status quo. This contrasts with Gas Industry Co's role under the Gas Act, which requires the consideration of all practicable options before making a recommendation to the Minister. It is important to understand that Gas Industry Co cannot reject a change request because it believes there might be a better alternative. Our scope for recommending modifications to a change request is limited to minor and technical matters.

VTC

Many submitters noted it would be more efficient if Vector Transmission Code (VTC) and MPOC changes were considered together. However, neither the MPOC nor the VTC provide for this. This outcome is possible only if the MPOC and VTC are changed to require it, or if MDL and Vector choose to co-operate, or are required to co-operate by regulation. We do not consider we can reject a proposed change request for MPOC simply because it has not been put forward as part of a 'package' with corresponding changes to VTC.

While there is no absolute requirement for consistency between the MPOC and VTC regimes, the inter-relationship between the regimes is clearly a relevant factor for Gas Industry Co to take into account when determining the overall benefit (or otherwise) of the December Change Request.

In this regard, Vector's submission is helpful in highlighting that, without changes to the VTC, the realisation of net benefits is uncertain. However Gas Industry Co considers it appropriate to make its own assessment of the likelihood of changes to the VTC, and the affect on net benefits associated with the December Change Request. For example, some factors we might consider include whether:

- Vector or any of its shippers would be motivated to propose a change to the VTC;
- Shippers and/or Vector would be likely to support the change request; and
- Gas Industry Co is likely to approve the change request if the appeal process was invoked.

1.5 Invitations for submissions

The MOU states that:

> If Gas Industry Co considers that the final recommendation is fundamentally different to is draft recommendation, it shall invite further submissions…
>
> MOU, Attachment 1 – Process for dealing with Proposed Amendments Paragraph 15, p12.

We consider the final recommendation does differ from the draft enough to invite further submissions. Gas Industry Co invites submissions on this draft Final Recommendation.

We will consider whether any issues raised in submissions cause us to reconsider our draft Final Recommendation. If submissions do not change this determination, we will finalise the recommendation and submit it to MDL. Alternatively if, after considering submissions we wish to alter our draft final recommendation, we will revise the draft and consult on it one last time before finalising.

Submissions are due by **5pm on Friday 16 July 2010**. Please note submissions received after this date may not be considered.

We prefer receiving submissions in electronic form (Microsoft Word format and PDF). Submissions may be uploaded on our website at www.gasindustry.co.nz. You will need to log in as a user and upload the submission on the consultation page by clicking on the submissions button.

Gas Industry Co will acknowledge receipt of all submissions electronically. If you do not receive electronic acknowledgement of your submission within two business days, please contact Jay Jefferies on 04 472 1800.

Gas Industry Co values openness and transparency and usually places submissions on our website. If you intend to provide confidential information in your submission, please discuss this first with Ian Wilson at Gas Industry Co (04 472 1800).

2 Draft Recommendation

On 7 May 2010, after having considered submissions on the December Change Request, Gas Industry Co published its Draft Recommendation in support of the proposed amendments. A summary of the analysis and conclusions of that paper is set out below.

2.1 Draft Recommendation - Approach to evaluation

The December Change Request was extensive. Proposed changes ranged from 'minor and technical' to changes substantially altering the allocation of risk between MPOC parties. Gas Industry Co considered the most effective way to evaluate the December Change Request was by:

- dividing the changes into two broad functional areas, balancing and non-balancing;
- establishing relevant criteria for assessing balancing and non-balancing functions;
- considering the effect of the rule change in each of these functional areas and assessing its merits compared with the status-quo; and
- assessing whether there is an overall net benefit from implementing the December Change Request.

Evaluating proposed balancing changes

To evaluate the proposed balancing changes, Gas Industry Co used criteria previously established in the July 2009 *Transmission Pipeline Balancing Second Options Paper* (the Second Options Paper). The criteria were an extension of the Gas Act 1992 (the Gas Act) and Government Policy Statement on Gas Governance (GPS) objectives in the context of balancing. The criteria were divided into three categories: efficiency, cost, and governance.

Gas Industry Co assessed the incremental benefit or detriment of introducing the balancing aspects of the December Change Request against these previously established criteria and assigned a score representing the anticipated performance change, ranging from -5 (strong detriment) to +5 (strong benefit).

Evaluating proposed non-balancing changes

To evaluate the non-balancing changes, Gas Industry Co used the objectives of the Gas Act and GPS. The criteria differed from those it used to evaluate the balancing aspects because those criteria were specifically developed to be relevant to balancing. We therefore thought they were not ideally suited to assessing the non-balancing changes.

2.2 Draft Recommendation - Evaluation of balancing changes

The table below, copied from page 40 of the Draft Recommendation, summarises the key points from the evaluation of balancing changes. To view the complete analysis, refer to the Draft Recommendation, available on Gas Industry Co's website.

Table 1 Evaluation of December Change Request from the Draft Recommendation

Category	Criterion	Summary	Marginal benefit of December Change Request +5=strong benefit -5=strong detriment
Efficiency	Productive	Current arrangements: • permit a user to avoid cost by balancing its own position after causing a balancing action; • allow cash-out without an underlying balancing action; and • both of the above could result in additional transactions being taken, over the efficient level. The December Change Request: • proposes no-notice cash-out, which should ensure balancing actions occur less often (providing operating instructions handle operational gas, mismatch and thresholds for balancing actions efficiently); but • we are concerned the treatment of operational gas is not specified, leaving scope for suboptimal arrangements.	+3
	Allocative	Current arrangements: • use forecast cash-out prices that are unlikely to reflect market prices, so balancing decisions are not based on relevant prices. The December Change Request: • mandates pay-as-bid clearing, and back–to-back average price cash-outs, allowing balancing decisions to be based on market prices; but	+3

Category	Criterion	Summary	Marginal benefit of December Change Request +5=strong benefit -5=strong detriment
		• we do not believe the arrangements are as efficient as marginal price clearing and cash-out; however, they are a significant improvement on current arrangements.	
	Security	Current arrangements: • set the conditions for access in an Standard Operating Procedure (SOP), outside the code. The December Change Request: • also gives MDL discretion on setting SOPs, although after consultation. Therefore the effect on security is considered neutral.	0
	User risks	Current arrangements: • permit significant socialisation of costs because the Imbalance Limit Overrun Notice (ILON) process allows the causer an opportunity to avoid costs. The December Change Request: • provides for cash-outs to occur only on days when there is a balancing action; contributing imbalances are cashed out without notice, potentially reducing the frequency of cash-out; but • while the ILON process provides some warning of prices, pay-as-bid clearing, and average price cash-outs does not permit hedging. This combined with no price cap significantly increases user price risk. In addition the removal of tolerances without a commitment to make Line Pack flexibility available to the Balancing Operator increases the risk further.	–1
Average marginal efficiency benefit from December Change Request			**+1.2**
Cost	Agreement	Both current and proposed arrangements involve agreement cost when change requests are processed. However, the change request introduces additional costs of consultation when SOPs are changed.	–1
	Implementation	The change request fundamentally changes the intra-day nomination cycles with both OATIS changes and potential business changes for users.	–2
	Operating	No material change.	0
Average marginal cost benefit from December Change Request			**–1.0**
Governance	Transparency and non-	The December Change Request:	+3

Category	Criterion	Summary	Marginal benefit of December Change Request +5=strong benefit -5=strong detriment
	discrimination	• introduces new obligations to disclose information; • allows for audit of Balancing Gas transactions; • allows for consultation on SOPs; and • distinguishes between operational gas and Balancing Gas.	
	Adaptability	The December Change Request: • clarifies that change requests can allow for transitional provisions; and • introduces new commitments to consult on SOPs.	+1
	Enforcement	The December Change Request introduces a pay now, dispute later regime that may slightly increase the pressure to resolve disputes.	+1
	Balance	The December Change Request does not significantly change balance between Transmission System Owner (TSO) and users. However, it may swing the credit recovery balance between MDL and Vector.	–1
	Stability	The December Change Request improves several factors of regime design that may improve stability; however, it also incorporates some unreasonable provisions that may be unsustainable.	2
Average marginal governance benefit from December Change Request			**+1.2**

2.3 Draft Recommendation - Evaluation of non-balancing changes

Gas Industry Co noted it had no concerns about the changes related to Maui legacy arrangements or the minor and technical changes. We considered that both were improvements.

However, we were concerned about some of the 'other' changes. In particular we were concerned the liability changes in section 2.15 might reduce the incentives for MDL to align with the Vector regime. This would cause problems with alignment of the two regimes over time.

2.4 Draft Recommendation - Overall evaluation

Overall, Gas Industry Co believed the balancing aspects of the December Change Request would provide a net benefit. Current balancing arrangements involve a high degree of cost socialisation, poor price signalling, charges not directly related to underlying transaction costs, and poor accountability for costs and title. The December Change Request appeared to improve all of these matters.

One aspect of the December Change Request Gas Industry Co found particularly difficult to assess was the extent to which the proposed changes affect user risks. In particular we noted our concern about the introduction of back-to-back cash-out without also introducing price caps or giving users the ability to hedge price risk (by the use of marginal pricing). We considered a move to no-notice cash-out would increase the exposure of individual users to single balancing actions, which may occur at very high prices. Without price caps on balancing transactions and with no ability to hedge price risk, this risk is uncapped. It may take only one extreme price for a balancing transaction to materially damage a user financially. We encouraged submitters to give their views on this issue.

We found the non-balancing changes, proposing the removal of references to legacy arrangements and making minor and technical corrections, to be non-contentious. The changes we assigned to the 'other' category were also mostly straightforward to assess. However, we did find one change in the 'other' category to be challenging. This was the change of the liability arrangements in section 2.15 (current section 2.14). We were concerned that the liability changes may reduce the incentives for MDL to work with Vector to ensure their regimes align and we encouraged submitters to give their views on this issue.

2.5 Overall Draft Recommendation

Overall, we considered the proposed changes would provide a net benefit, and therefore supported the December Change Request.

3 Submissions on Draft Recommendation

Gas Industry Co received seven submissions on the December Change Request Draft Recommendation.

Submissions were received from:

- Contact Energy Limited (Contact);
- Genesis Power Limited (Genesis);
- Greymouth Gas New Zealand Limited (Greymouth);
- Maui Development Limited (MDL);
- Mighty River Power Limited (MRP);
- Nova Energy Limited (Nova); and
- Vector Gas Limited; On Gas Limited; and Vector Gas Contracts Limited (Vector).

Appendix A is a summary of submissions.

For a copy of the submissions please refer to the 'MPOC Change Request 17 December 2009' work programme on Gas Industry Co's website www.gasindustry.co.nz.

