Draft Recommendation on 27 November 2012 VTC Change Request (Balancing)

Date issued: 28 February 2013
Submissions close: 25 March 2013

GAS INDUSTRY COMPANY LIMITED

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 Market Operations Group

Submissions close: 25 March 2013

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Executive summary

Vector Gas Limited (Vector) proposed a change to the Vector Transmission Code (VTC) on 30 October 2012 that did not receive the 75 percent support from Shippers necessary for it to be adopted. On 27 November 2012, Vector appealed to Gas Industry Co, in its VTC appeals body role, to have the change request allowed (pursuant to section 25.6 of the VTC).

The proposed change aims to alter VTC arrangements in respect of balancing arrangements. The proposed changes are to make the VTC compatible with the Maui Pipeline Operating Code (MPOC) for which the balancing arrangements will change as the result of the Gas Industry Co approved 13 October 2011 MPOC Change Request.

Because the commercial arrangements on the Maui Pipeline, as governed by the MPOC, flow through to impact commercial arrangements on Vector's transmission pipelines, it is necessary for Vector to make changes to the VTC so as to align the two industry codes once the MPOC changes are implemented.

Vector has therefore submitted the current change request which it says is necessary to capture the efficiency benefits of B2B balancing arrangements.

There are three main changes proposed by Vector. Two are to accommodate the introduction of back-to-back balancing and a Peaking Charge to the MPOC. The third change is to limit the ability for Shippers to dispute balancing invoices Vector issues.

Six submissions were received on the appeal and we thank submitters for providing these. Points raised in submissions are addressed throughout this document.

The overall tenor of the submissions was that Vector's accommodating of the MPOC changes appears reasonable, subject to a few clarifications. However, all submitters oppose the proposed restriction to dispute balancing invoices.

Our assessment is that, taken as a whole, the change request is an improvement on the status quo and is consistent with, or improves the relevant Gas Act and Government Policy Statement objectives.

Draft Recommendation

Having analysed the appeal and the submissions received on it, our draft recommendation is to support this change request.

Next steps

Gas Industry Co invites submissions on this draft recommendation.

Submissions are due by **5pm, 25 March 2013** and can be made by logging on to Gas Industry Co's website. Please note that submissions received after this date may not be considered.

Contents

1 Introduction

1.1 Purpose

This paper presents an analysis of, and draft recommendation on, the Vector Transmission Code (VTC) Change Request Appeal submitted by Vector to Gas Industry Co on 27 November 2012 (the appeal).

The appeal and other relevant papers can be found at http://gasindustry.co.nz/work-programme/vtc-change-request-appeal-27-november-2012-balancing.

1.2 Background

Gas Industry Co's role under the VTC

Under the VTC, any Party may propose an amendment to the VTC (change request). Section 25 of the VTC sets out a process for considering change requests, including consultation with Shippers. Under section 25.5(c)(i) of the VTC, Vector and 75 percent of all shippers who respond must consent to a change request for the change to be made to the VTC. Once that process is complete, certain parties may appeal the outcome whether or not the change request was successful. For example, a party who voted against a change request that was successful may appeal that outcome and vice versa.

Gas Industry Co is tasked with independently reviewing and making a recommendation on change request appeals. Following consultation, Gas Industry Co must make a final recommendation 'supporting or not supporting the Change Request or finding that Vector has or has not validly withheld consent'[1].

In consultation with its shippers, Vector developed a process for considering change request appeals under the VTC. Gas Industry Co and Vector have incorporated that process into a Memorandum of Understanding (MoU). The MoU sets out in detail the process that Gas Industry Co follows when considering appeals. A copy of that MoU is available on Gas Industry Co's website: http://www.gasindustry.co.nz/work-programme/vtc-change-request-appeal-20-february-2009?tab=1183

When making its recommendation on an appeal, the MoU requires Gas Industry Co to have regard to the objectives specified in section 43ZN of the Gas Act 1992 (the Gas Act) and the objectives specified

[1] VTC Section 25.7.

in the Government Policy Statement on Gas Governance (GPS). The combined principal objectives for Gas Industry Co are to ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner.

Gas Industry Co's final recommendation is binding on the parties to the VTC, except in limited circumstances in which Vector may withhold its consent if, for example, the change would result in Vector incurring unrecoverable capital expenditure or operating expenses. These circumstances are listed in section 25.5(b) of the VTC.

