



Draft

MPOC 5 October 2009
Change Request Draft
Recommendation

Date issued: November 2009
Submissions close: 9 December 2009





About Gas Industry Co.

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

As such, 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 Government's policy objectives for the gas sector.

Authorship

This paper was prepared by Ian Wilson

Submissions close: 9 December 2009

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Introduction

Section 29 of the Maui Pipeline Operating Code (MPOC) assigns Gas Industry Company Limited (Gas Industry Co) a role in respect of any proposed amendments to the MPOC (Change Request). Gas Industry Co's role is to consult with the gas industry on the Change Request 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 Maui Development Limited (MDL) supporting the Change Request.

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 makes a final 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 MPOC, unless stated otherwise.

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Current change request and process to date

On 5 October 2009, Gas Industry Co received a Change Request from MDL (October Change Request). This Change Request was in response to Gas Industry Co engaging MDL to assess the feasibility of establishing and operating two Notional Welded Points on the Maui Pipeline that would function as a gas 'Trading Hub' for the wholesale gas market in New Zealand. MDL prepared a set of amendments to the MPOC that it considered would be necessary to accommodate the Trading Hub Receipt Point and Trading Hub Delivery Point.

After receiving the October Change Request, Gas Industry Co followed the process in the MoU for dealing with MPOC Change Requests. Gas Industry Co posted the October Change Request on its website on 7 October 2009 and sought submissions. Submissions were received from four parties. Gas Industry Co has now considered the submissions.

The purpose of this paper is to set out our Draft Recommendation. This paper summarises the October Change Request, the submissions received, and Gas Industry Co's analysis. For further information, including a copy of the October Change Request and a copy of submissions, please refer to the work programme section of our website at www.gasindustry.co.nz.

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Next steps

Gas Industry Co invites MDL, parties to the MPOC, and submitters from the first round of consultation to make submissions on the Draft Recommendation.

Parties who wish to make submissions on Gas Industry Co's Draft Recommendation are invited to respond by 5:00 pm on 9 December 2009. Please note that submissions received after this date may not be considered.

Gas Industry Co prefers receiving submissions in electronic form (Microsoft Word format or pdf). Submissions can be made by logging-on to Gas Industry Co's website www.gasindustry.co.nz, navigating to the 'MPOC Change Request 5 October 2009' work programme, and uploading your submission in the 'Draft Recommendation' section. All submissions will be published on the website after the closing date. For further information, see the 'Guide for Users of this Website' on the Gas Industry Co homepage.

Gas Industry Co will acknowledge receipt of all submissions electronically. Please contact Ian Wilson if you do not receive electronic acknowledgement of your submission within two business days.

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Changes proposed by MDL

Background

Establishment of Wholesale Market Trading Hub

The Government Policy Statement on Gas Governance (GPS) states that one of the outcomes for the gas industry is the development of an efficient wholesale market that contains:

- Efficient arrangements for the short-term trading of gas; and
- Accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities.

However, at present there is no organised facility in place in New Zealand to enable formalised gas trading across both pipelines, so any trading that does occur is arranged privately by individual participants, with the terms and conditions typically confidential to the contracting parties.

As a result, Gas Industry Co proposed a 'Trading Hub' for the wholesale gas market in New Zealand as a way to increase transparency and liquidity of the wholesale gas market. In August 2007, Gas Industry Co made a recommendation to the Minister outlining a work plan in order to achieve the establishment of the Wholesale Market Trading Hub.

MPOC changes to establish Trading Hub

As part of the work plan, Gas Industry Co engaged MDL to assess the feasibility of establishing and operating two Notional Welded Points on the Maui Pipeline that would function as the 'Trading Hub' for the wholesale gas market.

