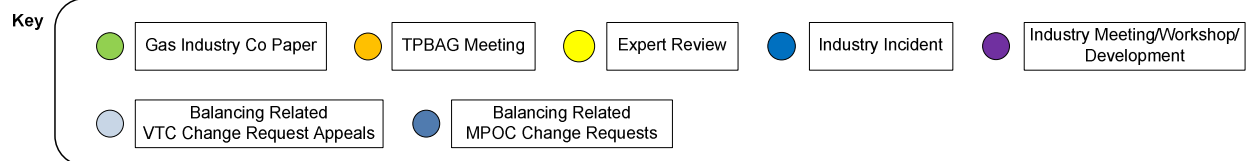
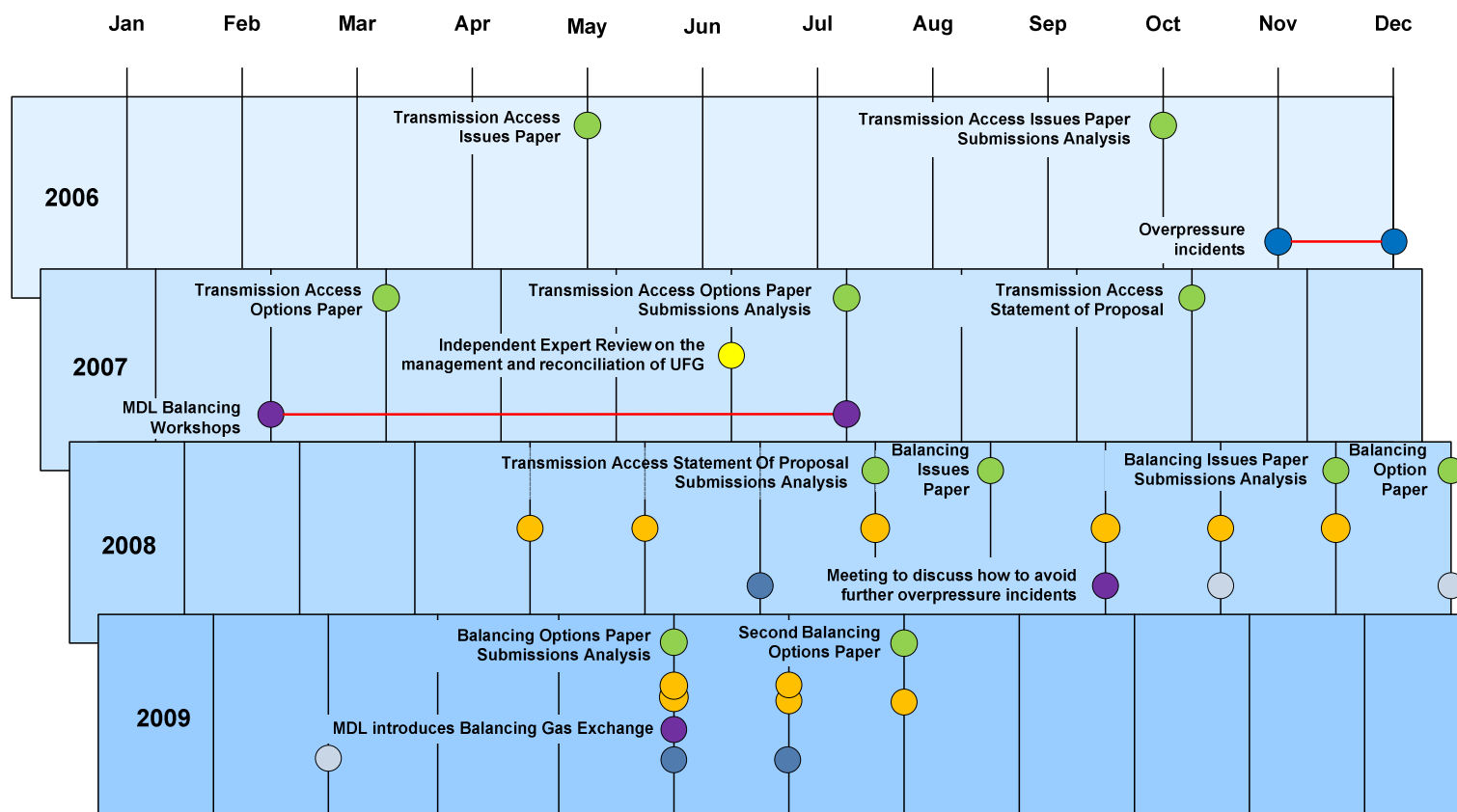




Transmission Pipeline Balancing: Second Options Paper

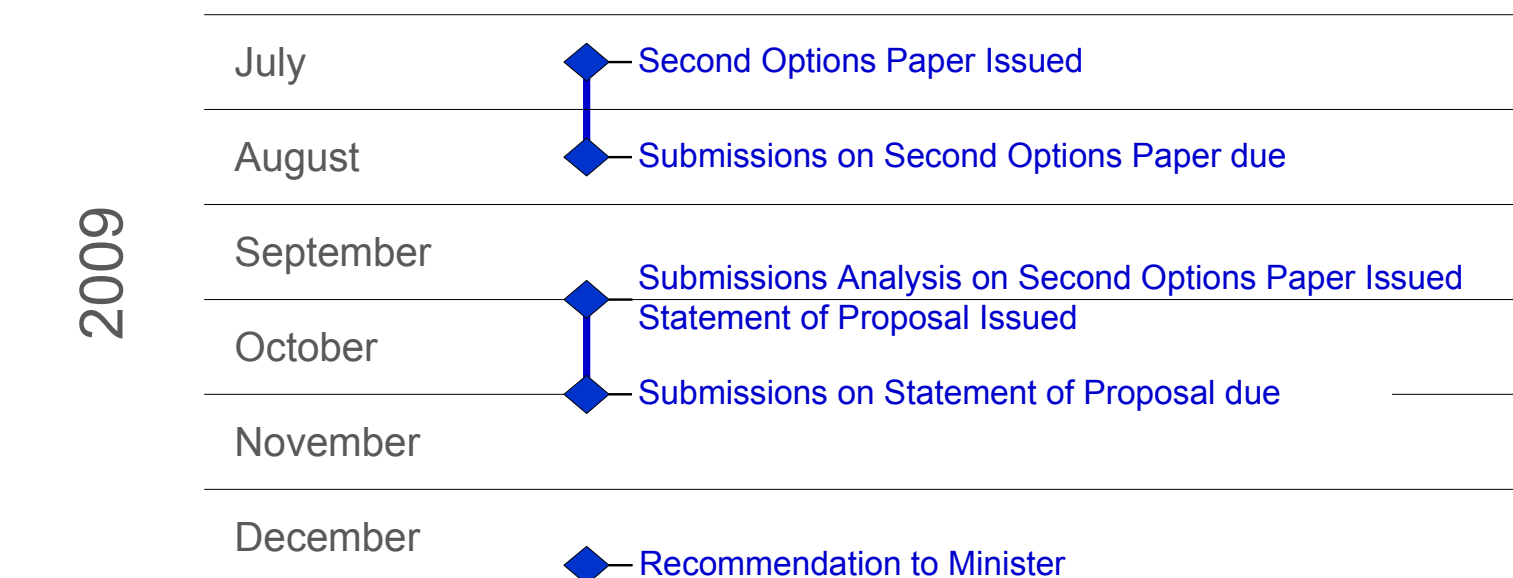
Ian Wilson
Principal Adviser-Pipelines
Melanie Strokes
Adviser- Pipelines