In addition to formal submissions, Gas Industry Co received a letter from Dominion Salt Limited regarding the December Change Request. The company expressed concern that the changes would introduce additional costs, noting that:

> …it is possible that Maui Development Limited's proposed changes will result in a less flexible operating regime for gas suppliers, and this inflexibility will result in increased costs which will ultimately flow on to the end users of gas.

4 Final evaluation of balancing and non-balancing changes

4.1 Approach to final evaluation

We acknowledge submitters' concerns about the scoring methodology for assessing the various aspects of the December Change Request. Concerns included the use of scores and summing them without weighting them to reflect their relative importance. We agree the approach was simplistic, and we do not use scores in this final evaluation. Instead we have, as a result of our assessment, formed an overall qualitative view of the net benefits associated with the December Change Request and have described our qualitative judgements in words.

Submitters also generally considered we should use the same approach to evaluating the balancing and non-balancing aspects of the December Change Request. We agree, and both aspects are analysed in this section.

As noted in section 1.4, the final evaluation considers areas of potential mis-alignment between the Vector and MDL regimes and how this mismatch may affect the overall net benefit of the change request being implemented.

4.2 Efficiency

Productive efficiency

In the Draft Recommendation, we noted that under the proposed arrangements the cost and title of Balancing Gas is assigned to causers to a greater extent than under the current MPOC. However, the Balancing Operator must decide which gas is operational. This decision needs to be transparent to ensure costs go to causers.

We also noted the proposal seeks to recover from the Incentives Pool the cost of Call Balancing Gas unallocated to Welded Parties with an end-of-day Running Operational Imbalance (ROI). We were concerned the effect of operational gas could undermine costs going to causers.

Several submitters considered productive efficiency should be given a lower score because the balancing market is not open to parties connected to the Vector transmission system. However, we can assess the December Change Request only against the status quo, not against arrangements that might offer a better outcome. Nevertheless, we agree it would be beneficial to promote competition in the balancing gas market by allowing Vector-connected parties to offer a balancing service. Such a proposal would have improved our productive efficiency assessment.

Some submitters considered that the removal of tolerances would result in higher cost balancing. Our view is that:

> … tolerances can be efficient, and that a small tolerance can usefully avoid trivial balancing transactions. However, we acknowledge MDL's view, backed up by evidence provided by the MDL Commercial Operator during the ICD process, that current tolerances are too large and need to be reduced to avoid excessive socialisation of balancing costs. On balance, we favour a move towards small tolerances, or no tolerances, but believe this is most simply provided for in the codes.
>
> Transmission Pipeline Balancing - Analysis of Submissions on Statement of Proposal, and Decision December 2009, p31

We consider that balancing costs include the cost of individual users self-balancing, and the cost of the Balancing Operator taking balancing actions. From this global perspective we do not consider that the existence or size of any tolerance would affect the total cost, except that transaction costs may be somewhat higher in the absence of a small tolerance. We allowed for this in our earlier evaluation.

Some submitters consider that because the Incentives Pool transactions exclude transfer of title, productive efficiency would be affected. In the Draft Recommendation, we noted the lack of title transfer in the Incentives Pool may 'muddy the waters', and took account of this in our assessment.

We also note that, while there is no guarantee balancing gas will be purchased only to the extent necessary (because MDL retains its rights to amend the SOP), this is the same as the status quo.

The considerations that were not fully factored into our previous assessment of productive efficiency are:

- the introduction of an obligation to trend ROI towards zero 'at all times' may cause users to balance more than is efficient;
- MDL retaining its rights to amend the SOP may result in balancing thresholds being tighter than necessary causing more balancing activity and cost;
- the introduction of 'pay now, dispute later', may decrease the incentive on MDL to maximise the use of inherent Line Pack flexibility;

- the increase in user risks may incline users to self-balance rather than offer gas into the balancing market (through which balancing would occur at least cost); and
- the removal of the prohibition on profiting on balancing gas may allow Balancing Operator behaviour which will increase costs to users.

We consider our previous assessment might have been optimistic in assessing the extent to which productive efficiency would improve.

Allocative efficiency

In the Draft Recommendation we recognised that pay-as-bid clearing, and back–to-back average price cash-outs allow balancing decisions to be based on market prices. However, we considered marginal price clearing and cash-out would have brought further improvement.

We agree with submitters who suggested more detail on TSO operational balancing and a consistent definition of UFG between the MPOC and VTC is preferable. However, we are limited to considering the December Change Request as drafted and cannot add to it. In the Draft Recommendation we considered that the December Change Request goes some way to recognising that TSO imbalance should be accounted for and managed.

We agree with Contact that back-to-back balancing should involve the allocation of costs to users' running imbalance, and to MDL where it fails to correct running UFG. To the extent that imbalances were caused by UFG, the costs would then be socialised rather than being attributed to users who are in imbalance when UFG is unresolved.

We consider that, with appropriate trigger points for balancing action, the inherent line pack flexibility would be made available to the Balancing Operator and, because cost allocations are back-to-back, to all users. Tolerances distort that back-to-back cost allocation.

We consider that if users face the cost of imbalance on the margin, they will not over-invest in self-balancing. Instead, users will invest to the optimal level. Therefore we consider the removal of tolerances does not necessarily mean users will over-invest to keep line pack constant provided the linepack flexibility is available to the Balancing Operator.

Nevertheless, we do consider the current tolerances provide an incentive for MDL to provide a certain level of Line Pack flexibility to the Balancing Operator. The removal of tolerances without any corresponding controls on Line Pack thresholds could reduce the incentive for MDL to provide Line Pack flexibility, and may reduce efficiency.

We believe the arrangements could have been more efficient if marginal price clearing and cash-out were in place, and there was no possibility of cash-out through the Incentives Pool (possibly at an uncapped electricity spot price). However, we remain of the view that the December Change Request introduces significant improvements on current arrangements.

Several submitters agreed with the concern expressed in the Draft Recommendation that there was no longer an obligation on MDL to correct metering errors. Several submitters suggested material metering errors could be adjusted with an appropriate future cash-out, and this would improve allocative efficiency. This matter was factored into our overall assessment in the Draft Recommendation.

We agree with Vector that the December Change Request could potentially reduce efficiency because:

- retaining the Incentives Pool mechanism for residual cost recovery means cash-out prices will not always reflect cash-out costs; and
- the absence of linked nominations may result in misallocations of balancing costs in downstream pipelines. (Vector gives the example of a major user on its pipeline who is curtailed or suffering a force majeure event, and causes Maui Pipeline imbalance and associated balancing costs, but does not incur the balancing cost.)

We accept the second point is not within MDL's control, however it potentially reduces the effectiveness of the December Change Request. We only partly accounted for these influences when assessing the net benefits in allocative efficiency in the Draft Recommendation and have fully accounted for it in our final evaluation.

Another matter not considered in the Draft Recommendation was the mis-alignment between the MPOC and VTC that the change request would create. In respect of allocative efficiency we note that the VTC is currently drafted to recognise the MPOC ILON process. The proposed removal of that process will require a number of consequential changes to the VTC. We do not consider that these changes are likely to be major, but balancing costs may not pass fully through to causers until VTC changes are made. We can not say for certain that a change to the VTC will take place to ensure these costs are correctly passed on. We can, however, assess the likelihood of such a change being drafted by Vector or one of its shippers. As well as the likelihood of any such change being approved and accepted by Vector (under either the VTC change process or Gas Industry Co's appeal process).

Vector has already expressed concerns that it would be difficult to draft such a change. We accept that it may be difficult but we do not think it will be impossible. We also believe that any such change will need to be drafted by Vector. However, once the change is drafted we consider that it is highly unlikely that it will be passed under the VTC change request process. VTC shippers have no incentive to approve such a change, so Vector would have a great deal of difficulty gaining the majority support for the change. The change is likely to enter into the appeal process resulting in additional delay and uncertainty.

Because of this we find it difficult to say with any certainty that corresponding changes to the VTC will take place. This means that the efficiency benefits intended through the introduction of back-to-back balancing in the MPOC may be less than we originally believed them to be.

We have taken this into consideration in this final evaluation.

Security

In the Draft Recommendation we considered MDL retained responsibility for ensuring transport was secure when Line Pack lay between the balancing thresholds. It was also responsible for setting the Balancing Operator instructions to minimise the number of excursions beyond those thresholds.

The December Change Request introduces a requirement that Welded Parties manage ROI to zero 'at all times'. Vector believes this would result in curtailments and a breach of Vector's service obligation under the VTC, affecting the security of all its users. We accept a strict interpretation of the 'at all times' obligation could require Vector to manage flows to scheduled quantities, and that this would reduce supply security for its users.

In relation to non-balancing matters, Vector suggests the December Change Request makes the MPOC and VTC open access regimes incompatible. Vector considers it will bear the loss associated with any gas that is shipped to a Vector Welded Point that has a TSA which does not align with the amended terms of the MPOC. This could mean that Shippers may not request gas to be scheduled to the Transmission Pipeline (TP) Welded Points. We accept incompatibility between the open access regimes could threaten security.

These matters were only partially considered in the Draft Recommendation. We believe they introduce a potentially significant detriment. Indeed, if Vector's interpretation is correct, pipeline users would be seriously detrimentally affected by the December Change Request. This is a major concern to Gas Industry Co.

User risks

In the Draft Recommendation it was noted the December Change Request would result in cash-outs only on days when there is a balancing action, and possibly fewer cash-outs. However, the following factors led us to consider that user risks had increased:

- cash-outs occur without notice;
- cash-outs occur at average prices (limiting the ability for users to hedge);
- there is no certain price cap (although the Balancing Operator may use its discretion to determine when to buy balancing gas); and

- tolerances are removed.

Another potential risk we identified was the proposed introduction of Tariff 3. The new tariff to recover balancing costs shifts the responsibility for managing the volatility of managing those costs from MDL to users, however, no rationale was provided by MDL. We also thought the definition of the Tariff was too vague and could be improved by stating exactly what MDL would recover through it.

In its submission MDL noted that the billing process for the proposed Tariff 3 has been designed to eliminate any under or over-collection by matching the amount billed to users as closely to the actual expenditure. It considers it will also provide an indication as to whether or not the balancing system is working in terms of allocating balancing costs to causers. Gas Industry Co acknowledges this response but remain of the view that the tariff could be better defined.

In response to our concerns regarding price caps, MDL noted that price limits are unnecessary because it wants the discretion over any price tolerance at the time of the transaction. We consider this is, in effect, a price cap decided on the day with wide discretion. We continue to believe that the ability for one party to exercise too much discretion creates a risk for users. It would be preferable for this discretion to be transparent to all users at all times, based on objective criteria and consultation, so that users can assess and manage their risk.

