



Consultation on 21 December 2012 MPOC Change Request

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Submissions close: 15 February 2013





About Gas Industry Co.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

Authorship

This paper was prepared by the Marked Operations Group

Executive summary

Maui Development Limited (MDL) has requested a change to the Maui Pipeline Operating Code (MPOC) to shorten certain approval and confirmation times which, according to MDL, will provide a number of benefits.

The normal MPOC change request process is to call for submissions on the change request which is followed by Gas Industry Co preparing and consulting on a draft recommendation. Gas Industry Co then considers any submissions received and prepares a final recommendation. However, MDL has requested that this process be expedited (as per section 6 of the Memorandum of Understanding (MOU) between Gas Industry Co and MDL) so that the benefits of the change request can be in force before winter 2013. Gas Industry Co has agreed with this request, particularly as MDL has advised us that 'all Shippers and Welded Parties have already been given the opportunity to comment on the changes proposed and no objections were received.'

We have accordingly prepared this draft recommendation. Our draft recommendation supports the change request. We are seeking submissions on the appeal documents and on this draft recommendation. Provided no material concerns are raised in submissions, this paper will represent the only consultation on this change request before Gas Industry Co makes a final recommendation.

Submissions are due by 5pm, Friday 15 February 2013.

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Introduction

1.1 Purpose

This paper presents an analysis and draft recommendation in respect of an MPOC change request submitted by MDL to Gas Industry Co on 21 December 2012.

1.2 Background

Gas Industry Co's role under the MPOC

Section 29 of the MPOC assigns Gas Industry Co a role in respect of any proposed amendment to the MPOC (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. Gas Industry Co evaluates any proposed change having regard to the objectives of Section 43ZN of the Gas Act. 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 would require MDL to incur a capital expenditure that may not be recoverable.

Gas Industry Co has agreed a Memorandum of Understanding (MoU) with MDL describing how its role in relation to change requests 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 makes a final recommendation to MDL. The MoU also provides that Gas Industry Co will have regard to the objectives specified in Section 43ZN of the Gas Act when performing its role, and prepare an analysis of the issues under consideration, including an assessment of the costs and benefits. For further information (including a copy of the MoU) please refer to Gas Industry Co's website at www.gasindustry.co.nz.

Gas Industry Co's contractual role under the MPOC is different to Gas Industry Co's role under the Gas Act. Whereas our Gas Act role requires the consideration of all practicable options before making a recommendation to the Minister, the MPOC role is more constrained. Importantly, the MPOC role does not permit Gas Industry Co to reject a change request because it believes it is not ideal, or that there may be a better alternative, or that there are additional things that could be done to improve balancing arrangements. Our scope to recommend modifications to the change request is limited to minor and technical matters.

Context

At the time of writing, a separate change request which was approved by Gas Industry Co in early 2012 awaits implementation by MDL. MDL agreed to delay implementing that (balancing) change request until June 2013. However, that change request has little overlap with the present change request. In their change request application, MDL states that 'the [13 October 2011 Change Request] does not have any bearing on the changes proposed in this [21 December 2012 MPOC Change Request] application.'

Current change request

The current change request is minor in effect. The only changes proposed are to shorten some of the times specified in certain nominations cycles which, according to MDL, will bring about a range of benefits.

1.3 Invitation for submissions

Gas Industry Co invites submissions on the change request and this draft recommendation.

Submissions are due by 5pm, Friday 15 February 2013. Please note submissions received after this date may not be considered.

Gas Industry Co values openness and transparency and places submissions on our website. If you intend to provide confidential information in your submission, please discuss this first with John Bright at Gas Industry Co (04 494 6580).

2 Proposed changes

2.1 Current arrangements

The Maui Pipeline operates under a common carriage regime which is driven by the amount of gas that Shippers wish to receive and deliver.

Shippers provide information to MDL about gas quantities for each Welded Point via nominations in various cycles - provisional, changed-provisional, and intra-day. The difference between the sum of Shipper nominations confirmed at a Welded Point and actual gas flow at that Welded Point is known as operational imbalance. If a Welded Point's operational imbalance exceeds pre-set thresholds the Welded Party is at risk of incurring balancing charges for that Welded Point, either through the incentives pool or cash-out procedures. Shippers use nomination cycles to communicate up-to-date information to Welded Parties to assist them to manage their operational imbalance position.

Monthly Rolling Forecast

No later than six business days before the end of the month a Shipper must provide MDL with an updated quantity forecast for each Welded Point for each day of the following twelve months.

Provisional Cycle

By 2 pm on the last business day of each week, each Shipper must provide MDL with its nominated quantities for each Welded Point for each day of the following week. MDL will match the aggregate of all Shippers' nominations at each Welded Point with the amounts notified by the Welded Parties. If the Welded Party and Shipper amounts do not match for a Welded Point, then MDL and the Welded Party will seek to reconcile the difference. If they cannot, then the scheduled quantity is set at the lower of the two, and Shipper nominations will be scaled back proportionately. MDL then informs Shippers of their approved nominations, and posts these on the MDL website.