29 July 2009





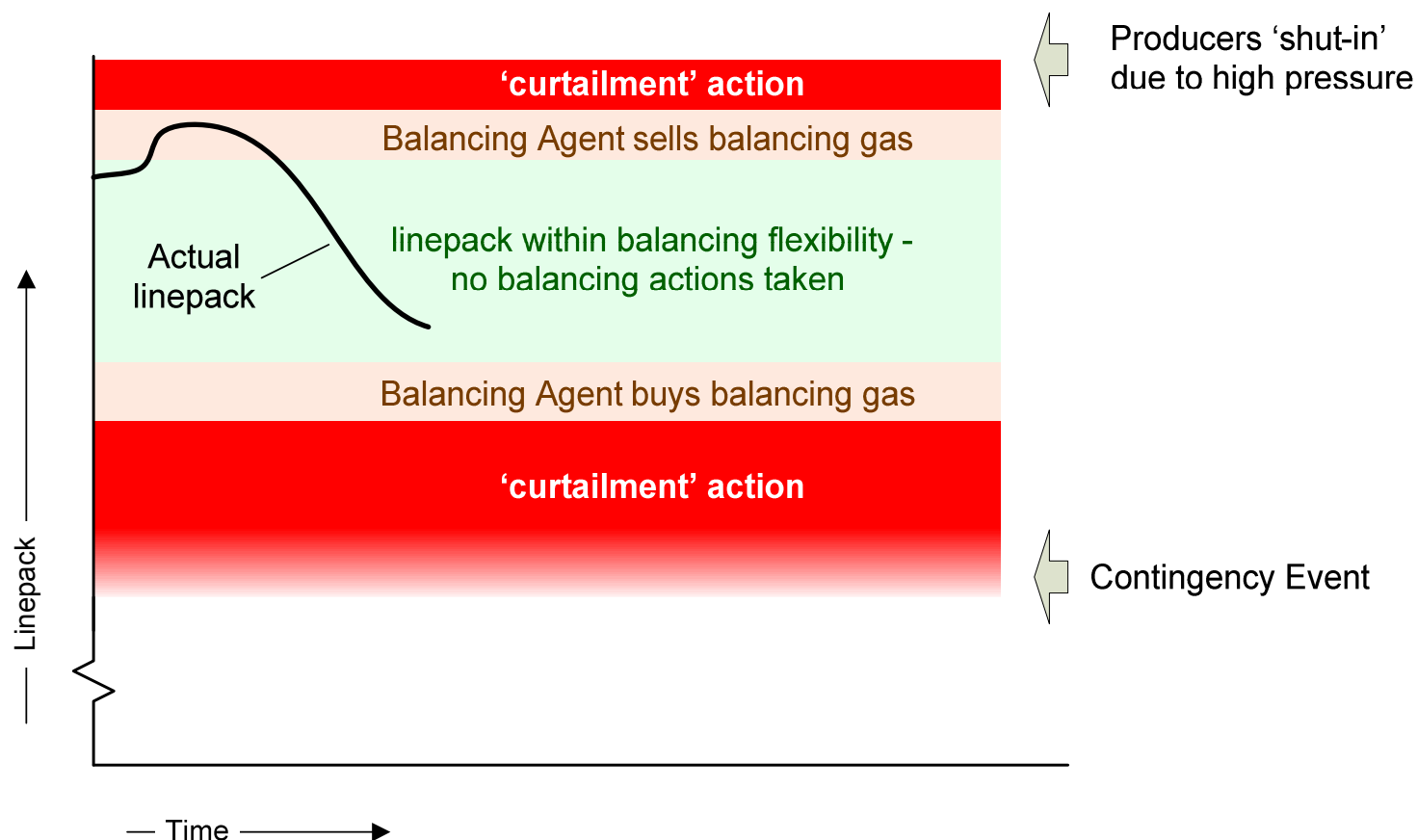
Timeline



Regulations could be recommended to Minister by the end of the year



What is balancing?



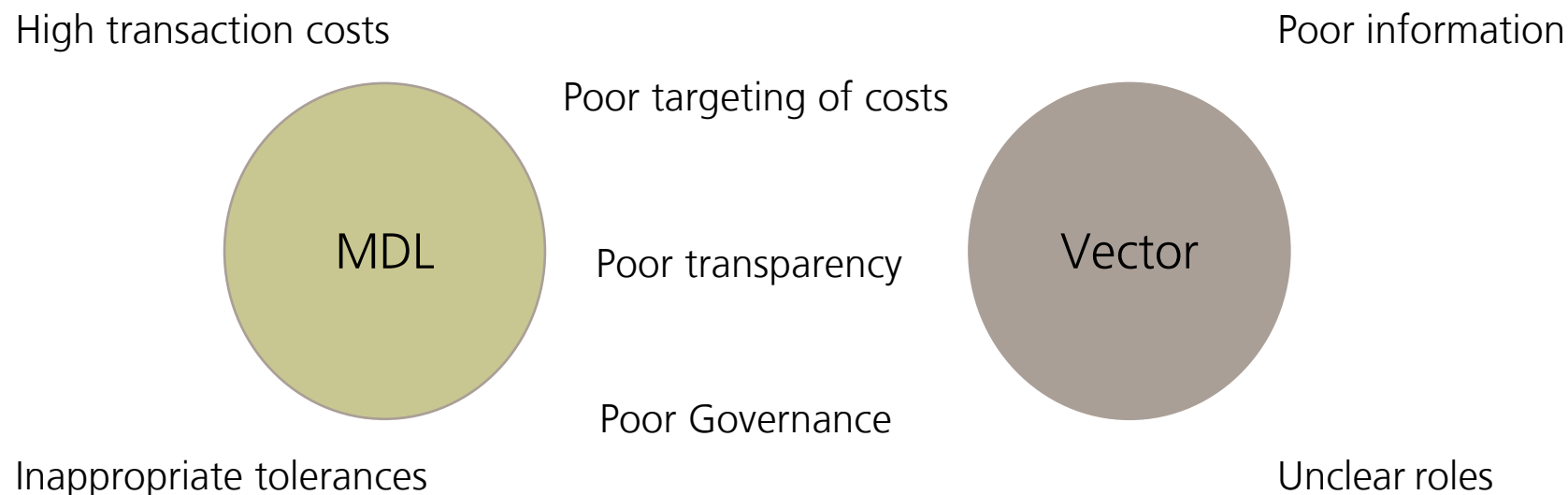
Effective balancing is a key element of successful open access



What's wrong with NZ balancing?