Current appeal

On 27 November 2012, Gas Industry Co received an appeal from Vector. The appeal relates to a change request initiated by Vector and notified to shippers on 30 October 2012. The 75 per cent threshold of shippers consenting to a change request was not met and Vector appealed to Gas Industry Co to seek its support to have the change allowed.

The content of the appeal is largely to align the VTC with changes to the Maui Pipeline Operating Code (MPOC) that will take effect once Maui Development Limited (MDL) implements them.

MDL submitted an MPOC change request to Gas Industry Co in October 2011. We supported that change request in a final recommendation issued in April 2012 but asked MDL to delay implementation of the MPOC changes until June 2013 so as to allow any subsequent changes (i.e. to the VTC) to be made.

The MPOC change request aimed to alter balancing arrangements on the Maui Pipeline. Balancing has been a contentious issue in the New Zealand gas industry for several years and is summarised in the draft recommendation on the MPOC change request.[2] It is worth summarising the key points from the MPOC change request as it is a key driver of this VTC change request. Section 1.3 below summarises the MPOC change request.

1.3 October 2011 MPOC change request

The MPOC change request introduces back-to-back (B2B) balancing arrangements on the Maui Pipeline. The main changes are summarised below.

Balancing Gas

Currently, each Welded Party must use reasonable endeavours to manage gas flow so that Running Operational Imbalance (ROI) tends towards zero over a reasonable period of time. If a Welded Party's ROI exceeds its ROI Limit at a Welded Point, MDL may give an Imbalance Limit Overrun Notice (ILON) to that Welded Party. An ILON gives the Welded Party a set amount of time to reduce its Accumulated Excess Operational Imbalance (AEOI) to zero. If the Welded Party has not complied with the ILON within the specified time period, MDL may settle the imbalance by buying or selling gas from or to the

[2] Available at http://gasindustry.co.nz/work-programme/mpoc-change-request-13-october-2011?tab=2278

Welded Party at the positive or negative mismatch price irrespective of whether MDL makes a balancing gas transaction.

An Incentives Pool provides a system of liquidated damages. Each Welded Party that has an excess imbalance or exceeds its Peaking Limit[3] pays into the Incentives Pool an amount equal to the Incentive Pool Debit (in GJs) multiplied by the Incentives Pool Debit Price.[4]

The Balancing Agent may make a claim on the Incentives Pool to meet the costs of buying any balancing gas. A Welded Party may make a claim on the Incentives Pool if it is unable to off-take its Scheduled Quantity because a separate Welded Party has incurred an Incentives Pool Debit.

The MPOC change request will remove the ILON process. Parties with AEOI will be cashed out at the end of a day if the Balancing Agent has taken a balancing action(s). The ILON process is problematic because, under the ILON process, balancing costs are not necessarily attributed to those causing the need for them and, due to the 'grace period' nature of ILONs, balancing costs can be socialised amongst other pipeline users. Thus, the causer of a balancing action may avoid some or all of the costs associated with that balancing action under the ILON process. By removing the ILON process, the causers of a balancing transaction will pay the costs of the balancing action – a more efficient outcome.

Peaking

Current arrangements require each Welded Party to act as a reasonable and prudent operator to flow gas within its peaking limits, unless it has MDL consent to exceed these for operational reasons.

Peaking Limits apply to hourly deliveries. A Peaking Limit is the maximum reasonably practicable and no less than the limits established according to Schedule 7 of the MPOC (which only sets limits for Large Stations[5]).

The MPOC change request will reduce the peaking limits at some Large Stations and introduce a Peaking Charge. The Peaking Charge will not apply if on the day: the Incentives Pool Trustee has invoiced the Welded Party for Incentives Pool Debits; or line pack is above the low line pack threshold; or no balancing actions were taken. The main difference from the status quo and the situation that will apply once the MPOC change request is implemented is that there will be an additional penalty charge on parties that exceed their peaking limits on days when balancing action(s) is(/are) taken.

[3] Which is the greater of either (a) the hourly Scheduled Quantity times the Peaking Tolerance; or (b) the minimum peaking limit for that Welded Point.
[4] Calculated in dollars as either (a) zero if there are no Incentive Pool Claims in respect of the relevant day; or (b) the sum of Incentives Pool Claims for that day divided by the sum of Incentives Pool Debits for that day
[5] A Large Station is defined in the MPOC as a station not being a Small Station, where the definition of a Small Station is a station having a maximum design flow rate less than or equal to 5000 standard m^3/h specified in Schedule 8 of the MPOC.

