APPENDIX II: CONSULTATION FEEDBACK

Throughout August and September MDL met with Vector (Transmission and Wholesale), Contact, Genesis, Mighty River Power, Greymouth, Methanex, Nova, the Major Gas Users Group, the GIC and MED.

From Shippers and Welded Parties came several consistent themes[1] (in descending order of prominence):

- There would be little support for increased peaking charges, particularly given the limitations in allocating those charges to causers downstream on Vector's transmission pipelines. In practice, there is a heavy socialisation element in the way these charges are passed on to Vector's shippers, so greater charges at the TP Welded Points would effectively translate into greater charges for all shippers, regardless of causation.

- The current system works relatively well and the cost (known or unknown) of replacing it may outweigh the benefits. "If it ain't broke, don't fix it."

- The proposed ROILs (0.5% SQ / 500GJ) would not give Shippers sufficient freedom to manage their imbalances and the increased costs of compliance may outweigh the savings in targeting costs to causers.

- Removing ILONs removes a useful self-balancing tool which shouldn't be removed until a daily allocation system is concurrently introduced on Vector's transmission system.

- Concurrent introduction of the spot market would make the Change Request proposal (the flat peaking charge, in particular) significantly more acceptable.

Vector Transmission also noted the importance from their perspective of having sufficient opportunity – should the Change Request ultimately be approved – to shepherd through the corresponding changes to the VTC and to their systems.

MDL's response

In response to these views MDL makes the following points:

- MDL does not profit from peaking income. Peaking (indeed, all balancing) charges are "washed up" in accordance with Schedule 10 of the MPOC. That is, any excess income is returned to customers via tariff adjustment. This dynamic is not expected to change following implementation of the Commerce Commission's price-quality regulation, which is scheduled to commence in July 2012.

- The proposed Peaking Charge is in MDL's view consistent with both Government policy objectives and the Critical Contingency "cash out" model, in the sense that it sends a clear signal to the market by placing a value on the pipeline's scarce flexibility (i.e. a resource).

[1] Only those views that were raised by more than one stakeholder have been recited in this Appendix II.

- The proposed Peaking Charge to a certain extent anticipates increasingly intermittent future use of the pipeline. Volatile off-take or injection can lead to disruption of the gas transmission service. To ensure a reasonable degree of system reliability during periods of distress there needs to be some form of price signal on flexibility. When Line Pack is low the flexibility in the pipeline becomes an increasingly scarce resource; and by putting a premium on its use the system ensures that it is allocated most efficiently, to those that need it, and those who value it. Plainly, this promotes market efficiency.

- The proposed Peaking Charge is not as pure a mechanism as MDL would have liked (and originally proposed). Rather it (and the Change Request as a whole) represents a partial concession to industry in light of feedback received throughout the consultation process. If future demand becomes increasingly volatile peaking charges may need to be revisited.

- In putting forward an appropriate incentives structure that caters for intermittent demand MDL considers that it is doing its part to promote efficiency of the energy market. MDL believes the system also promotes security of electricity supply, an important Government objective.

- The proposed Peaking Charge strikes a balance between the need to address intermittent demand and customer preference (for a low cost peaking service). It should be noted however that any cost that is not allocated directly to "causers" will always be socialised; and thus no matter how inexpensive the service might appear to be, there is nevertheless a cost, and this cost will be met by customers, either through allocation to "causers" or through socialisation.

- The limitations imposed by Vector's cost allocation systems are well understood. These cannot be allowed to obstruct progress in the evolution of the New Zealand gas industry. Nevertheless MDL is prepared to work with Vector to coordinate implementation of the proposed improvements. As a matter of timing, MDL is prepared to delay implementation of the Change Request for up to six months from the date the application receives the GIC's approval (if such approval is forthcoming), provided that:

  - Vector provides MDL with a reasonable plan within one month of that date, setting out the process it proposes to undertake, and
  - If an earlier implementation date is feasible, that earlier date is adopted.

- MDL is not in a position to coordinate implementation of the Change Request with implementation of the spot market. Progress on the latter is tied to resolution of Maui joint venture issues, which the Maui Mining Companies continue to work through.