Concerns were first raised in 2006

- issues identified by industry included:

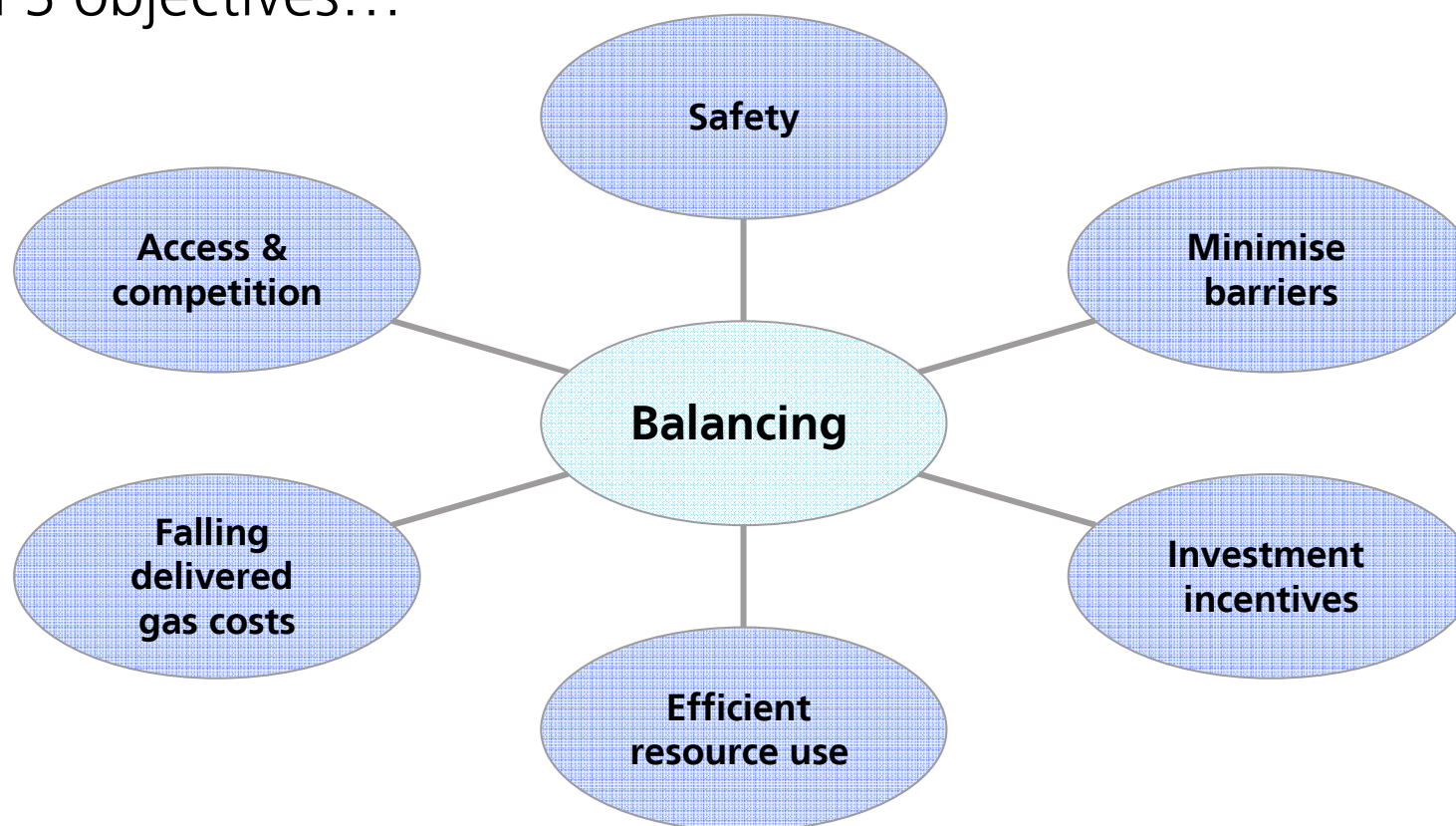


Two interconnected pipelines with two different balancing arrangements



Why is Gas Industry Co involved?

To ensure NZ balancing arrangements fulfill Gas Act and GPS objectives...





1st Options Paper

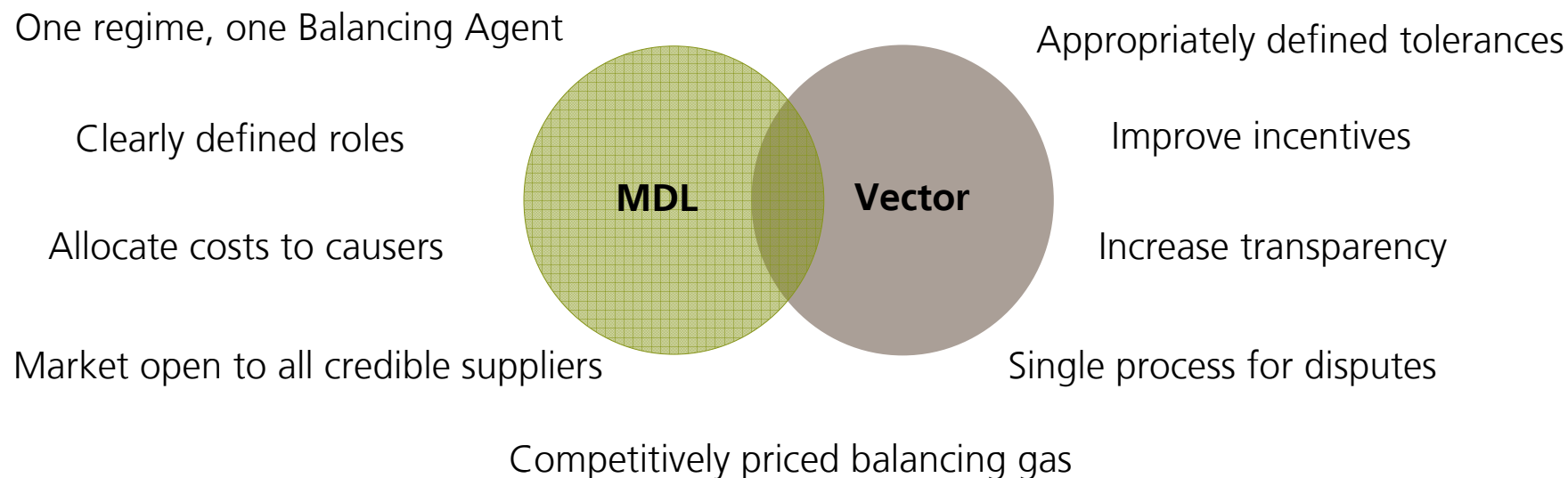
December 2008 Options Paper:

- Reviewed problems associated with gas balancing
- Set out and assessed
 - core design features
 - Users have primary obligation to balance
 - Residual balancing role
 - design features under review
 - balancing gas procurement options
 - daily allocation
 - extended nominations



1ST Options Paper (cont.)

- Hybrid solution:
 - Regulate for single balancing regime + single independent BA
 - Tolerance review, MPOC changes
 - Further work on daily allocation and extended nominations





1ST Options Paper (cont.)

- Submissions generally:
 - supported a single balancing regime
 - were concerned about the cost of an independent BA
- Submissions also pointed to changes that had improved balancing since the Options Paper that Gas Industry Co should consider before progressing
- Gas Industry Co considered feedback did justify a 2nd Options Paper



2nd Options Paper (cont.)

The Objective

'To provide an efficient, single balancing arrangement for managing pipeline imbalance'

(In previous Options paper the objective was that:

- balancing arrangements should aim to achieve balancing at least cost, where 'cost' includes transaction costs for users; and
- users should be able to manage risks associated with balancing charges, including having good knowledge of their balance positions and having an ability to hedge price risk.)



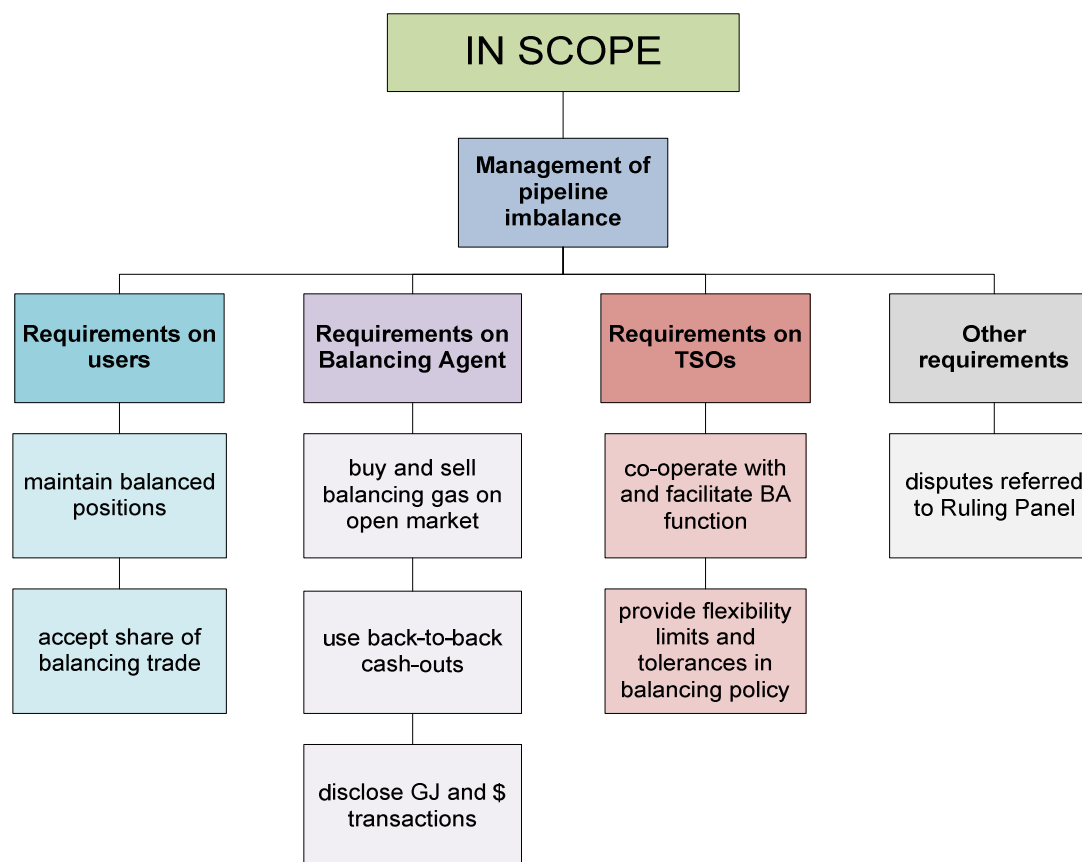
2nd Options Paper (cont.)

The Scope

- Only 'bitten off what we can chew'
 - Gas Industry Co is concerned about all aspects of balancing that may prevent the objectives of the Gas Act and GPS being met - not all of these are within scope... eg 'D+1' and 'upstream allocations' are out of scope
- Most contentious 'boundary' items are
 - User obligation to balance
 - Curtailment and damages



2nd Options Paper (cont.)





2nd Options Paper (cont.)

	OUTSIDE SCOPE		
	GIC is continuing to work on	GIC will review in the future	Not currently priority issues
D+1 Allocation	✓		
Extended nominations	✓		
Reviewing tolerances	✓		
Upstream Allocations		✓	
Scheduling of gas flow			✓
Tx service nomination cycle			✓
Trading tolerances & imbalances			✓



2nd Options Paper (cont.)

Gas Industry Co presents 4 options...

**Contracts
based
option**

**Prescriptive
regulation
option A**

**Prescriptive
regulation
option B**

**Participative
regulation
option**

...to fulfill Gas Act and GPS objectives as well as to meet Gas Industry Co's regulatory objective to:

Provide an efficient, single balancing arrangement for managing pipeline imbalance.



2nd Options Paper (cont.)

The 'status quo' option...

**Contracts
based
option**

The option of allowing the industry a further opportunity to develop a contracts based solution before recommending regulation



2nd Options Paper (cont.)