Removal of TP Welded Party extra Balancing Gas scheduling rights

Current arrangements permit a TP Welded Party to use the Maui Pipeline for transmitting balancing gas. Such transmission has priority over other gas and cannot be displaced by other nominations.

The MPOC change request will remove all TP Welded Party rights in relation to transmitting balancing gas.

1.4 Current VTC change request

Because the commercial arrangements on the Maui Pipeline, as governed by the MPOC, flow through to impact commercial arrangements on Vector's transmission pipelines, it is necessary for Vector to make changes to the VTC so as to align the two industry codes once the MPOC changes discussed above are implemented.

Vector has therefore submitted the current change request which it says will 'improve the efficiency of balancing arrangements' and particularly the promotion of productive efficiency.

The three changes to the VTC that Vector has identified as necessary to give effect to the MPOC change request are:

- removing the ILON process and replacing it with a B2B cash-out mechanism;
- accommodating the new MPOC Peaking Charge in the VTC; and
- limiting the scope for disputing invoices relating to balancing.

On 13 December 2012, Gas Industry Co notified industry participants of the change request and invited submissions. Six submissions were received. These submissions are referred to throughout this document.

1.5 Invitation for submissions

Gas Industry Co welcomes submissions on this draft recommendation.

Submissions are due by 5pm, 25 March 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.

2 Proposed changes

2.1 Replace ILON process with B2B process

Current arrangements

At present, section 8.5 of the VTC describes the process for compliance with ILONs should Vector receive one from MDL. On receiving an ILON from MDL for a certain Welded Point, Vector:

- will post the ILON on OATIS as soon as reasonably practicable; and
- as soon as reasonably practicable post on OATIS:
    - Vector's estimate of the contribution Vector's Running Imbalance has had to the ROI to which the AEOI specified in the ILON relates; and
    - Vector's estimate of the contribution that the Vector Running Imbalance has had to the ILON AEOI (Vector's contribution) which is calculated as:

      $$\frac{Vector\ Running\ Imbalance}{ROI} \times ILON\ AEOI$$

      where Vector Running Imbalance is a defined term in the VTC.

Each VTC Shipper for each day must use reasonable endeavours to ensure the aggregate of its Receipt Quantities on a pipeline match the aggregate of its Delivery Quantities.

Section 8.12 of the VTC sets out how Vector recovers indemnity costs pursuant to section 12.13 of the MPOC. Sections 8.13 to 8.20 of the VTC describe the arrangements for making payments into and out of the balancing and peaking pool.

Section 8.13(a) of the VTC is also relevant. Currently, if Vector makes a payment to the Incentives Pool Trustee as the result of an Incentives Pool Debit arising from an Excess Daily Imbalance, the BPP Trustee makes a payment to Vector (or the Incentives Pool Trustee if Vector requests). The amount payable by Vector to the Incentives Pool Trustee is allocated accordingly:

- to each Shipper with negative mismatch on the relevant day in accordance with the Shipper Allocation formula:

amount payable by shipper =

$$\frac{Shipper's\ negative\ mismatch}{\sum(Shipper\ negative\ mismatch + Vector\ Imbalance)} \times (Vector\ costs - NonCode\ Shipper\ Costs)$$

- to Vector where Vector has a negative Vector Imbalance on that pipeline on the relevant day, the amount payable by Vector is Vector costs minus Non-Code Shipper Costs with the product multiplied by the proportion Vector's Imbalance has of the total Vector Imbalance plus all Shipper negative mismatch on that pipeline on the relevant day.

The definitions and construction section of the VTC currently says a Cash-out:

> means where MDL buys from or sells to Vector a quantity of Gas pursuant to section 12.11 of the MPOC where Vector has not reduced or eliminated the Accumulated Excess Operational Imbalance at a Welded Point in accordance with the relevant Imbalance Limit Overrun Notice.

Section 8.19 of the VTC describes what happens in the event of a Cash-out occurring. In the event of a Cash-out, Vector will be either purchasing or selling gas.

Where Vector has purchased gas, the BPP Trustee makes a payment to Vector (or to the seller of that gas if Vector requests). Each Shipper with a negative Running Mismatch on the relevant pipeline and day then purchases gas from Vector. The quantity of gas and cost of gas is then allocated to Shippers with a negative Running Mismatch and Vector if it has negative Vector Running Imbalance in accordance with the same formulas above.