We acknowledge a user can assess risk through OATIS[2] screens and the Balancing Gas Exchange (BGX) to some extent, and can therefore assess the likelihood of cash-out. However, our assessment in the Draft Recommendation was based on the loss of the ILON process, which gave formal advanced notice of potential cash-out.

We do not consider average pricing provides an effective hedge against an ad hoc high price, particularly without a pre-determined price cap. However, we note marginal pricing is not proposed in the December Change Request. Our assessment of the increased user risk is in the context of the removal of ILONs and tolerances, without corresponding price mitigation tools, rather than for the lack of marginal pricing per se.

Some matters we did not consider in the Draft Recommendation but account for in this final evaluation are:

- increased incompatibility between the MPOC and VTC may result in more disputes over the passing through of balancing costs; and
- changes in the status of Incentives Pool trustee, which have raised concerns among users. (We agree the Incentives Pool trustee and Balancing Operator rights and obligations under the MPOC, and the rights of MPOC parties to enforce and dispute these, should be clarified.)

[2] 'Open Access Transmission Information System'. The information system and internet site used to manage the day to day operations of open access on the Maui and Vector pipelines.

4.3 Cost

Agreement cost

In the Draft Recommendation, we considered the only uncommitted agreement cost arising from the December Change Request is the additional cost of consultation on SOPs under the proposed section 2.18.

MDL consider the score should be higher because Gas Industry Co prefers more extensive processes, which is likely to be more expensive. Vector considers the score should be lower because the proposed change only formalizes the current practice.

We remain of the view that the new SOP consultation requirements will introduce some new costs. We now consider that those costs will include changing the VTC, and related contracts to be compatible with the December Change Request.

Implementation cost

The Draft Recommendation noted the cost of implementation is likely to be dominated by OATIS changes associated with removing ILONS, changing intra-day nomination cycle priorities, and cash-out of ROI and Mismatch. Vector suggested there may be expensive changes to IT systems, the VTC, and non-code shipper agreements. MDL, however, does not anticipate any OATIS-related costs from the change to priority Authorized Quantity (AQ) nominations.

It is difficult to gauge the cost consequences of the December Change Request. Vector was not explicit about nature of its anticipated costs. Other submitters did not confirm the concerns we expressed in the Draft Recommendation that the change would require users to make business systems changes.

On balance we consider we may have overestimated the extent of OATIS changes required.

Operation cost

In the Draft Recommendation we considered the operating costs associated with the balancing market and cash-out processes will change, but to only a minor degree.

Vector considered the change could have significant operating costs depending on required IT, organizational, and procedural changes. Other submitters were silent on operating costs.

We think users will pay more attention to managing their balance positions, and the Balancing Operator will incur additional information disclosure and auditing costs. Overall, costs will increase slightly.

In relation to non-balancing related changes, Contact considered the removal of legacy provisions could have cost implications. The provisions should not be removed until those costs are understood. We have since spoke to Contact about this issue and understand the reasons behind the concern. We do not have a view on the merits of Contact's legal position but note its view that the change may commercially damage it. We were not provided with sufficient information to analyse the affect on costs.

4.4 Governance

Transparency and non-discrimination

In the Draft Recommendation we noted the December Change Request proposed significant improvements to transparency by proposing:

- new obligations to disclose information;
- additional audit information;
- consultation on SOPs; and
- greater clarity on the role of the Balancing Operator.
- We also noted that the recognition of the difference between operational gas and Balancing Gas as an improvement. But we were disappointed with the lack of transparency in how the Balancing Operator makes this separation in practice.

In relation to non-balancing related items, we noted the removal of references to legacy arrangements simplifies the MPOC.

Some submitters would like to see more certainty in the setting of SOPs. MRP considered a third party arbitrator, such as Gas Industry Co should be adopted for the SOP process. Contact considered the operation of the balancing market could benefit from additional detail. Vector notes MDL retains sole discretion over the SOPs and consultation does not guarantee efficient content. MDL disagrees it can unilaterally change its SOPs without accountability. MDL notes it is constrained by its obligations under the MPOC, including those related to pipeline pressure, flexibility for Peaking Limits and contingency volume, and RPO obligations.

We accept the proposed change could have been better in some areas, but consider that to be irrelevant to our evaluation against the status-quo.

Vector notes that much of the information the December Change Request seeks to publish is already available. Appendix D of the Draft Recommendation gave our analysis of what new information was being disclosed. We accept price stacks and real-time metering are currently available, but we consider the December Change Request does give greater certainty over the availability of information, and some of that information is presently unavailable.

Adaptability

In the Draft Recommendation, we noted the December Change Request process is largely left unchanged but that it does add provisions for transitional provisions. This is a slight improvement.

Greymouth considers transitional provisions have never been excluded and so the addition adds little value. We consider that making the transitional provisions explicit means users might be more inclined to include them in a change, but agree the change is slight.

Vector thought the score for adaptability should be lower because the change merely codifies the SOPs consultation process. To enhance the current practice, the process needs to change. We agree, but consider that uncertainty is reduced when matters are codified.

Overall, we consider the adaptability of the code does not change significantly.

Enforcement

In the Draft Recommendation we noted the December Change Request introduces a 'pay now, dispute later' regime. We noted the regime has little economic effect, but might alter incentives for Maui Pipeline users to manage disputes. The additional obligation to audit the Balancing Operator also provides some improvement.

Many submitters have concerns regarding the adoption of 'pay now, dispute later'. Contact and Genesis would like a defined settlement process to ensure disputes are resolved quickly and effectively. Vector suggests a lower score for enforcement because it considers the 'pay now, dispute later' regimes removes incentives for MDL and Vector shippers to resolve disputes.

MDL consider the 'pay now, dispute later' regime is consistent with the Industry Code Development process Memorandum of Understanding (ICD MOU). It notes effective balancing gas purchase agreements require reliable and effective payment provisions. MDL is currently owed a considerable sum under unpaid cash-out and Incentive Pool claims. MDL has no control of progress or resolution of the disputes Vector has with its customers.

We remain of the view that introducing 'pay now, dispute later' will provide a small net benefit.

Balance

We noted in the Draft Recommendation that balance seems to slightly favour MDL. The introduction of Tariff 3 appears to benefit MDL but increases risk to users. The deletion of Vector's preferential rights to transport gas may disadvantage it, even though Vector has not used this facility.

Vector suggests the proposed change materially alters the basis on which Vector entered its interconnection agreement (ICA) with MDL, which was negotiated as a package to ensure a balanced allocation of risk and cost. The December Change Request removes all key terms on which Vector relied when it signed its ICA. We consider that, while Vector negotiated the MPOC as part of a package, it also agreed to the change process. We must determine our recommendation based on the change process set before us.

Gas Industry Co acknowledges the December Change Request does alter provisions that have the effect of changing the balance of risk in MDL's favour. In particular:

- the introduction of 'pay now, dispute later', somewhat reduces MDL's financial exposure;
- the separation of the Incentives Pool Trustee from MDL raises user concerns about credit-worthiness and other matters. (see Contact submission);
- the removal of section12.1, which identified the sole consequences of imbalance, increasing user risks;
- the removal of the TP Welded Party balancing gas mechanism, unilaterally closing off an option for Vector to manage its own pipeline imbalance[3].

The removal of the ILON process and tolerances also change risk exposures, but not in favour of MDL. Rather it results in less socialisation of costs, so risks are shifted from users in general to causers of imbalance.

The removal of Vector's protection against gas being shipped with a compliant Transmission Services Agreement (TSA) and Gas Transfer Agreement (GTA), and the removal of MDL's obligation to confirm shippers have appropriate contracts in place before shipping to a TP Welded Point, might also be examples of MDL shifting the balance of risk. However, while the obligation on MDL is removed, Shippers are still prohibited from doing these things.

The removal of the legacy provisions is of concern to Contact. Although its submission does not elaborate on the reason for this we have since talked with Contact and understand the reasons for this. We do not have a view on the merits of Contact's legal position, but acknowledge that Contact believes that the removal of the legacy provisions commercially disadvantage it.

We recognize submitters feel strongly that MDL has shed risk onto users, without their agreement. We accept that we underestimated the extent of this in the Draft Recommendation.

[3] We note that this facility has not yet been used, but we understand that this is because Vector shippers did not wish Vector to independently balance. It does not follow that the facility may not be of value to Vector in the future.

Stability

In the Draft Recommendation we noted the proposed back-to-back balancing arrangements are not ideal. However, the arrangements are significantly more efficient than the status quo, and therefore likely to be more stable.

Vector suggests a lower score because the change does not achieve an optimal outcome and are likely to result in subsequent changes requests. Vector considers the December Change Request is likely to result in litigation and be replaced quickly.

Contact has given weight to Vector's opinion by providing a set of proposed changes it wishes to overlay on the December Change Request.

We conclude that we may have somewhat overestimated the improvement to stability. Nonetheless, we consider any improvement in regime design must provide some degree of improved stability, although (as acknowledged elsewhere), the extent of efficiency/stability improvements is impacted by the uncertainty around how fully the balancing changes will flow through (in terms of the VTC).

5 Overall evaluation

The table below sets out Gas Industry Co's final assessments of the marginal benefits of the December Change Request. It notes what factors it had not fully considered in the Draft Recommendation (that is, the factors that have caused it to reassess the marginal benefits). It includes balancing and non-balancing related items.