The 3 regulated options target changes to be made that:

**Prescriptive
regulation
option A**

**Prescriptive
regulation
option B**

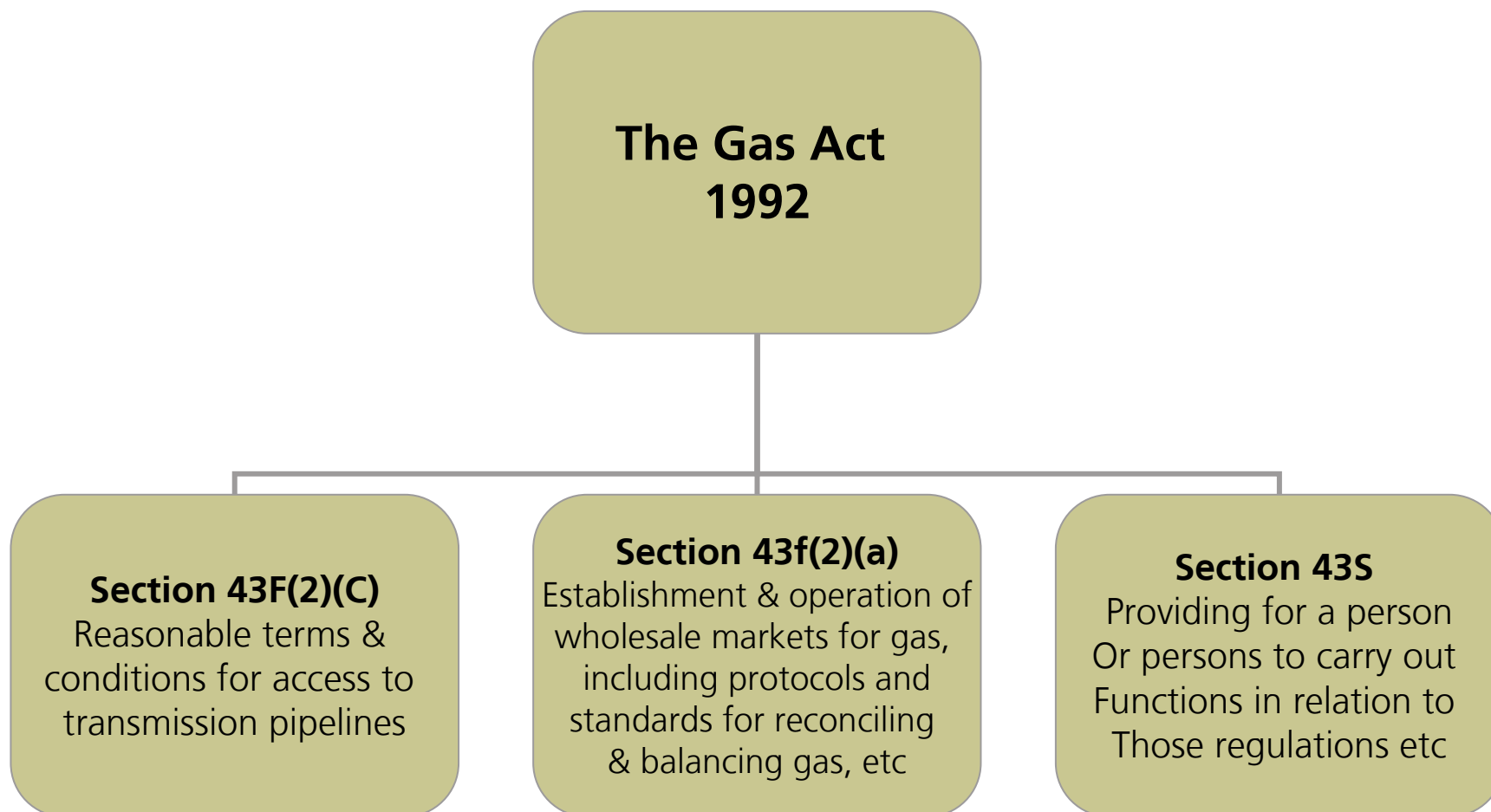
**Participative
regulation
option**

- ✓ Require a single balancing regime & single Balancing Agent
- ✓ Require users to use reasonable endeavors to maintain balancing positions
- ✓ Describe the functions of the Balancing Agent
- ✓ Require the Balancing Agent manage aggregate residual imbalance
- ✓ Require balancing gas title and costs to be allocated cost to causers
- ✓ Require the Balancing Agent to use an open and competitive balancing market

All 3 options could achieve the regulatory objective but take different routes to get there



2nd Options Paper (cont.)

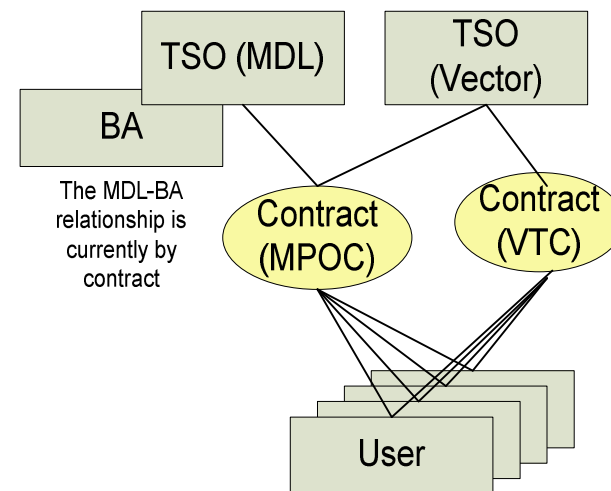




Contracts Based Option

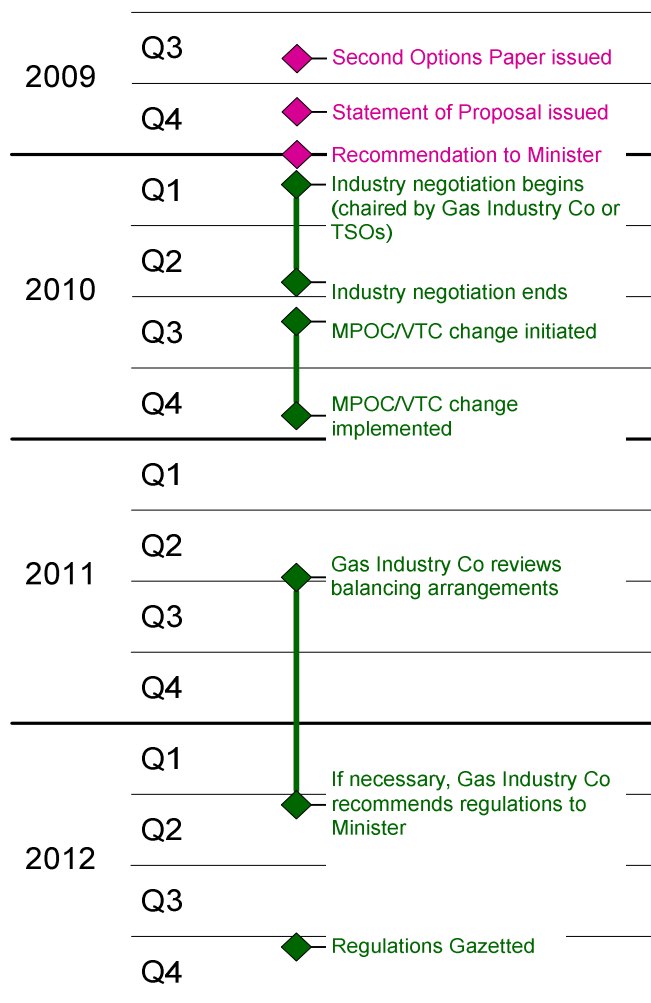
An option involving a mixture of TSO initiatives, user input and Gas Industry Co influence, described in contractual arrangements.