Where Vector has sold gas, Vector pays the proceeds into the BPP Account. Each Shipper with a positive Running Mismatch on the relevant pipeline and day then sells gas to Vector. Section 8.19(b)(i) describes the amount such Shippers are entitled to receive from the BPP Account. Section 8.19(b)(ii) describes the amount Vector is entitled to receive from the BPP Account, if it has a positive Vector Running Imbalance.

Proposed arrangements

Few changes are required to the VTC in order to remove the ILON process and replace it with the B2B mechanism.

Section 8.12 is removed to reflect the deletion of the indemnity from section 12.13 of the MPOC.

The definition of a cash-out is changed slightly to reflect that MDL may buy from or sell to Vector a quantity of gas pursuant to sections 12.10, 12.11, or 12.12 of the MPOC, rather than only section 12.11, where the changes are due to introducing B2B arrangements in the MPOC. The definition of a BPP Allocation Day is amended so that it relates to when a Cash-out occurs which is consistent with B2B balancing arrangements (rather than the final day when an ILON is applicable).

Section 8.13 has been modified slightly so that section 8.13(a) refers to Vector making Incentive Pool Debits as a result of an Excess Daily Imbalance at the Welded Point. Section 8.13(b) is modified slightly to include the MPOC Peaking Charge, but is related to the changes discussed in section 2.2 of this paper.

The VTC arrangements for Vector buying its own balancing gas directly (section 8.4 and 8.18), and for Vector being cashed out as a Maui pipeline Transmission Pipeline Welded Party (section 8.19), will be unaffected by this change request.

Submissions

Submitter	Argument
Genesis	Agrees with the intent of the change request but does not support it. The VTC has not been amended to ensure that Vector is allocated balancing costs in situations where it is the causer of such costs. Disagrees with allocation of cash-outs by pipeline as this can result in a shipper with overall positive running mismatch being cashed-out at an individual Welded Point. Believes cash-outs should be allocated according to total running mismatch position. Also, approval of the change request should be conditional on Non-Code Shippers agreeing to identical terms.
MRP	Support the changes proposed.

Discussion

Genesis argues that the definitions of Vector Imbalance and Vector Running Imbalance should recognise situations where there are changes in line pack caused by Vector for operational reasons. Without this recognition, Vector may cause balancing costs but not have to pay those costs.

In response to Genesis, we note that Vector is exposed to balancing costs in some situations where it is the causer of such costs, both at present and in the change request. For instance, Vector will be allocated a proportion of an amount payable to the Incentives Pool Trustee in accordance with section 8.13(a)(ii).

We agree with Genesis that there can be situations where changes in line pack may cause (or more likely contribute to causing) a balancing action on the Maui pipeline without a resulting allocation of costs to Vector. For example, the situation might arise if Vector's line pack is replenished after the evening demand peak, after demand has caused the line pack to decrease over the course of the day. In that situation the increase in line pack may have contributed to the need to take a balancing action on the Maui pipeline, but there may be no change to ROI over the full day, so an allocation of costs is avoided. The situation may also arise as a result of MDL's actions. Frankley Road is operated via pressure control and gas flows according to the pressure differential between Vector's and MDL's Pipelines. High pressure in this section of the Maui Pipeline can cause the Vector line pack to increase. However, the replenishment of line pack described above would be a result of earlier depletion of

linepack by shippers and that must have been caused by one or more of those shippers (or their customers) having consumed more gas than was delivered into the pipeline.

We think it is reasonable for Vector, provided it has acted as an RPO, to not have to pay balancing related costs that may accrue as a result of changes in line pack. We agree that line pack management is a necessary service and function of a gas transmission system that is for the benefit of Shippers and their end users.

Also in response to Genesis, allocating cash-outs by pipeline is consistent with current balancing arrangements so would not be changed by Vector's change request. Shippers are currently required to use reasonable endeavours to ensure that their Receipt Quantities match their Delivery Quantities for each pipeline.

The issue raised by Genesis on Non-Code Shippers is addressed in section 4.2.

The changes proposed by Vector appear reasonable to us and reflect the B2B process of the MPOC change request.