Table 2 Evaluation of December Change Request

Category	Criterion	Factors not fully considered in the Draft Recommendation	Final evaluation of the marginal benefit of December Change Request
Efficiency	Productive	We have tempered our previous assessment of productive efficiency improvement to recognise that we had not previously fully considered all the reasons the benefits of the change may not be realised. In particular: • the introduction of an obligation to trend ROI towards zero 'at all times'; • MDL retaining its rights to amend the SOP; • the introduction of 'pay now, dispute later'; • the increase in user risks; and • the removal of the prohibition on profiting on balancing gas.	Potentially moderate improvement
	Allocative	We have recognised allocative efficiency gains might not have been realised to the extent we estimated in the Draft Recommendation because: • the retention of the Incentives Pool mechanism for residual cost recovery means cash-out prices will not always reflect cash out costs; • the absence of linked nominations may result in misallocations of balancing costs in downstream pipelines; and • changes to the VTC are necessary to fully realise the efficiency benefits of back-to-back balancing.	Potentially significant improvement

Category	Criterion	Factors not fully considered in the Draft Recommendation	Final evaluation of the marginal benefit of December Change Request
	Security	We have changed our view on the significance of some factors. In particular we are concerned that: • the requirement that Welded Parties manage ROI to zero 'at all times' may result in curtailments and a breach of Vector's service obligation under the VTC, affecting the security of all its users; and • incompatibility between the MPOC and VTC open access regimes, which could mean Shippers may not request gas to be scheduled to the TP Welded Points (this was treated as a 'non-balancing related matter' in the Draft Recommendation).	Potentially significant detriment
	User risks	We have assessed user risks as somewhat higher than in the Draft Recommendation because we have further considered: • increased incompatibility between the MPOC and VTC may result in more disputes over the passing through of balancing costs; and • changes in the status of Incentives Pool trustee, which have raised concerns among users. (We agree the Incentives Pool trustee and Balancing Operator rights and obligations under the MPOC, and the rights of MPOC parties to enforce and dispute these, should be clarified.)	Moderate detriment
Cost	Agreement	We did not previously consider the costs of changing the VTC and related contracts to ensure compatibility with the December Change Request.	Minor detriment
	Implementation	We possibly overestimated the extent of OATIS changes required.	Minor detriment
	Operating	We do not consider the major increase in operating costs suggested by Vector is likely but users will pay more attention to managing their balance positions, and the Balancing Operator will incur additional information disclosure and auditing costs. Overall costs will increase slightly.	Minor detriment
Governance	Transparency and non-discrimination	Appendix D of the Draft Recommendation is substantially correct. Overall, the December Change Request gives greater certainty over available information.	Significant improvement
	Adaptability	We recognise no change to current practice is proposed.	No significant change
	Enforcement	The December Change Request introduces a 'pay now,	Minor benefit

Category	Criterion	Factors not fully considered in the Draft Recommendation	Final evaluation of the marginal benefit of December Change Request
		dispute later' regime that may slightly increase the pressure to resolve disputes.	
	Balance	We underestimated the shift of risk away from MDL, which most submitters considered to be significant. In particular we acknowledge that in the Draft Recommendation we underestimated the effect of : • the introduction of 'pay now, dispute later'; • the separation of the Incentives Pool Trustee from MDL; • the removal of section 12.1, which identified the sole consequences of imbalance; • the removal of Vector's protection against gas being shipped with a compliant TSA and GTA; • the removal of MDL's obligation to confirm shippers have appropriate contracts in place before shipping to a TP Welded Point; and • the removal of the TP Welded Party balancing gas mechanism.	Significant detriment
	Stability	The December Change Request improves several factors of regime design that may improve stability; however, it also incorporates some unreasonable provisions that may be unsustainable.	Minor benefit

6 Final overall evaluation

As predicted at the outset, the scope of the December Change Request has made it difficult for Gas Industry Co to unconditionally approve the whole package. Having considered submissions on the Draft Recommendation, we remain of the view that some aspects of the December Change Request have the potential to significantly improve balancing arrangements. However, we are also concerned that some aspects may cause significant problems.

Among the significant improvements is the introduction of:

- a form of back-to-back cost allocation that could provide productive and allocative efficiency improvements; and
- new obligations to disclose information, audit Balancing Gas transactions, consult on SOPs, and distinguish between operational and balancing gas, all of which improve transparency and non-discrimination.

Our concern mostly arises from changes to the balance of risk, particularly where the changes do not seem necessary to provide for the improvements proposed, and the misalignment of the MPOC and VTC that will arise.

In relation to changes to the balance of risk, there are a number of areas where risk has shifted from MDL to users. Some of these do not seem to be directly related to balancing improvements – for example the separation of the Incentives Pool Trustee from MDL, the removal of section 12.1, and the removal of Vector's protection against gas being shipped with a compliant TSA and GTA. While each change considered individually may be minor, the cumulative effect suggests that MDL is capitalising on the benefits provided by the change request to introduce a number of dis-benefits.

In relation to MPOC and VTC alignment, Vector considers misalignment would be considerable for the following reasons.

- The VTC as currently drafted may not allow for the pass-through of all MPOC balancing costs. The result would be that Vector would bear balancing costs, rather than the party responsible for them (the causer). Vector goes so far as to suggest the misalignment may reduce the extent of the current pass-through of costs.

- The inability to pass through costs means the VTC would not align with the requirements of the MPOC (in terms of the revised sections 2.14 and 2.15 and Schedule 9), which raises questions about the ability to deliver gas between the Maui and Vector systems.
- The requirement to move towards a zero imbalance at all times creates service issues for Vector under the VTC that may result in a reduction of service provided to customers and/or to pricing issues.

In assessing the significance of these issues we have considered the following.

- The process to change the VTC requires Vector or a VTC shipper to propose a change that is:
  - supported by Vector and at least 75% of the shippers who respond during the change request process; or
  - supported by Gas Industry Co, if Vector or a shipper uses the appeal process to invoke Gas Industry Co involvement.
- The VTC is due to expire on 30 September 2010. Vector indicated the terms of the VTC may be 'rolled over'. However, the form in which the VTC may continue beyond 30 September 2010 is uncertain.

Gas Industry Co considers the VTC could be changed to accommodate the December Change Request. The VTC change would probably not be extensive, but it could be significant, and it is uncertain how long it may take to put in place.

If the necessary VTC change was proposed but failed to reach the required level of support from Vector or its Shipper, an appeal could be lodged with Gas Industry Co. Gas Industry Co could then approve the proposed change under section 25.7 of the VTC. However, if the proposed change would cause Vector to incur a cost that it could not reasonably expect to recover, Vector is not obliged to make the change unless required to do so by regulation (section 25.8 of the VTC). MPOC amendments that Vector considers may fall into this category are those to remove section 12.1 (which limits the consequences of imbalance), and to amend section 12.9 (changing the obligation to manage operational imbalance from being 'over a reasonable time' to 'at all times').

With uncertain flow-on amendments to the VTC, Gas Industry Co is concerned that the potential benefits of the December Change Request may not be fully realised. Gas Industry Co considers that there are incentives for Vector to pursue a compatible set of changes to the VTC, but also recognises that the amendment process may prove complex and may not necessarily be supported by other parties. In addition, while Gas Industry Co might be inclined towards supporting a change to the VTC to align with a revised MPOC, this is not a foregone conclusion (especially in advance of seeing the detail of any proposed change). The timing of any outcome is also uncertain.

In summary, Gas Industry Co recognises that the December Change Request has the *potential* to result in an overall net benefit. However, the uncertainty as to whether those benefits will be achieved (in the absence of corresponding changes to the VTC) reduces the value of the December Change Request in the view of Gas Industry Co. Gas Industry Co's concerns are compounded by the complexity and broad nature of the changes proposed. While the assessment of the net benefit of the December Change Request is finely balanced, the overall conclusion is that the overall net benefit is not sufficiently certain for Gas Industry Co to support the December Change Request.

7 Final Recommendation

Gas Industry Co does not support the December Change Request.

8 Next steps

Further work on code changes

Gas Industry Co commends the efforts of MDL and submitters in considering how balancing arrangements can be improved. We hope that these efforts will not be wasted and encourages MDL to:

- work with pipeline users to revise the December Change Request and divide it into a set of more focused changes (at the least ensuring balancing related changes are not bundled with changes related to other matters);
- consult with Vector to agree a compatible set of changes in the MPOC and VTC; and
- submit new change requests to improve the balancing arrangements.

Considerations for future change requests

Two process issues arose in dealing with the current change request that we hope proposers of future change requests will bear in mind:

- it would be helpful if the proposer identifies the intended outcomes of the change request, and limits the content of the change request to that matter; and
- in situations where changes to one pipeline code can reasonably be expected to trigger changes in the other, Gas Industry Co considers that the proposer of the change should consult with the other pipeline owner before submitting the change request, and fully discuss any resulting issues in the change request.

Appendix A Summary of submissions

General comments

	Submission
Contact	Contact does not support the December Change Request. Although it supports some aspects, it strongly opposes others. It agrees Gas Industry Co can only indicate support or not. To avoid the need to accept unattractive aspects, MDL is encouraged to resubmit it as separate change requests with narrower scope. Gas Industry Co has attempted to evaluate the mix of matters by assigning a qualitative score and adding those scores. This is unsatisfactory because it is impossible to assign meaningful scores to unrelated aspects and unclear what the scores represent. Gas Industry Co says its approach is to weigh the various aspects but has avoided this. In addition it has not rated non-balancing issues. The assessment is inadequate and Gas Industry Co must separately assess each individual aspect and if any single aspect does not meet the objectives of the Gas Act or GPS then they should reject the December Change Request in its entirety. The proposed balancing rules seem to represent Gas Industry Co's view of ideal balancing, therefore it is surprising the assessment is not against the rules. The December Change Request is deficient in meeting the provisions of the rules in several areas. This inconsistency means that if the recommendation to impose the rules is accepted, further substantial changes to the MPOC will be required, creating risk and uncertainty. The MPOC and VTC should be changed and the first step should be to establish a design framework, based on best practice, taking into account existing arrangements and infrastructure and subject to thorough cost/benefit analysis. Contact has developed its own MPOC change requests and has included a copy, and proposal for processing the changes in its submission.
Genesis	Gas Industry Co should not support the December Change Request in its current form. The December Change Request has several material concerns (see comments in 'scope' table).
Greymouth	MDL is on the right track by tightening back-to-back balancing. But embedding inflexible tools for users to manage imbalance is wrong. Greymouth cannot understand how the Gas Industry Co can support the December Change Request given: • the evaluation is significantly and materially flawed, • Greymouth calculates a -1.1 affect using the same framework (rescored and adding a weighting); • there is no cost-benefit analysis and there are process concerns; and • it will increase costs for consumers. Given the serious process issues and material flaws in the analysis, Greymouth urges Gas Industry Co to reverse its support. Greymouth is disappointed Gas Industry Co appears to be taking a TSO-sided economic purist's view while disregarding fairness, reality and the affect on customers.