- This solution would require minimal intervention and could be achieved largely by changes to the MPOC and VTC
- Industry negotiation would determine extent and content of the reform
- Gas Industry Co could provide facilitation, research and analysis as required





Contracts Based Option (cont.)



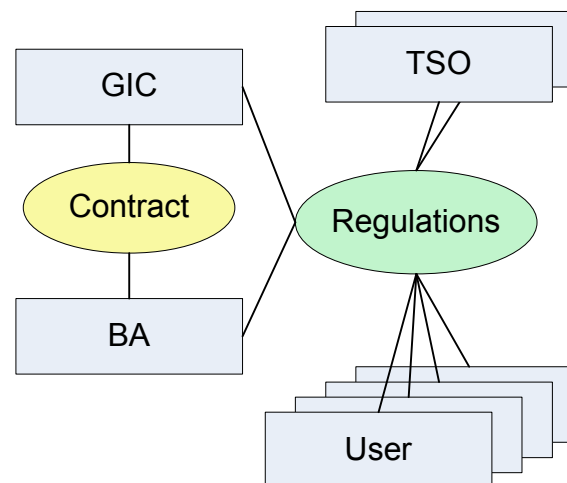
- The timeline for the Contracts based option is based on the assumption that focused industry negotiations would begin as soon as we recommended this option
- Mid-2011 we would review balancing arrangements to assess whether they meet Gas Act/GPS objectives as well as our regulatory objective
- On conclusion of the review, we will determine whether or not to recommend regulations



Prescriptive Regulation Option A

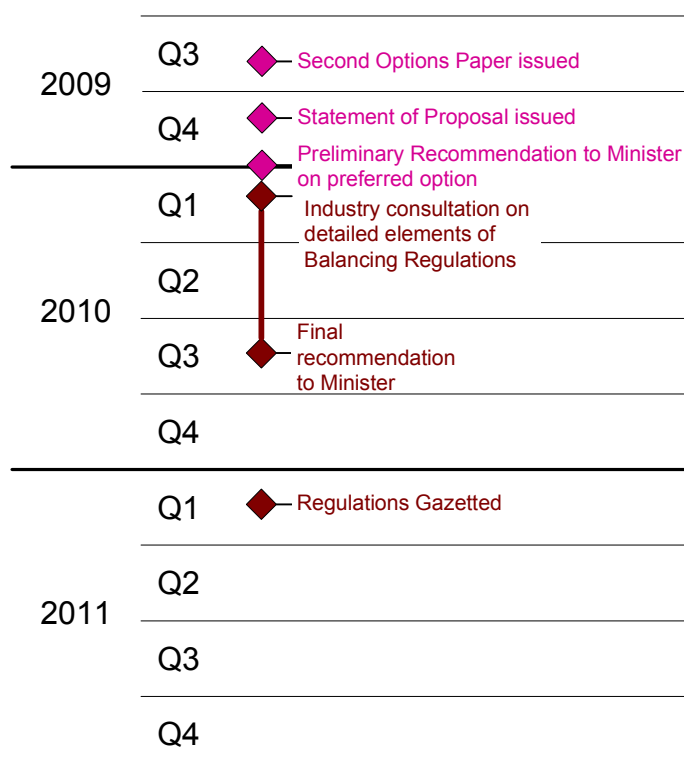
An option comprising a single balancing regime, with a single Balancing Agent reporting to Gas Industry Co, fully prescribed in regulation

- Gas Industry Co appoints Balancing Agent
- Detail of regime written into regulations
- Funded through market fees





Prescriptive Regulation Option A (cont.)



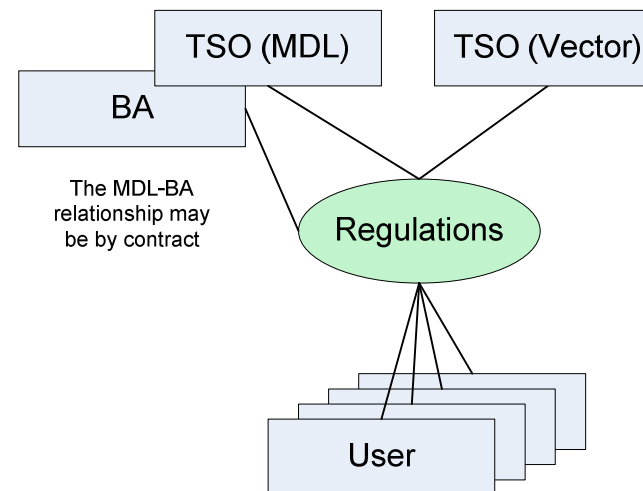
- We anticipate that industry consultation would begin on the detailed design of the regulations as soon as this option was recommended
- The final recommendation could then be made in Q3 of 2010 and the regulations gazetted in Q1 of 2011

Prescriptive Regulation Option B



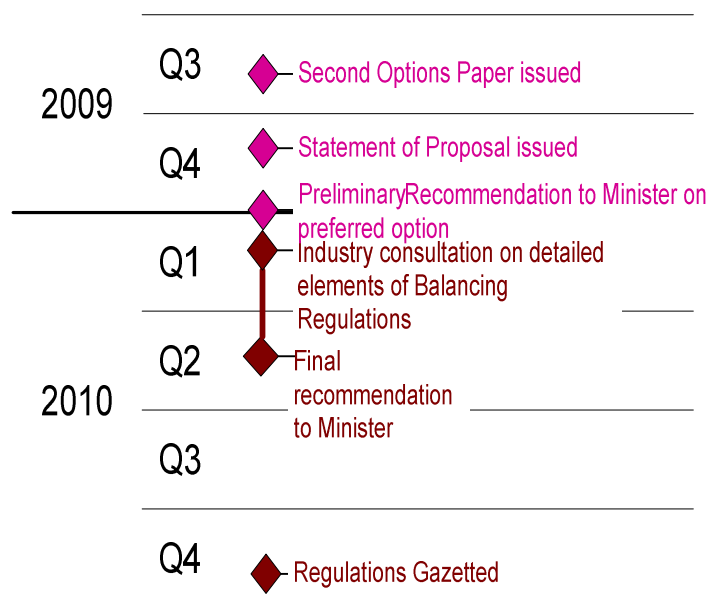
An option comprising of a single balancing regime, with current customary arrangements including the MDL Commercial Operator as the single Balancing Agent reporting to Gas Industry Co, fully prescribed in regulations

- MDL Commercial Operator is appointed Balancing Agent
- Detail of regime written into regulations
- Funded through TSO tariffs





Prescriptive Regulation Option B (cont.)