2.2 Modify the VTC to include MPOC Peaking Charge

Current arrangements

Peaking Limits are set in the MPOC for Welded Points. If Shippers suspect they may cause a Peaking Limit to be exceeded then that Shipper may notify Vector. Vector will seek MDL's consent to exceed the relevant Peaking Limit. If MDL consent is not given, the Shipper should not cause the Peaking Limit to be exceeded.

If Vector must make a payment to the Incentives Pool Trustee as a result of a Peaking Limit being exceeded on a day, then the BPP Trustee makes a payment to Vector (or if Vector requests to the Incentives Pool Trustee). Allocation of that Peaking Charge to Shippers is determined by Vector.

- If Vector determines that one Shipper only (not a Non Code Shipper) has caused the Peaking Limit to be exceeded then that Shipper will pay the total amount into the BPP Account;
- If Vector determines that more than one Shipper (including Non Code Shippers) caused a Peaking Limit to be exceeded then the cost would be divided to those Shippers in accordance with the proportion Vector is able to identify each Shipper contributed to the exceeded limit. If Vector is unable to identify the Shippers that should be allocated those costs then the costs will be divided amongst those Shippers in proportion to the quantity of gas delivered to each of those Shippers on the relevant pipeline and day;
- If Vector has contributed to the Peaking Limit being exceeded by failing to act as a Reasonable and Prudent Operator then Vector pays the associated cost into the BPP Account and the amount payable by a Shipper(s) is reduced accordingly.

Proposed arrangements

A new definition of Peaking Charge is included in the VTC which refers to the definition from the MPOC. The Peaking Charge is added to the payments that trigger the cost recovery provision in section 8.13(b). These changes are necessary to include in the VTC the new Peaking Charge under the MPOC.

The change request also amends section 8.13(b) of the VTC to include Vector in the allocation of peaking costs and to clarify how much the allocation of peaking costs to Vector and Shippers is reduced when Vector has failed to act as a reasonable and prudent operator. The change request also includes a new schedule to the VTC (Schedule Nine) which requires Vector to apply a methodology for determining which of Vector, Shippers, and Non-Code Shippers are to pay peaking costs and to calculate the amount of the costs each must pay.

Our understanding is that Schedule Nine will work as follows:

- Vector will calculate Vector and each Shipper(s) and Non-Code Shipper(s) hourly receipt quantity for the period during which a Peaking Limit was exceeded. Production or processing facilities will have their receipt quantities taken from hourly metered quantities. For Receipt Points from Maui's pipeline, the receipt quantity for Vector, Shippers, and Non-Code Shippers will be that party's nominations to the relevant Welded Point divided by 24 (taking into account any intra-day nomination changes). Receipt quantities for Receipt Points on Vector's pipelines will be the same as the hourly delivery quantity calculated in the next step;

- Vector then calculates hourly delivery quantities for Vector, each Shipper(s), and Non-Code Shipper(s). For non-pipeline delivery points, this will be the Hourly metered quantities and for all other delivery points, the delivery quantities will be the allocated delivery quantity (as per section 6.5 of the VTC) divided by 24 (taking into account any intra-day nomination changes);

- the Peaking Tolerance in the MPOC is then applied to relevant quantities;

- if a party's scaled (by the Peaking Tolerance) receipt quantity exceeds its delivery quantity for the period in which the Peaking Limit was exceeded, then the party will not be deemed to have contributed to the exceeded Peaking Limit and will not incur any related costs;

- if a party's scaled (by the Peaking Tolerance) receipt quantity is less than its delivery quantity for the period in which the Peaking Limit was exceeded, then the party will be considered to have caused or contributed to the Peaking Limit being exceeded and will be allocated costs according to the formula[6]:

$$peaking\ cost_x = \frac{total\ peaking\ cost\ \times (Peaking\ Tolerance\ \times hourly\ RQ_x - hourly\ DQ_x)}{\sum(Peaking\ Tolerance\ \times hourly\ RQ_{ALL} - hourly\ DQ_{ALL})}$$

[6] Where "ALL" refers to all contributing Shippers, Non-Code Shippers, and Vector

Submissions

Submitter	Argument
Genesis	The allocation methodology does not appear to cover gas to/from storage facilities, should include a definition of "relevant quantities" to avoid legal ambiguity, and should cap the peaking cost allocated to a Shipper at the $/GJ rate that Vector is invoiced by MDL.
Greymouth	Schedule Nine does not appear to apply to Vector due to the definition of 'Receipt Quantity'. Similarly, Vector does not appear to be captured by the definition of 'Delivery Quantities'. Disagrees with Vector that balancing costs resulting from linepack management should be borne by Shippers (except where Vector has not acted as an RPO). States that there is no provision in the change request to account for when Vector has not acted as an RPO. If Peaking Limit costs cannot be allocated to Vector as a potential causer of those costs then this is inefficient.
MRP	Generally supportive of the change. However, concerned about any contribution that Vector may have in creating peaking charges in its management of linepack. If this linepack management causes a peaking charge then Vector should contribute to the costs.