	Submission
	Greymouth has concerns how much balancing workstreams have cost to date. There is no score-card for non-balancing issues, which is wrong, or weighting between balancing and non-balancing. Gas Industry Co's concern that liability may reduce incentives for MDL to work with Vector should alone have necessitated a score-card analysis. The affect is negative (score -1).
MDL	MDL ultimately agrees with Gas Industry Co's recommendation to support the December Change Request.
MRP	Urges Gas Industry Co to decline the December Change Request. Concerns include: increased shipper risk, lack of detail on operational gas and potentially high implementation costs. These are serious flaws, especially because of lack of additional tools to manage the risks, particularly for Vector shippers. The December Change Request could result in inefficient outcomes and is contrary to section 43ZN of the Gas Act when considering the industry as a whole. Many of the changes proposed in the December Change Request have been debated within the ICD process and balancing rules discussions. MDL could have made significant improvements to the December Change Request and then MRP could have supported it. Disappointed MDL made only minor drafting changes after industry feedback. With the significant changes proposed in the December Change Request (and the proposed balancing rules) MRP would like to see a single comprehensive plan for the development of balancing arrangements. MDL has championed the incremental approach to MPOC changes but they have yet to share their overall development plan for the MPOC.
Nova	In general agree with Gas Industry Co's assessment that on balance the December Change Request represents a net improvement.
Vector	The December Change Request does not improve the status quo. It: • is piecemeal; • retains many of the current MPOC deficiencies; • seeks to improve MDL's position to the detriment of others; • increases participants risk whilst reducing their mitigation and tools; • likely reduce system security; • likely increase costs; • may reduce competition; • completely unbalanced in risk allocation; • fundamentally changes the basis on which Vector agreed its ICA; and • will introduce instability to industry arrangements. Gas Industry Co should not assume a change to the current environment, and must assess the December Change Request in the context of the current VTC and bi-lateral contracts. The draft recommendation appears to assume flow-on effects, in particular changes to the VTC and bi-lateral transmission contracts. The VTC is linked to the MPOC. If the December Change Request is implemented it is likely Vector shippers will argue that balancing costs cannot be passed on to them. Therefore Gas Industry Co needs to factor those costs being borne by Vector and/or being socialised. Vector is unable to unilaterally change non-VTC

	Submission
	transmission agreements or supplementary agreements to ensure that costs are passed through to causers. Evaluation of the non-balancing changes needs to be similar to that for the balancing changes, that is, against the Gas Act and GPS objectives. Gas Industry Co can only support the December Change Request if, in its entirety, it would result in an improvement on the status quo for the industry. Vector does not believe the facts demonstrate such improvement (Vector's assessment is summarised in the tables that follow).

Scope of December Change Request

	Submission
Contact	The MPOC was implemented following extensive negotiations. The December Change Request can lead to improvements that benefit all parties to the MPOC or improve the position of one party at the expense of another. The latter outcome creates unmanageable risks and potential barriers to competition. To avoid this Gas Industry Co must assess change to the same standards as regulatory intervention and reject change that benefits parties at the expense of others. Separate aspects of a change request should be separately assessed. This avoids aspects that alter risk, or are detrimental, slipping through under cover of higher-profile issues. The December Change Request creates high risk of introducing harmful changes because of is complexity, wide-ranging scope and disconnected parts. MDL appears to have included matters designed to make overall improvements and matters designed to shift risk away from MDL. Some matters are related to balancing and others are not. MDL is encouraged to resubmit the December Change Request as a series of subsidiary requests with narrower scope. Gas Industry Co should decline to support change requests that are wide in scope and include proposals that are not linked.
Genesis	The December Change Request will require further change requests to correct shortfalls and inconsistencies (see later tables). Approval would set a bad precedent to bundle negative and unrelated changes with beneficial changes. It would be more efficient for all parties if MDL resubmitted the December Change Request rather than require other parties to submit further change requests to deal with these problems. Changes are needed to the MPOC change process or Gas Industry Co's Memorandum of Understanding so that future change requests are restricted to single or closely related issues. This would enable more timely approval and prevent parties bundling negative and unrelated requests with beneficial change requests.
Greymouth	There are serious issues with the Memorandum of Understanding between Gas Industry Co and MDL given that a change contrary to the Gas Act can be approved because it is part of a package of changes with net benefit. The Memorandum of Understanding was originally intended for smaller changes, not re-writes of substantial sections. Greymouth calls on Gas Industry Co to cancel the Memorandum of Understanding immediately and rewrite it taking into account the following: • change requests should be limited to specific topics; • change requests can include good and bad changes, yet Gas Industry Co must approve all changes if there is a net benefit; • change requests should be smaller than the current one; • the Memorandum of Understanding is out of date; • the all-or-nothing approval framework should be debated by the industry before settling a policy; and • recognise that sometimes change requests are being considered when counter requests have been submitted, or signalled, at the same time.

	Submission
MRP	The December Change Request principles were agreed at the ICD, but these were part of a package. The ICD and Gas Industry Co proposals covered both the Maui and Vector pipelines and the December Change Request does nothing to advance coordination across pipelines. It could have included access to the BGX by Vector shippers, title transfer for the Incentives Pool and material corrections for cash-out. MRP considers their exclusion from the change request negates the positive aspects. MDL suggested shippers can submit a change request to allow Vector shippers to participate in the BGX but MRP question why MDL did not simply include this in the December Change Request. It is regrettable the December Change Request includes complex, interrelated balancing matters together with non-balancing issues. The net result is unsatisfactory with any benefits accruing only to MDL.
Nova	Nova is disappointed the December Change Request includes some unnecessary changes that do not contribute to improved balancing; rather they shift risk to another party. Bundling these with changes that create an overall improvement means changes are approved regardless of their merit. This is not supported by the industry. Changes should be made to the MPOC change process so Gas Industry Co may fully or partially approve rule change proposals. This would prevent negative elements of rule changes being bundled with more positive proposals.

Efficiency

Productive Efficiency

	Submission
Contact	Contact has concerns with several components of the regime that may affect productive efficiency. (see 'back-to-back' tables below).
Genesis	Removal of the ILON process and a move to back-to-back cash-out is likely to improve balancing. However the shortfalls and inconsistencies will require further change requests (see 'back-to-back' tables below).
Greymouth	The score card rating is wrong and should be -2 instead of +3, as follows: *Encourage participation and promote competition on balancing gas supply.* To encourage competition the balancing gas market must be opened to parties on the Vector pipeline. Because the December Change Request does not open up the balancing market the affect on promoting competition is neutral (score = 0). *Ensure balancing gas is purchased only when, and to the extent, necessary.* The buy/sell trigger points contain an element of judgement and balancing gas is purchased only when and to the extent necessary. The December Change Request has little affect on this (score = 0). *Allow for purchase of the cheapest source of available balancing gas.* Similar to the participation and competition comment, the December Change Request does not establish another market, therefore the effect is neutral (score =0). *Maximise use of inherent Line Pack flexibility.* The submission on tolerances is summarised under 'back-to-back' below. In summary, removing tolerances will minimise flexibility because users will over-invest to keep Line Pack constant. The affect is negative (score -5). *Balancing arrangements should result in gas being supplied at least cost.* That back-to-back cash-out better targets costs to causers is not at question; the issue is the operational flexibility of users (that is, tools and penalties). The affect is moderate because status quo reflects some degree of cost recovery and least cost supply. Further back-to-back cash-out is really about allocation and not productive efficiency. The affect is positive (score +3).
MDL	MDL agrees with the overall conclusions but makes further comments (covered in the back-to-back section below). It considers the current procedure for separating TSO imbalance is fair and represents a reasonable compromise.
MRP	Vector is concerned the changes to section 12.7 to manage ROI at all times will require them to operate sub-optimally and incur additional costs (see additional comments in the 'security' table). MRP does not have a view on the validity of this concern but urges Gas Industry Co to resolve this before making a final recommendation. The change request will have inefficient outcomes (as shown by Gas Industry Co's back-to-back examples in its appendix C).
Nova	Nova agrees with the comments and assessment by the Gas Industry Co (see additional comments in the 'Incentives Pool' table).

	Submission
Vector	The score should be -0.5 instead of +3, as follows: The December Change Request does not promote competition in the balancing market. The balancing market excludes parties connected to the Vector system, which limits competition and leads to higher costs. The December Change Request does not correct this deficiency. The December Change Request does not ensure balancing gas is purchased only to the extent necessary. MDL retains sole discretion over the criteria for purchasing or selling balancing gas whether or not it is efficient. The Incentives Pool does not include transfer of title potentially affecting productive efficiency. There is no provision for operational gas. (see additional comments in the 'back-to-back' tables). The December Change Request removes the incentive for the maximum use of inherent Line Pack flexibility. MDL's SOPs were amended purportedly to increase Line Pack utilisation. The number of balancing transactions have reduced, but with a decline in system security. MDL retains sole discretion over SOPs. If the December Change Request is implemented with full cost recovery, such as 'pay now, dispute later', MDL's incentive to reduce balancing transactions is removed. Hence there is no guarantee that utilisation of inherent Line Pack will continue.

Allocative Efficiency

	Submission
Contact	Comments are covered below under 'back-to-back'.
Greymouth	The score should be 0 instead of +3, as follows: *User marginal price equals marginal cost of the service.* The December Change Request improves outcomes under this criterion because back-to-back cash-out seeks to pass on actual costs, not historical costs. However Gas Industry Co's draft recommendation puts too much weight on this because cash-out costs are now based on market prices. The affect might be +2. *Balancing operator marginal price equals marginal value to supplier.* The score is neutral because the price reflects a market and the market doesn't change. *Common price for all equivalent gas.* The score is neutral because the BGX is not opened up to Vector shippers. *Users have the choice of self balancing or using residual balancing services.* Users have the same choice and the affect is neutral. *Arrangements provide the right amount of services to the right users.* Gas Industry Co has ignored encouraging users to self balance because the removal of tolerances is inefficient and worse than status quo (score -1).
MDL	Comments are covered in 'back-to-back' tables.
MRP	Comments are covered in 'back-to-back' table.
Nova	Nova agrees with the comments regarding allocative efficiency. Additional comments are covered in the 'back-to-back' tables.

	Submission
Vector	The score should be -2 instead of +3, as follows: The December Change Request improves match between the marginal price of balancing gas and marginal value, but does not provide a common price for all balancing actions. Current ILON processes mean no direct alignment between costs to the operator and users. MDL has been over-recovering. Moving to a cash-out price to accurately reflect costs should provide an allocative efficiency benefit. However the relationship between price and costs is not as good as it needs to be, and can be. The current regime and December Change Request provide two prices, through the cash-out and the Incentives Pool (unrelated to cost). The December Change Request does not ensure causers bear the cost of balancing. The introduction of back-to-back cash-out without linked nominations and associated rights is detrimental to allocative efficiency. For example, a user could cause a balancing action during a day, but correct its position by the end of the day and therefore incur no costs. Under the December Change Request the causer would still avoid costs but other parties would be cashed out and potentially face Incentive Pool charges. Back-to-back cash-out with linked nominations not only maintains allocative efficiency, but also improves productive efficiency. Removing the obligation to correct for errors is detrimental to allocative efficiency. The December Change Request lessens users' ability to self balance. Currently users have tools such as ILONs, tolerances and combined tolerances to aid them to self balance. Also, section 12 requires operational imbalance to be managed over a reasonable period of time. By contrast the December Change Request requires operational imbalance to be managed at all times. With the removal of key tools, this will favour larger parties with hourly metering and will not improve allocative efficiency. Currently shippers receive a notice and have an opportunity to repay mismatch gas. But under the December Change Request, shippers may find it impossible to rectify the issue at a cost less than the resulting balancing transaction. (See comments regarding curtailment in 'mismatch' table).