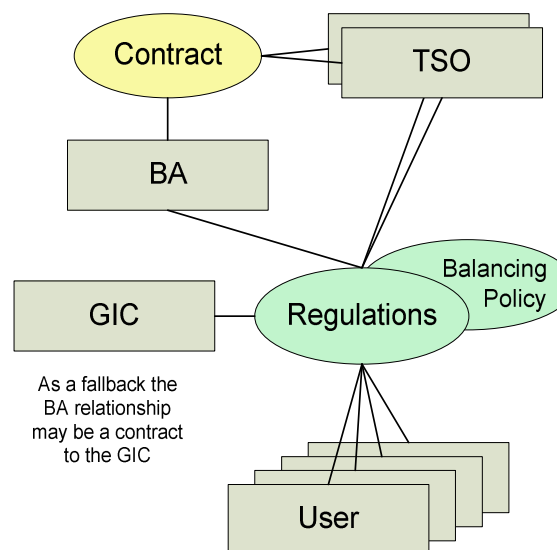
- Since option B does not involve the set-up of a new Balancing Agent, it is anticipated that it could progress quicker than A
- We again assume that industry consultation on the detail would begin after the recommendation to the Minister is made
- The final recommendation would then be sent in Q2 2010, with regulations gazetted by Q4



Participative Regulation Option

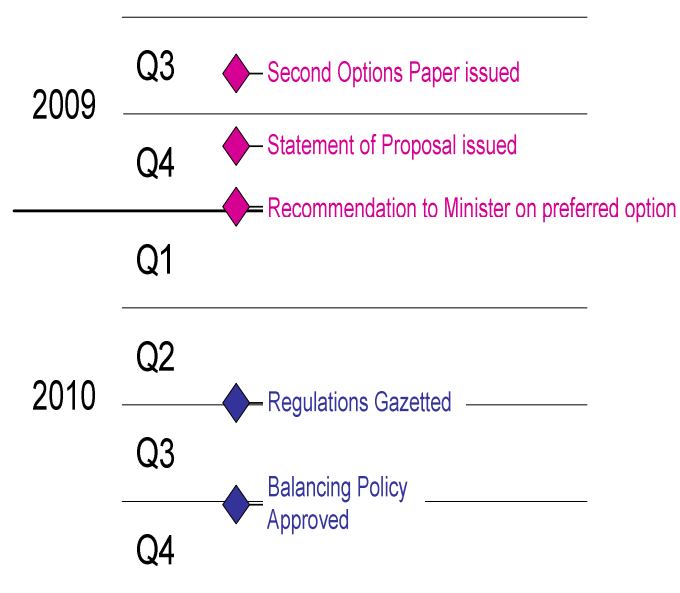
An option which permits TSOs to develop a single balancing policy that meets criteria specified in regulations

- TSOs appoint a Balancing Agent
- Detail of regime written into regulations and balancing policy
- Funded through TSO tariffs





Participative Regulation Option (cont.)



- Again, we assume focused industry consultation would take place as soon as this option was recommended to the Minister
- The regulations would be gazetted in mid-2010 and the TSO's balancing policy in Q4



Evaluation of the options

Each options is evaluated against a set of evaluation criteria to assess relative:

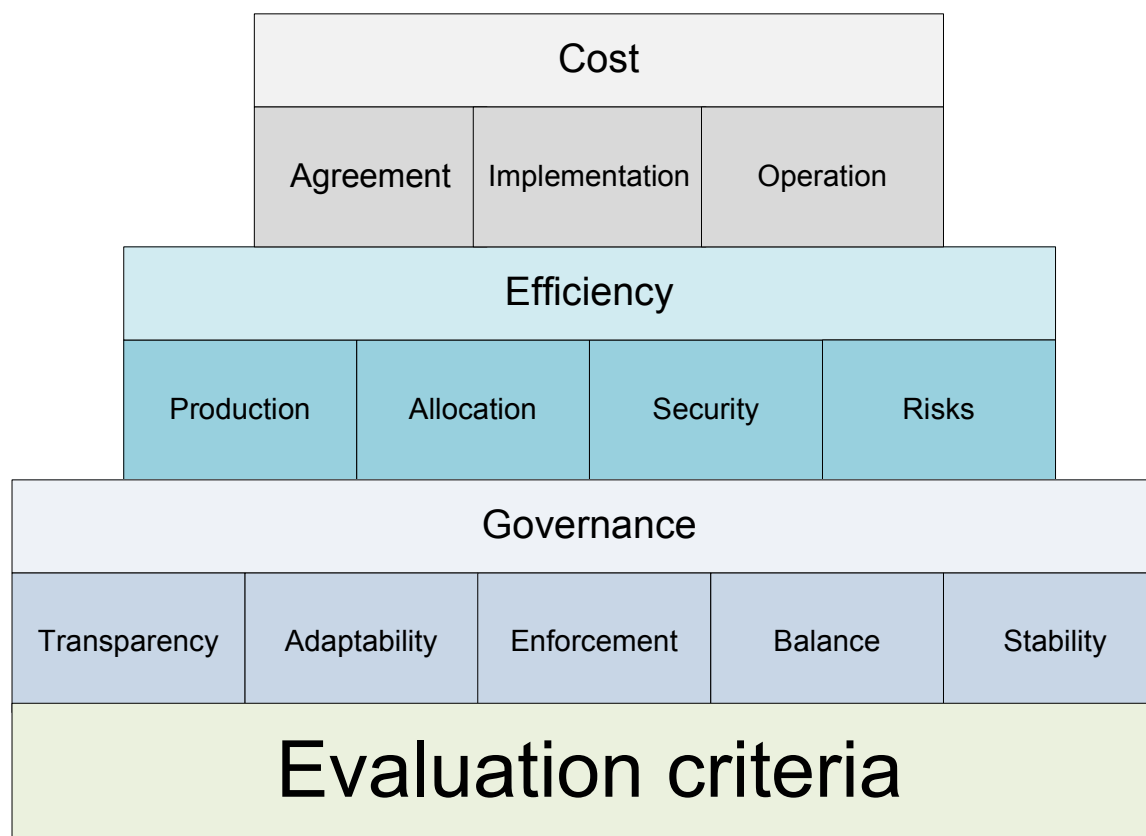
- ✓ **Efficiency**
- ✓ **Cost**
- ✓ **Governance**

For completeness, the criteria was cross-checked against:

- ✓ **Gas Act/ GPS objectives**
- ✓ **ERGEG principles**
- ✓ **Previous Options Paper objectives**



Evaluation of the options (cont.)