Discussion

Genesis queries whether storage facilities would be captured by the allocation methodology. Vector has assured us that storage facilities are captured by Schedule Nine. Receipts from a storage facility will be captured by 1.1(a) of Schedule Nine and deliveries will be captured by 1.2 (a).

We leave the decision on whether to include a definition for 'relevant quantities' to Vector. This is a technical amendment which could be made without re-submitting the change request. However, our opinion is that the proposed use of 'relevant quantities' in section 1.3 of Schedule Nine is sufficiently clear in that it applies to the Receipt quantities from section 1.2.

We see no need for there to be a capped peaking cost, as requested by Genesis. The Peaking Allocation Methodology already limits the total cost to the Peaking Cost determined in section 8.13(b) of the VTC. In any case, the proposed Peaking Allocation Methodology seems to provide Shippers with a reasonable incentive to match receipt and delivery quantities. Section 8.20 of the VTC requires that Vector shall only recover direct costs in respect of the sale and purchase of balancing gas or a cash-out – no margin is added.

Greymouth queries whether Schedule Nine will apply to Vector owing to the definitions of 'Receipt Quantities' and 'Delivery Quantities'. Vector has commented on this and it notes the quantities are provided for in Schedule Nine and are derived from, but are not the same as, Receipt Quantities and Delivery Quantities. Vector is therefore 'captured' by Schedule Nine.

The Peaking Allocation Methodology will apply when Vector has not acted as an RPO. We note that the current section 8.13(b) does not include Vector in the allocation of peaking related costs (unless it

has not acted as an RPO). Therefore, the change request is no worse than the status quo and, provided Schedule Nine applies when Vector has not acted as an RPO, clarifies the extent to which Vector must pay peaking related costs.

Greymouth queries why line pack is included in terms of balancing cost recovery but not for peaking: in other words, if Vector can be liable for causing a Peaking Charge by not acting as an RPO then it must also be able to cause a Peaking Charge by acting as an RPO. However, we accept Vector's argument that line pack management is for the benefit of Shippers using the Vector transmission system. Any line pack management that results in a balancing action where Vector has acted as an RPO is likely to be in response to Shippers taking more or less gas than anticipated.

We note that the algorithm in Schedule Nine is imperfect, particularly because hourly delivery quantities not determined by hourly metered quantities will be based on allocated delivery quantities divided by 24. Dividing the allocated quantities in this manner gives a flat average delivery quantity for the relevant party which is very unlikely to represent actual hourly deliveries on the day. However, we do not think this is unreasonable. Deriving actual delivery quantities for non-hourly metered consumers would likely involve substantial investments in metering. Further, the algorithm is no worse than, and is likely to be more efficient than, the status quo.

We think the changes proposed to peaking charges represent an improvement on the status quo.

2.3 Limited scope for disputing balancing invoices

Current arrangements

Section 16.17 of the VTC relates to disputed invoices. Shippers may dispute any invoice received under sections 16.1 to 16.3 of the VTC. The disputing Shipper pays the undisputed portion of the invoice. If the dispute has not been resolved within 15 business days then either Party to the dispute may refer the dispute to an independent expert in which case section 17.2 of the VTC applies. Interest is payable on the disputed amount upon resolution of that dispute. Any determination made by an independent expert under section 17.2 is conclusive and binding. The costs of such an independent expert will be shared evenly between Vector and the disputing party or as otherwise determined by the independent expert.

Proposed arrangements

The change request proposes limiting the scope for Shippers to dispute balancing invoices. Shippers will only be able to dispute balancing invoices if they are able to show that Vector has made or relied on a manifest error in calculating BPP amounts. Vector states that this will retain the causer pays objective of the B2B change request.