Other efficiency

	Submission
Nova	Gas Industry Co excluded dynamic efficiency from the assessment. Nova believes that this rule change is an important step for the industry to take in avoiding the imposition of a regulated solution, which would reduce dynamic efficiency in the long-term. Contractual arrangements will be able to be modified over time at a lower cost and in a more timely manner than under a regulatory framework. Dynamic efficiency should be recognised in the assessment of the change request and we would score the change request as having a +2 affect in this regard.

Security

	Submission
Nova	The security score should be +1 rather than 0. Nova believes the reduction in socialisation of balancing costs will improve incentives to manage imbalance. An indirect outcome will be improved security of supply.
Vector	The security score should be -3 instead of 0, as follows: The December Change Request requires management of Running Operational Imbalance 'at all times' rather than the current reasonable period of time. To do this Vector would need to ensure only the scheduled quantity was taken, resulting in curtailments and a breach of Vector's service obligation under the VTC. This would have a detrimental effect on energy system security. The December Change Request would mean that; (i) Vectors TSAs are no longer compliant with the principles in Schedule 9 and section 2.14 of the MPOC, and (ii) if gas is shipped to a Vector welded point without a compliant TSA, Vector bears any associated loss. This situation is profound and puts the transport of any gas to the TP Welded Points at risk. Shippers cannot ask for gas to be transported without a compliant TSA. The December Change Request provides no long-term assurances that SOPs will minimise the number of times the Line Pack is outside thresholds. (See comments on SOP discretion). MDL discretion does nothing to improve security efficiency.

User Risk

	Submission
Contact	Contact does not support the change to section 12.9, amending the obligation from managing operational imbalance over a reasonable time to at all times. Welded parties do not have the necessary information to do this. The obligation does not make sense. The change creates an unmanageable risk.
MDL	Upper and lower price limits are necessary if the Balancing Operator must buy or sell whenever Line Pack thresholds are exceeded. Otherwise users might be exposed to very high costs. There are circumstances when Line Pack is outside thresholds and balancing gas serves little purpose. For example, situations when it is known Line Pack will return within thresholds without intervention; or where a large portion of supply has been lost and balancing gas will provide no significant amelioration. Dealing with these circumstances is best left to the judgement of the operators. Balancing actions are published and more extreme cases analysed in Incident Reports for all users to see. With the ability to exercise discretion MDL has considered it unnecessary to publish upper and lower price limits. Instead it evaluates the benefits of a balancing action at the time. The utility of hedging on the BGX can be overstated. The BGX is a physical market and in practical terms open only to parties who can supply on its terms. This means smaller users without access to gas supplies or the ability to finely tune their own gas off-take

	Submission
	cannot use the BGX to hedge. Larger users who can offer balancing gas may not obtain a perfect hedge under weighted average pricing, however the preference of these users has been for the more favourable balancing charges resulting from weighted average pricing rather than the more perfect hedge.
MRP	MRP notes Gas Industry Co's assessment that user risks will increase and there is potential for implementation costs. MRP therefore consider the most likely outcome is that retailers will increase customer charges.
Nova	Nova disagrees with the assessment on user risks. It notes users are currently exposed to costs even where no balancing gas has been bought or sold and the Incentives Pool debits are linked to uncapped electricity prices. It considers the December Change Request reduces this risk. The reduction in cross subsidies will improve incentives to manage imbalance and participate in the balancing market. The likely result is reduced balancing price volatility and volumes. Nova disagrees with the concern of uncapped prices. Users are exposed to uncapped Incentive Pool prices and caps may reduce the incentive to make capacity available. The risk of curtailment is potentially increased as a result. Nova prefers marginal pricing of balancing gas but sees difficulties because of daily allocation where there is procurement several times in a day. It considers average and marginal pricing to be similar because providers adjust pricing behaviour. Nova disagrees average pricing reduces the ability to effectively hedge price risk. Nova considers 'no notice cash-out' a misnomer. Participants have access to information real time and can assess the risk and exposure of charges. It considers mass market retailers can manage risk through improved forecasting, improved metering, additional gas supply, and participation in the balancing market. They consider it is efficient that users should bear the consequences of their actions.
Vector	The user risk score should be -3 instead of -1, as follows: The December Change Request lessens user's ability to self balance. As noted under 'allocative efficiency' the December Change Request removes users' tools to self balance, for example it removes the ILON mechanism, tolerances and combined tolerances. As well as not providing allocative efficiency benefit, this also increases user risk. The December Change Request restricts the number of participants in the balancing market. When user risks increase, tools to mitigate risk become increasingly important. As noted under 'productive efficiency' the December Change Request allows only parties connected to the Maui Pipeline to participate in the balancing market. As well as being detrimental to competition, this prevents users entering the market to mitigate the affect of balancing costs and has an adverse affect on user risk. The December Change Request is potentially damaging to smaller market participants. It retains MDL's right to determine SOPs and therefore the circumstances in which a balancing action will be taken. But the December Change Request does not cap the price. The result could be a very large transaction detrimental to an individual shipper. This risk is uncapped, so it may inhibit new entrants into the market. User risk is increased. The December Change Request does not change the provision of information (for example, through nominations and virtual welded points). Therefore it has not effect on user risk.

	Submission
	The December Change Request increases costs to Vector. As noted above, the VTC is linked to the current MPOC and the December Change Request may mean costs are not passed to causers but borne by Vector and/or socialised. This is a significant user risk.

Costs

	Submission
Greymouth	The cost analysis considers only the Balancing Operator's perspective. Users will have to operate under an inflexible framework and invest more (from reduced tolerances, peaking, and lack of ILON). The affect is negative (score -2).
MDL	MDL disagrees with the score of -1 for agreement costs. Given the costs relate to SOPs and Gas Industry Co prefers a more extensive process, it is difficult to see how Gas Industry Co's approach would be cheaper. MDL does not anticipate any OATIS related costs from the change to priority of AQ nominations because there will be no nominations outside nominations cycles. The -2 allocated is not justified because the costs are minimal.
MRP	MRP notes the potential for OATIS costs and would like assurance the changes match those required under Gas Industry Co proposed balancing rules. It is unacceptable if development costs are incurred twice.
Nova	Any costs associated with the introduction of AQ should be borne by AQ users. MDL should pause to consider the appropriateness of the AQ regime.
Vector	The agreement costs score should be 0 rather than -1. The December Change Request has little effect, specifically the consultation on SOPs only formalises current practice. The implementation costs score should be -3 rather than -2. IT and process costs could be significant. It is reasonable to assume a good number of VTC changes. Necessary non-code shipper amendments would be extremely expensive. Organisational and procedural changes could also be significant. NZIER modelled the costs of a code-based solution $1.8m and a good portion of that cost could be applicable under the December Change Request. The operating costs score is correct at 0.

Governance

	Submission
Contact	Contact supports the direction of the new section's 3 and 2.18. However Contact does not support the proposal because it has several shortcomings and may have limited effect. Limitations include a lack of; • recognition of SOPs; • specification of the consultation process; • description of matters to cover by SOPs; • description of the circumstances around undertaking balancing actions; and

	Submission
	• description of the circumstances around undertaking curtailment. The provisions relating to operation of the balancing market are not detrimental but lack detail. It is also unclear whether there is an obligation to consult, because the arrangements do not seem to be covered under the proposed section 2.18. The extremely narrow scope of application of section 2.18 and lack of prescribed consultation process makes it largely ineffective. That means MDL could change the way the principles are implemented at any time. MDL already has many of the obligations under the current MPOC. It is required to act as a RPO, publish any instructions to operators, and publish relevant operator's procedures for implementing MDL instructions. The December Change Request requires MDL to update information exchange to ensure it includes all required information. The frequency of posting of such information should be stated.
Greymouth	While the December Change Request formalises such matters as consultation on SOPs, audit and information disclosure, Greymouth considers MDL generally co-operates. From a transparency perspective therefore, nothing much will change. Accordingly the +3 score for Operator Instructions is ambitious and should be +1. Greymouth considers transition provisions have never been excluded from change requests, therefore this addition to the MPOC add little value. The commitment to consult is a positive addition although MDL does this at present. However, removing tolerances is negative because the change embeds inflexibility. A more flexible approach would be to leave the concept of tolerance in the MPOC but reduce the tolerance values to zero. For stability, the positive Gas Industry Co point should cancel out the negative point resulting in neutral affect. The majority of submissions did not support the December Change Request therefore the chances of counter change requests is high, eroding stability. The affect should be -1.
MDL	MDL notes the disagreement over SOPs relates to the perception MDL can unilaterally change SOPs without accountability. Some of the arguments use hypothetical claims that excessive costs could be incurred. There are matters for which MDL accepts responsibility in the MPOC. It must therefore have the discretion to alter SOPs at short notice to respond to operational and safety requirements. MDL's MPOC obligations limit its discretion on, for example, pipeline pressure, flexibility for Peaking Limits and contingency volume, and RPO obligations. MDL must act in accordance with good gas transmission operating practice. MDL also seeks to act consistently with the Gas Act and GPS to reduce balancing costs. This does not leave room to adjust SOPs in a way inimical to industry. The balancing SOPs set out the actions the System Operator should take in relation to balancing and the degree of discretion, consistent with MDL obligations under the MPOC, and are publically available on the internet. MDL's comments on enforcement are included in the 'pay now, dispute later' table.
MRP	MRP notes the December Change Request introduces a requirement to consult on SOPs. They consider that without a third party arbitrator such as the Gas Industry Co, MDL could implement changes to the MPOC through their SOP process and bypass the MPOC change request consultation process.
Nova	See comments in the 'back-to-back' table.
Vector	The score for transparency and non discrimination should be 0 instead of +3.