Changed Provisional Cycle

This provides the opportunity for a Shipper to change its provisional nomination for the next day. Again the aggregate of nominations is checked with Welded Parties and the revised approved nomination is posted on the MDL website. Shippers have until 4 pm on the day prior to flow to submit their changed nominations to MDL.

ID Cycles

There are currently 4 intra-day cycles each transmission day. At each cycle a Shipper may revise their nominations for the day, as long as the revised level is above the level of energy deemed to have already flowed at the commencement of the intra-day cycle. The revised nomination must be confirmed by the Welded Party and MDL. If approval for the revised nomination is not given by both MDL and the Welded Party the request for intra-day nomination will have no effect.

The four intra-day nomination cycles which allow Shippers to change nominations on the day, are currently as follows:

Table 1. Timing of current Intra-day (ID) nomination cycles

	ID1 (day before Transmission Day)	ID2 (on Transmission Day)	ID3 (on Transmission Day)	ID4 (on Transmission Day)
Nominations due	22:00	05:00	11:00	17:00
Confirmation due	23:00	06:00	12:00	18:00
Approval due	23:59	07:00	13:00	19:00

2.2 Proposed changes

The change request put forward by MDL will change the timing of the processes mentioned above.

There will be no change to the Provisional Nomination Cycle.

For the Changed Provisional Cycle, the proposed changes are as follows:

Table 2. Changed Provisional Cycle

	Nominations due	Confirmation due	Approval due
Current	16:00	17:00	18:00
Proposal	16:00	16:30	17:00

For the Intra-Day Nomination Cycles, the proposed changes are as follows:

Table 3. Intra-Day Nomination Cycles

		Nominations due	Confirmation due	Approval due
ID1	Current	22:00	23:00	00:00
	Proposal	22:00	22:30	23:00

		Nominations due	Confirmation due	Approval due
ID2	Current	05:00	06:00	07:00
	Proposal	05:00	05:30	06:00
ID3	Current	11:00	12:00	13:00
	Proposal	11:00	11:30	12:00
ID4	Current	17:00	18:00	19:00
	Proposal	17:00	17:30	18:00

In its application, MDL states that the proposed changes should be expected to bring about the following benefits:

- increased opportunities to self-balance: by reducing the confirmation and approval times from 1 hour to 30 minutes, the remaining hours of flow at each ID cycle increase by 1 hour. With the nomination time remaining the same, parties will have an increased opportunity to make corrective nominations at the intraday cycles. There will also be one hour less deemed flow at the beginning of each cycle;
- reduced financial exposure to balancing costs: by allowing parties to make alterations to their nominations at each ID cycle for an extra flow hour, there will be a lengthened opportunity for parties to avoid excess imbalances or peaking as a result of changing circumstances on the day of flow;
- increased intra-cycle time efficiencies: the time between placing a nomination and approval is halved hence parties do not have to predict flows from such a large distance out from the beginning of the ID cycle;
- increased time for parties to adjust physical plant after change provisional approvals: currently some physical delivery plants begin to adjust their plant upon the receipt of provisional nominations, as the time between approval and the start of ID cycle 1 is insufficient for the physical change process involved. This change request will bring the provisional cycle approval time forward an hour to allow these plants greater flexibility in changing production rates; and
- allows for future investigation of most efficient ID cycles: reducing the nomination confirmation and approval timeframe from two hours to one hour will allow future investigation of the most efficient ID cycles. The shorter nomination confirmation and approval time will allow more flexibility when determining cycle times. This includes the option of a 5th ID cycle to be considered.

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Assessment of proposed changes

3.1 Evaluative criteria

In performing its roles and functions specified in the MPOC, Gas Industry Co must have regard to the objectives specified in section 43ZN of the Gas Act. The principal objective is to:

...ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner.

The other objectives are:

- the facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements; and
- barriers to competition in the gas industry are minimised;
- incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced;
- delivered gas costs and prices are subject to sustained downward pressure;
- risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
- consistency with the Government's gas safety regime is maintained.

3.2 Assessment

The change request is minor and technical. It will only impact on the times that certain processes are carried out for nominations cycles. It is unlikely the changes proposed will adversely impact any market participants.

The change request is unlikely to impact any of the Gas Act objectives listed above and is not inconsistent with them. The party that will be most impacted by the change is MDL as it will have to carry out certain processes sooner than it does at present. However, as the applicant, MDL believes the change request will result in those benefits listed in section 2.2. We note and agree with those benefits and believe that qualitatively those benefits will outweigh any costs arising from the MPOC changes.

We also note that MDL says its Shippers and Welded Parties raised no objections to the change request (having provided feedback on the proposal). This consultation therefore allows the wider industry to comment on the proposal and for any objections to be raised.

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Draft recommendation

Our draft recommendation is to support this change request.

Provided no material concerns are raised in submissions, this paper will represent the only consultation on this change request before Gas Industry Co makes a final recommendation.

We welcome submissions on MDL's change request, this draft recommendation, and whether you have any material concerns with the expedited consultation process.