Submissions

Submitter	Argument
Contact	Disagree with the proposed changes as there may be instances apart from manifest errors that should be disputable with MDL. Support idea of step-in right.
Genesis	Proposed changes are not necessary to give effect to B2B and are detrimental to Shippers. Disagree with Vector that the ability to dispute invoices dilutes the incentives created by B2B balancing.
Greymouth	It is inefficient if Shippers cannot dispute invoices. Vector will have much less incentive to raise balancing disputes with MDL, particularly on behalf of all Shippers. Vector has not made a satisfactory case for the proposed change. Vector is the party best placed to dispute invoices with MDL. The proposal is not consistent with one of the points in the GPS which is that Gas Industry Co should pursue 'gas governance arrangements that are supported by appropriate compliance and dispute resolution processes.'
MDL	*See discussion on step-in rights below.*
MRP	Do not support this change. Shipper contractual rights are reduced and monopoly power is increased. Vector has not substantiated their claim that Shippers use the disputes process to manage their cash flow positions. Schedule 2 is a better place to achieve dispute resolution.
Vector	*See discussion on step-in rights below*

Discussion

Removing the rights of Shippers to dispute balancing invoices issued by Vector means that Shippers must pay all balancing invoices unless Vector makes a manifest error.

Vector states that this change is necessary so as to maintain the efficiency benefits of B2B balancing. However, we note that the NERA analysis that Vector has included in its appeal does not support that conclusion. It concludes that '[o]n the information we currently have, it is not possible to say whether the net effect would be positive.'

Our own view is that the efficiency benefits of B2B are achieved when the correct parties are invoiced for a balancing transaction that they have caused. These efficiency benefits will only be realised if Vector accurately passes through the costs to users of its pipeline who have caused them. Removing Shipper's right to dispute their allocation of these costs does not add to the efficiency benefits.

The proposed change would be entirely reasonable if Vector could assure accuracy in apportioning balancing invoices, including all invoices that may not contain manifest[7] errors (i.e. no invoices would be issued that were free of manifest errors but which were incorrect).

[7] Manifest is defined as "clear or obvious to the eye or mind", from http://oxforddictionaries.com/definition/english/manifest?q=manifest

We believe it is unlikely that Vector will issue balancing invoices with complete accuracy. Vector issues BPP invoices to Shippers on the fourteenth day of each month and uses the initial allocations provided by the allocation agent as an input for calculating invoices. BPP invoices are not washed-up. However, Shipper allocation results become more accurate at subsequent allocation stages – particularly mass-market retailers and TOU retailers that might have experienced a metering error during the month in question. While Vector is within its rights to rely on the initial allocation results, the point is that BPP invoices cannot be guaranteed to be accurate.

Transmission system meter errors may also cause inaccurate BPP invoices.

Greymouth states that Vector will have less incentive to dispute balancing invoices from MDL. We think that B2B balancing will result in MDL being able to more accurately allocate balancing costs. However, we do not agree that Vector will have less incentive to raise disputes with MDL as required from time to time. Vector's balancing invoices will be corrected if they contain manifest errors, including if information supplied by MDL is incorrect (under section 8.21(b) of the VTC). Vector therefore has a clear incentive to ensure information provided by MDL is accurate. We note a point made in MDL's submission that Vector's Shippers are likely to be Shippers on the Maui pipeline. Those Shippers are therefore entitled to raise a dispute if they disagree with MDL's balancing procedures. In this context, if Vector receives a B2B invoice for which the balancing transaction has been reasonably carried out by MDL, then provided Vector accurately allocates the costs of the invoice, we fail to see on what grounds a Shipper may need to dispute a balancing invoice.

We think the key point to this issue is that, as long as Vector calculates invoices in accordance with the VTC, there is limited scope (and need) to dispute balancing invoices: Vector will correct invoices containing manifest errors; Shippers will have the opportunity to demonstrate prior to an invoice being issued by Vector that they did not cause or contribute to peaking costs; and Shippers have the ability to alter the way balancing invoices are calculated by using their change request rights.

Step-in rights

In submissions there were some comments about a 'step-in right' allowing Vector Shippers to dispute an invoice directly with MDL. However, we cannot evaluate that as part of this change request. We do agree with MDL's sentiment that it contracts with Vector as a Welded Party, not with Vector's Shippers. We therefore agree with Greymouth that Vector is likely to be the party best placed to dispute invoices from MDL. MDL makes balancing gas transactions to maintain the integrity of the Maui Pipeline. It is reasonable that the causers of those transactions should be invoiced for them.