	Submission
	The December Change Request codifies information already provided on the BGX. MDL retains sole discretion over the SOPs, which set the criteria for when balancing gas will be purchased and to what extent. The principles do not cover this. Consultation does not guarantee influence or provide assurance the content will be efficient. Users are unable to request changes and it is possible SOPs could favour some parties. The December Change Request does not provide transparency of the separation between operational and balancing gas. Neither the status quo nor December Change Request deal with imbalance associated with operational gas. The score for adaptability should be 0 instead of +1. MDL already consults on SOPs so the December Change Request merely codifies, but does not enhance, current practice. To improve adaptability a change process would be needed. The score for enforcement should be -2 instead of +1. The change from Vector's 'pay when paid' to 'pay now, dispute later' removes MDL and Vector shippers' incentives to resolve disputes, which is fundamental. The score for balance should be -4 instead of -1. It materially alters the basis on which Vector entered its ICA. The ICA was negotiated as a package to ensure a balanced allocation of risk and cost. Vector executed its ICA only after the MPOC included a set of key terms relating to financial exposure (pay when paid, full recovery of costs), mitigation of risk (ILONs, balancing provisions), tolerances (including combined tolerances), and negotiated allocation of liability (including indemnities). Open access on OBA terms would not have been possible without Vector's agreement. The December Change Request removes all key terms on which Vector relied when it signed the ICA. It leads to a skewed risk allocation and is unbalanced (also see comments on section 2.15). The score for stability should be -2 instead of +2. The December Change Request does not achieve an optimal outcome and counter December Change Requests are likely. Changes are costly and should absolutely improve the status quo and not be piecemeal. The December Change Request would likely result in litigation and be replaced quickly.

Back-to-Back balancing allocation

General

	Submission
Contact	All balancing costs should be allocated consistently to ensure welded parties, MDL and the Balancing Operator manage balancing in a co-ordinated manner. This includes gas bought and sold to manage Line Pack, curtailment, and self balancing. The December Change Request allows for the recovery of balancing costs against running imbalance, daily imbalance and rolling average three-hourly imbalance. Different treatments apply between the Balancing Operator and welded parties, and between the treatment of over injection and under take. This mix of allocations creates incomplete, confusing hotchpotch and conflicting mechanisms for recovering balancing costs. It is incorrect and misleading to characterise the December Change Request as back-to-back balancing. Back-to-back balancing means allocation of costs to causers, that is, the welded parties' running imbalance, and MDL where it fails to correct running UFG. It requires

	Submission
	allocation in the same time basis to fully capture the cause of imbalance. If the daily basis is too crude then the hourly allocation should be considered after a cost/benefit analysis. A consistent approach could be simply implemented by: • allocation of cash-out on the basis of running imbalance; • allocation of welded parties costs from curtailment via the Incentives Pool determined from running imbalance; and • removal of welded parties incurring incentive pool debits from peaking. Contact supports removal of the ILON provisions. The legacy assumptions behind the ILON process are now invalid. Also the ILON process allows MDL to cash out positive and negative imbalance at the same time rather than being limited to net imbalance, which is inefficient and unnecessary. Trading imbalance at shared TP welded points has proved largely ineffective. Allocation of imbalance at TP welded points would make trade of imbalance more sensible.
Vector	The introduction of back-to-back cash-out without linked nominations and associated rights is detrimental. See comments in 'allocative efficiency' table.

Incentives pool

	Submission
Contact	The proposal is to pro-rate an Incentives Pool claim where the claims on a day exceeds debits. Coupled with changes to section 14.5 the welded party may receive only partial compensation for lost gas. This is unacceptable. An issue is whether welded parties should have a residual claim against MDL. Contact does not agree the issue is covered by the Critical Contingency Regulations. It is fundamental that a party receiving a service should be able to claim damages if the provider fails to deliver the service. Contact agrees the ability to claim against the Incentive Pool for a decline in Line Pack is illogical. It agrees that inability to pass title creates confusion, but considers that providing for title to pass would not fix the underlying confusion. If Incentive Pool debits were determined from negative ROI then the confusion would be avoided And then there would be no point in the Balancing Operator making a claim against the Incentive Pool because that would duplicate the cash-out mechanism.
Genesis	Title should be transferred through the Incentives Pool, to align with back-to-back cash-out and ensure balancing transactions do not in themselves recreate imbalance.
MDL	The Incentives Pool is designed to collect charges limited to days on which a call balancing gas transaction has occurred and there is insufficient negative running operational imbalance at the end of the day. The mechanism is retained to cover the possibility of not recovering costs under the back-to-back cash-out, and to keep changes simple and incremental. MDL is open to replacing the mechanism with a double-sided provision dealing with peaking and transfer of title.
MRP	The lack of title transfer in the Incentives Pool has been a long standing issue and MRP questions the retention of the Incentives Pool. However, if the Incentives Pool is retained, title should flow with the payment for balancing gas.

	Submission
Nova	The mechanism allocating of residual balancing costs through Incentives Pool debits could be improved by transferring title to the gas associated with balancing costs.
Vector	The MPOC retains mechanisms to recover balancing costs without transfer of title. Costs are recovered by the Balancing Operator with the associated imbalance remaining, leading to an increased likelihood of further balancing action and separation between cause and cost (worked example given).

Separation of TSO imbalance

	Submission
Contact	Contact does not support the treatment of UFG and fuel gas in the December Change Request. The new definition of UFG leaves the calculation entirely to MDL's discretion, which seems inappropriate. Also failure to consider UFG may require balancing action and incur costs. The allocation mechanism for those costs should be set out clearly in the MPOC. UFG should be defined as in the VTC and calculated on a daily basis. The use of the notional payback point for management of UFG means the actual flow of gas cannot be measured, there can be no imbalance and MDL could not be allocated any balancing costs at that point. Under the current MPOC and December Change Request MDL will not be allocated the cost of balancing resulting from, for example, its failure to address UFG or its use of compressor fuel. This is inappropriate. It is inconsistent with the causer pays principle and creates unmanageable risk for welded parties. A separate notional welded point should be defined for UFG. The deemed gas flow could be defined as the UFG at the end of the previous day. In addition fuel gas should be scheduled and measured at the physical welded point and treated in the same way as other physical welded points.
Genesis	Genesis suggests defining TSO imbalance and including it in balancing gas allocations to ensure MDL takes responsibility for its own imbalance.
MDL	MDL considers the potential for confusion between balancing gas purchased for correcting user imbalance and TSO imbalance is overstated. Under the balancing SOPs the two types of transactions are handled separately, and financial information posted on the BGX distinguishes between them. The operation is clear and transparent and will become an MPOC requirement once the December Change Request is implemented. TSO imbalance is calculated on a daily basis and adjustments are made by reference to a band of 5 TJ either side of target Line Pack. Compressor fuel is nominated and handled separately from TSO imbalance. TSO imbalance currently includes UFG and is affected by cash-outs following ILONs. However this distortion will be avoided with the introduction of back-to-back balancing.
MRP	How the Balancing Operator deals with operational gas and UFG lacks detail. It is likely MDL will seek to reassure Gas Industry Co and shippers an SOP will cover this detail. MRP wonders if the solution is a more formal Balancing Plan as envisaged by the Gas Industry Co in its proposed balancing rules.

	Submission
Nova	Nova agrees that some additional transparency on balancing gas used for UFG and compressor fuel requirements would be useful. It is hoped this rule change will be followed by further refinements covering issues of delineation between UFG and compressor fuel management and operational imbalance management.
Vector	The December Change Request has no provision for treatment of operational gas, such as UFG. Therefore, on some days this imbalance could involve recovery from the Incentives Pool.

Correction of errors

	Submission
Contact	The current MPOC allows corrections, which changes welded parities running imbalance positions. But that creates unnecessary risk and frustrates management of imbalance. The December Change Request would prevent any corrections. It does not indicate whether future running imbalance would or would not include provision for historic corrections. This creates uncertainty and is inadequate. MDL should explicitly provide for historic corrections in future running imbalance positions but only after forewarning, with an upper limit per day to avoid shocks.
MDL	Making retrospective adjustments is problematic and should be avoided as much as possible. Difficulties include recalculating running operational imbalance and balancing allocation from the error forward including each subsequent balancing action. It is likely to affect all balancing actions after the initial adjustment. A cash-out type adjustment would have to be scheduled after appropriate notice. This adjustment would affect running operational imbalances, title tracking and issue of invoices and credit notices. It would create further difficulties at TP welded points because charges have to be reallocated among users at those points. The owners of meters are responsible for maintaining accuracy. Adjustments have been the source of disputes. It is important users are able to determine their positions. If charges are levied they must be determined from the information available to users at the time.
MRP	MRP questions why corrections for material errors in allocations cannot be made. This is particularly frustrating given the industry generally agreed on financial wash-ups without title transfer.
Nova	The treatment of metering corrections needs further investigation.

Mismatch

	Submission
Contact	The current mismatch provisions aim to increase transmission flexibility. The December Change Request would remove the mismatch provision but render the provision valueless, and in the extreme trap shippers. For clarity, the mismatch provisions should be removed. However, removing them also removes a tool to help manage changes to Line Pack. The shipper mismatch proposals may therefore require further consideration.
Genesis	Genesis suggests removing shipper mismatch because the automatic cash-out is contrary to the back-to-back principle.

	Submission
MDL	The criteria for putting shippers into mismatch are set out in the curtailment SOPs posted on OATIS. Mismatch cash-out must be changed to the end of the day to be consistent with back-to-back mechanism in section 12. MDL has not carried out detailed investigation into removing the mismatch provisions entirely but is open to discussing options. The release of contingency volume because mismatch occurs infrequently and not in the past two years. The concerns about MDL determination of mismatch prices are misplaced. MDL is required to set mismatch prices that reflect the costs of access and disposing of gas (section 11.7).
Nova	The mismatch mechanism could be removed. For all intents and purposes it is defunct and has never been used as initially intended. MDL once employed forced mismatch which resulted in several disputes that were later settled. It is unlikely that forced mismatch will be used in that way again.
Vector	If a curtailment occurs, MDL has discretion to place its shippers into mismatch. Currently shippers receive a notice and have an opportunity to repay the gas. Under the December Change Request shippers could be put in mismatch and receive notification only the following day, making it impossible to rectify the issue at a cost less than the resulting balancing transaction.

Tolerances

	Submission
Contact	The provision of tolerances and triggers for the Balancing Operator to take balancing action must be co-ordinated to avoid socialisation of balancing costs. Contact supports the eventual removal of tolerances but only if introduced at the same time as transparent Line Pack limits describing the circumstances in which MDL takes a balancing action. These limits should be set to fully exploit Line Pack. However MDL goes too far in proposing to remove all tolerance in a single step when it is not well linked to a description of the circumstances in which MDL will undertake balancing action.
Genesis	Genesis suggests retaining welded point tolerance to reduce volatility in Line Pack as users manage their cash-out risk.
Greymouth	MDL appears to want Line Pack steady, hence tolerances have been removed. It appears MDL is trying to reduce its own need to buy/sell UFG gas; and reduce its risks while imposing costs on others under the guise of improving balancing. Removing tolerances will minimise flexibility because users will over-invest to keep Line Pack constant. Keeping Line Pack constant is not realistic. The fundamental tenet is that users should have some flexibility to take account of customers' normal uncontrollable swings. The difference between tolerances is the use of Line Pack flexibility. Currently all welded parties could be within tolerance yet Line Pack can be outside limits, which socialises costs. Under the December Change Request Line Pack flexibility will be absolutely minimised which is also productively inefficient. The obvious simple solution is to reduce tolerances so that their sum is within the Line Pack limits. Users can then use the inherent flexibility.