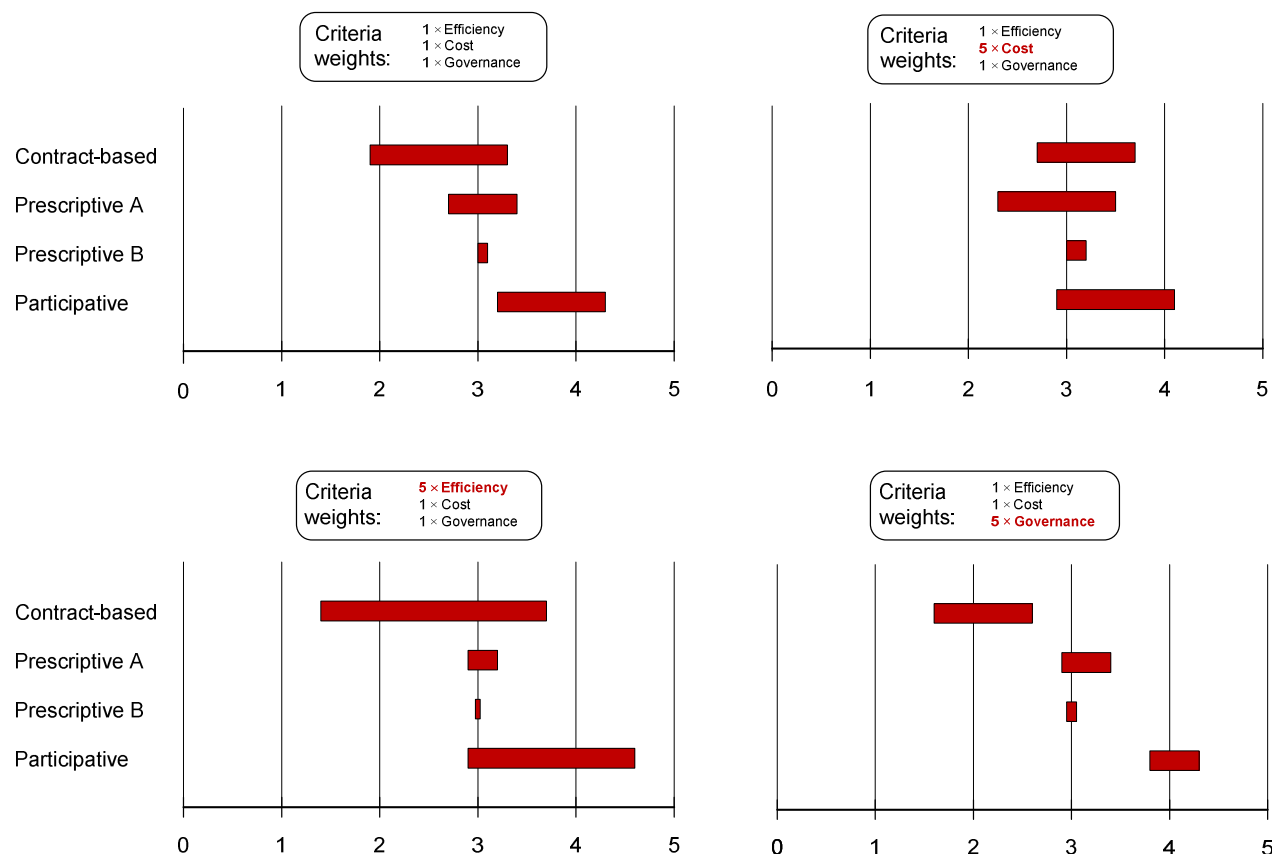


Evaluation of the options (cont.)

	Contracts based option		Prescriptive regulation option A		Prescriptive regulation option B		Participative regulation option	
	From	To	From	To	From	To	From	To
Totals Efficiency	1.0	4.0	3.0	3.0	3.0	3.0	2.8	4.8
Totals Cost	3.3	4.0	2.0	3.7	3.0	3.3	2.7	4.0
Totals Governance	1.4	2.0	3.0	3.4	3.0	3.0	4.2	4.2
Overall	1.9	3.3	2.7	3.4	3.0	3.1	3.2	4.3



Evaluation of the options (cont.)





Preferred option

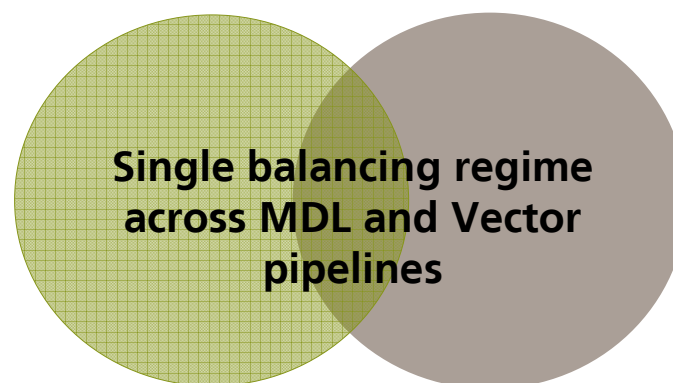
Given its overall superior rating and a strongly superior governance rating, Gas Industry Co prefers the

Participative Regulation Option



In conclusion

- No 'magic bullet' solution
- Best approach is a targeted one
- Preliminary view - given overall superior rating and a strongly superior governance rating - Participative Regulation Option is preferred





What's next

Closing date for submissions on 2 nd Options Paper	17 August 2009
Issue Submissions Analysis Paper and Statement of Proposal	1 October 2009
Closing date for submissions on Statement of Proposal	30 October 2009
Issue Submissions Analysis on Statement of Proposal and Recommendation to Minister	21 December 2009



Outline of appendices

Appendix A: Format for submissions

Appendix B: Outline of regulations for prescriptive option A

Appendix C: Outline of regulations for participative option

Appendix D: Gas Industry Co's desired features of a balancing regime

Appendix E: Background to the 2nd Options Paper

Appendix F: Back-to-back cash-out



ANY QUESTIONS?

THANKS FOR ATTENDING