Nonetheless, we withhold evaluating such arrangements until they are a formal part of a change request and subjected to the normal Gas Act and GPS outcomes.

3 Evaluation criteria

3.1 Gas Act and GPS

Gas Industry Co will have regard to the objectives of section 43ZN of the Gas Act and the GPS when making its recommendation on a VTC appeal.

Objectives in section 43ZN of the Gas Act

The principal objective of Gas Industry Co in developing/recommending any regulation 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.

GPS objectives and outcomes

Objectives

The GPS requires Gas Industry Co to have regard to two further principal objectives—fairness and environmental sustainability—in all of its recommendations.

Gas Industry Co must also have regard to the other objectives set out in the GPS as follows:

- energy and other resources used to deliver gas to end users are used efficiently;

- competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users;
- the full costs of producing and transporting gas are signalled to end users;
- the quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences; and
- the gas sector contributes to achieving the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister of Energy and Resources may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency.

Outcomes

The GPS sets out specific outcomes Gas Industry Co is expected to pursue through its work programme. The outcomes most relevant to the appeal are:

- an efficient market structure for the provision of gas metering, pipeline, and energy services;
- accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities;
- gas governance arrangements are supported by appropriate compliance and dispute resolution processes; and
- gas industry participants and new entrants are able to access ….transmission pipelines…. on reasonable terms and conditions.

3.2 Evaluation

Replace ILON process with B2B process

We find the following objectives/outcomes the most relevant with respect to the proposed change:

- the full costs of producing and transporting gas are signalled to end users; and
- an efficient market structure for the provision of gas metering, pipeline, and energy services.

Accommodating the B2B process in the VTC will improve the cost transparency of transporting gas as those parties that have contributed to the need for a balancing action are more likely to pay the costs of any balancing action. This is a more efficient outcome than the status quo.

Accommodating the B2B process in the VTC ensures that the efficiency benefits of B2B balancing in place of the ILON process will be realised, particularly as there will be reduced scope for balancing cost socialisation.

We therefore support this aspect of the change request.

Modify the VTC to include MPOC Peaking Charge

We find the following objectives/outcomes the most relevant with respect to the proposed change:

- the full costs of producing and transporting gas are signalled to end users.

At present, where Vector makes a payment to the Incentives Pool as a result of deliveries at a Vector TPWP exceeding the Peaking Limit, VTC arrangements provide for Vector to allocate such costs to causers if the causer can be identified. However, we understand that where Vector has attempted to identify causers the wording of the provisions allow ample scope for dispute. As a result Vector has generally socialised such costs. We consider that the more formulistic approach to allocating Peaking Charges, as set out in the new Schedule Nine, will improve on this situation. Overall we consider that it will improve the signalling of peaking costs to system users.

Limited scope for disputing invoices relating to balancing

We find the following objectives/outcomes the most relevant with respect to the proposed change:

- gas governance arrangements are supported by appropriate compliance and dispute resolution processes.

With the removal for Shippers to dispute balancing invoices from Vector, we think appropriate dispute resolution processes will still be in place. Shippers on the Maui pipeline will be able to raise a dispute if they believe MDL's balancing procedures are sub-optimal. Vector will correct invoices that contain manifest errors. Shippers will also have the opportunity to demonstrate prior to an invoice being issued by Vector that they did not cause or contribute to peaking costs.

While we will not be able to assess the full impact of this change until after it occurs, we note that if Shippers experience considerable harm in not being able to dispute balancing invoices they are of course entitled to pursue their own VTC change request reversing this element of the current change request.

Our assessment is that this change is neither worse than nor better than the status quo.

4 Non-Code Shipper Agreements

4.1 Non-Code Shipper Agreements

Some submitters have commented that this change request should not proceed until there is assurance from Vector that Non-Code Shipper agreements will be updated to reflect the proposed balancing and peaking arrangements. We agree with those submitters. It would be unfair to all other users of Vector's pipelines if Non-Code Shipper agreements did not reflect similar principles as proposed in this change request.

We note that Vector has endeavoured to ensure that the Non-Code Shipper agreements are updated. Our support for this draft recommendation is conditional on Vector updating those agreements. We request evidence from Vector if and when those agreements are updated to show this has been done.

5 Draft Recommendation

Our draft recommendation is to support this change request.