Peaking

	Submission
Contact	Rolling three-hour imbalance does not create a need for balancing action. Such imbalance can contribute to balancing only when it is in the same direction as the welded parties' running operational imbalance. The peaking mechanism lacks any logical foundation and creates conflicting drivers. The peaking provisions relating to balancing costs should be removed. If unrecovered balancing costs are still significant then use of running operational imbalance each intra-day nomination cycle or at hourly intervals should be evaluated. There appears merit in retaining peaking arrangements to the extent they permit profiled nominations. This would be important if balancing costs were allocated on hourly running imbalance. The better approach would be to require hourly nominations.

Removal of TP Welded Party balancing gas

	Submission
Contact	The value of the TP welded party balancing provisions, and their relevance to balancing arrangements as the MPOC and VTC evolve, requires further evaluation before they are removed. Contact agrees that deleting TP welded party balancing provisions removes flexibility and increases costs to Vector shippers. While Vector did not exercise these provisions, the removal of the ILON provisions make it more attractive, as would remote welded points. Vector could potentially arrange for balancing through a similar arrangement to the BGX, creating a market where balancing services could be offered by MPOC welded parties and VTC shippers. Deletion of 9.10 should ensure that at the end of the day the TP welded party retains relief only to the extent it is in balance. Therefore the retrospective nature of these nominations does not raise the same concern as the legacy arrangements.
MDL	Removing TP Welded Party balancing gas mechanism will not close off an option for Vector to manage its own pipeline imbalance. While it removes post intra-day nominations for balancing gas, Vector can still use the standard intra-day facility for balancing. Vector has never used the post intra-day balancing gas facility. Also, retrospective adjustment interferes with the efficient operation of the regime. Therefore, the benefits far outweigh the costs. MDL believes there are solutions available to facilitate Vector access to balancing gas without using the problematic and inefficient retrospective mechanism.

Tariff 3

	Submission
Contact	Contact supports the proposal for Tariff 3 because publishing socialised costs should improve the determination of any benefit of further improved balancing arrangements. It would be preferable to allocate Tariff 3 to welded parties rather than shippers, because they are responsible for balancing. Tariff 3 should be insignificant.
Genesis	The process for setting and allocating Tariff 3 conflicts with section 19.9.
MDL	Budgeting for balancing costs is more complex than set out in the draft recommendation. Under the current arrangement the budgeting must allow for the worst case outcomes, leading to over collection. The proposed Tariff 3 is designed to eliminate any under- or over-collection by matching actual expenditure as closely as possible. It is also a useful gauge as to whether the system is allocating balancing costs to causers.

Balancing Operator role and responsibility

Submissions on the Balancing Operator role and responsibility are covered in the table on governance.

Submissions on operation of the Balancing Gas Market

Submissions on the operation of the balancing market are covered in other tables.

Submissions on operator instructions

Submissions on the operator instructions are covered in the table on governance.

'Pay now, dispute later'

	Submission
Contact	Contact does not support the proposal. Without a binding dispute resolution process it does nothing to ensure that disputes are quickly and effectively resolved. The key issue is that once part of an invoice is disputed there is no agreed, low-cost effective means of resolving the dispute. A party can hold out for determination by the courts, which inhibits resolution. The MPOC needs to contain a binding low cost effective dispute resolution process. It may be necessary to limit this to technical and well defined disputes so more complex disputes involving issues of law can be determined by the courts. The dispute resolution must be supported by the obligation to pay interest. It is unclear why MDL does not take action to recover disputed invoices under the current arrangements. The welded parties and shippers are in a weaker position than MDL in attempting to resolve disputes because of imbalance in information.
Genesis	This is the key concern with the non-balancing functions of the December Change Request. Genesis' experience is that unless there are strictly enforced timeframes for the dispute resolution process it can be difficult to engage the other party. This was discussed in the ICD process. Genesis is disappointed the changes to the dispute process have not accompanied the change in payment. They are not concerned with 'pay now, dispute later' *per se*, just with the lack of timeframes and defined process for settlement.
Greymouth	The concept hardly constitutes a +1. If anything should be neutral because parties are not going to pay and cause a dispute anyway.
MDL	These provisions are consistent with the ICD MOU. Effective balancing gas purchase agreements require reliable and effective payment provisions. This principle has to apply to payments due to MDL because it cannot be expected to fund balancing where payment has been held up because of dispute. Balancing payment disputes take a long time to resolve and where payment can be held-up there is little incentive to reach a settlement. MDL is currently owed a considerable sum under unpaid cash-out and Incentive Pool claims. In particular Vector claim it is not required to pay until it receives payment from its customers. MDL has no control of progress and resolution of related disputes.

	Submission
	Orderly and rapid processes for resolution of disputes are needed. MDL is prepared to support measures to ensure effective and rapid settlement of disputes.
MRP	MRP fail to see any real benefits from a 'pay now, dispute later' arrangement. Given the intention appears to be to speed up resolution of disputes, it thinks developing a dispute process with timeframes and penalty interest rates would be a better solution. They consider the December Change Request does nothing to improve incentives and simply moves the lack of incentive to from one party to another.
Vector	Vector executed the ICA as a package including 'pay when paid' and full recovery of costs. Currently Vector faces all costs associated with chasing outstanding invoices and resolving balancing related disputes. The December Change Request retains this; however it introduces a 'pay now, dispute later' mechanism that transfers to Vector the risk of non-recovery on disputes. See additional comments in 'governance' table.

Non-balancing functions

Maui Legacy Arrangements

	Submission
Contact	The changes may have cost implications. The Maui legacy provisions should not be removed until there is a full understanding of the implications. They should be subject to a separate change request.

Liability when valid agreements are not in place

	Submission
Contact	The change seems designed to shift risk from MDL to TP welded parties. It is inappropriate for Gas Industry Co to support changes that alter risk but do not result in overall improvement consistent with Gas Act and GPS objectives. The changes to 2.15 removing the MDL indemnification for breach of section 2.14 would make all of sections 2.14 to 2.16 valueless. However these sections should be unnecessary because Vector should ensure allocations under the VTC are sufficiently robust. Subject to Vector confirmation that its allocation arrangements are effective it should be possible to delete sections 2.14 to 2.16. This should be a separate change request unrelated to balancing.
MDL	MDL should not be required to provide indemnification where agreements to which it is not a party may or may not have been made, suspended or terminated. The responsibility rests with shippers and TP Welded Party. This change has no relevance to compatibility between the VTC and MPOC. It simply deals with an indemnity for a shipper's failure to become part of a gas transfer agreement or TSA. These provisions inevitably have a direct link with MPOC balancing obligations, and it is appropriate to ensure parties have responsibilities for imbalances.
Nova	Nova does not consider the section 2.15 change is necessary but considers it will have little affect. It considers any Maui shipper transmitting into the Vector system without a Vector transmission agreement is unlikely to be able to use this gas. The shipper is, in effect, abandoning the gas.

	Submission
Vector	MDL has removed its obligation to confirm shippers have appropriate contracts in place before shipping to a TP Welded Point. At the same time it has transferred the liability for loss if this occurs to Vector. This has the affect that MDL could allow nominations to a Vector welded point for a shipper that Vector has no compliant contractual relationship with. Vector would have no ability to recover balancing or other costs from this shipper and no ability to recover its loss from MDL. This removes Vectors protection against gas being shipped without a compliant transmission agreement or gas transfer agreement. It puts Vector at risk of not being able to recover balancing charges.

Sole consequence of imbalance, section 12.1

	Submission
Contact	Contact does not support the removal of section 12.1. This section clarifies the consequences of imbalance are limited to those in section 12. Removal exposes welded parties to wider risk including a possible claim for breach; that is welded parties are not limited to liquidated damages via the Incentives Pool. This destroys part of the rationale for the Incentives Pool.
Nova	Nova agrees that the removal of the 'sole consequence of imbalance' provision increases uncertainty. Nova would prefer that provision to be reinstated at the next available opportunity.

Transitional provisions, sections 29.5 and 29.6

	Submission
Contact	Contact has no objection to the proposed transitional provisions, however they are unnecessary. There is nothing to constrain the content of a change request. The changes should not be made for the sake of simplicity.

Status of Incentives Pool Trustee

	Submission
Contact	By redefining the Incentives Pool trustee as the 'person appointed by MDL' the trustee would no longer be the commercial operator. Under the current MPOC, MDL includes the Incentives Pool trustee. Under the December Change Request the Incentives Pool trustee would be separate from MDL. This seems to completely alter the status of the trustee so that the roles sits outside the MPOC, and are governed by the appointment arrangements between MDL and the trustee. Welded parties depend on the Incentives Pool trustee recovering payments. The trustee would continue to have obligations under the MPOC. The obligations are meaningless if the trustee is not MDL and not a signatory to the MPOC. In contrast to the current MPOC, the liability of the Incentive Pool Trustee would be limited to the funds in the pool even if the trustees are negligent or wilfully default. The amendment to section 23.1 would mean disputes with the Incentives Pool trustee are not disputes with MDL. Amendment to section 38.2 allows the trustee to enforce

	Submission
	the provisions of the MPOC, whereas there is no provision allowing welded parties to enforce provisions against the trustee. These changes are not directly related to balancing and seem designed to reduce MDL risk at the expense of welded parties.

Notional Welded Point

	Submission
Contact	The reasons for deleting 'Notional Welded Point' and introducing 'trading hub' are unclear and seem unnecessary. The changes are unrelated to balancing.

No Profit and Loss

	Submission
MDL	The removal of the no profit/loss principle is because it is unnecessary and does not match the consequences of back-to-back balancing. The reasons are that the Incentives Pool regime removes any ability for MDL to charge for a greater quantity of balancing gas than has been delivered. It is possible there is insufficient running operational imbalance to fully allocate balancing gas leaving MDL to buy or sell the resulting TSO imbalance. This could lead MDL to unavoidably make a profit or loss. Under the current tariff arrangements these eventualities will be taken into account.