MDL has prepared a set of amendments to the current MPOC that would enable the establishment and operation of a Trading Hub (comprised of a Trading Hub Receipt Point and Trading Hub Delivery Point) on the Maui Pipeline. These points would facilitate title transfer for a gas wholesale market. In order to do so, the changes will:

- incorporate the Notional Welded Points in the MPOC and subsequently OATIS to make it function in a similar fashion to Standard Physical Welded Points; and
- allow for the Trading system to work interdependently with, and minimise impact on, existing systems, processes, and procedures related to the transmission and allocation of gas in the Maui Pipeline.

Proposed amendments

This section summarises the 'Proposed Amendments'. Appendix A contains a complete overview of the Proposed Amendments, which are also highlighted in a marked-up version of the MPOC that can be found on Gas Industry Co's website.

Definitions/ interpretation

MDL proposes the addition of a number of definitions in section 1 (Definitions and Interpretation) of the MPOC, to allow for the operation of the Trading Hub, including:

- Notional Point Welded Party, which means the Welded Party at a Notional Welded Point;
- Notional Welded Point, which means each of the Trading Hub Receipt Point and the Trading Hub Delivery Point;
- Trading Hub Delivery Point, which means the notional Delivery Point established for the purposes of a Trading System (which, for the purposes of calculating any Throughput Charges, shall be deemed to be located at a point on the Maui Pipeline specified in the relevant ICA);
- Trading Hub Receipt Point, which means the notional Receipt Point established for the purposes of a Trading System (which for the purposes of calculating any Throughput Charges shall be deemed to be located at a point on the Maui Pipeline specified in the relevant ICA);
- Trading System, which means a wholesale market system for use for the trading of short-term quantities of Gas;
- Physical Point Welded Party, which means a Welded Party at a Physical Welded Point;

- Physical Welded Point, which means any point at which there is a connection between the Maui Pipeline and the infrastructure of a Welded Party (including the facilities connecting the Maui Gas production station at Oaonui to the Maui Pipeline);
- Physical Delivery Point, which means a Delivery Point that is a Physical Welded Point; and
- Deemed Measured Quantity, which means, in respect of a Day and a Notional Welded Point, a quantity of Gas equal to that Day's Scheduled Quantity for the Trading Hub Delivery Point;

In addition to the above definitions, MDL proposes a number of amendments to section 1 to the following current definitions and interpretations:

- Excess Daily Imbalance;
- Operational Imbalance;
- Reasonable and Prudent Operator;
- Scheduled Quantity;
- Shipper Rolling Forecast;
- Transmission Day; and
- Welded Point.

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Operational provisions

In its application, MDL also proposes a number of amendments/additions be made to the operational provisions of the MPOC, including:

- Amendments to section 2.1 relating to the provision for, and disclosure of, special terms and conditions in an ICA between MDL and a Notional Point Welded Party;
- An addition to section 8.32, which states:

Notwithstanding any other provision of this Operating Code, MDL shall not deliver, and a Shipper shall not request MDL to deliver, any quantity of Gas to or from a Notional Welded Point unless that Notional Welded Point is at the relevant time registered on the MDL IX as

included in that Shipper's TSA. MDL shall, if requested by the Notional Point Welded Party in writing, in respect of a Shipper:

(a) register the Notional Welded Points on the MDL IX as included in that Shipper's TSA; or

(b) de-register the Notional Welded Points from that Shipper's TSA on the MDL IX;

- Amendments to sections 12.6 and 12.8 to confirm that the Daily Operational Imbalance Limit at each Notional Welded Point shall be zero;
- An amendment to section 12.11 to allow MDL to 'cash-out' any Operational Imbalance that remains at the end of a Transmission Day at a Notional Welded Point;
- The addition of section 12.19, which states:

Notwithstanding any other provision of this Operating Code, for the purposes of calculating Operational Imbalance, Running Operational Imbalance and Excess Daily Imbalance in relation to a Notional Welded Point the quantity of Gas that on a Day has flowed through the Trading Hub Delivery Point and the Trading Hub Receipt Point, respectively, shall be the Deemed Measured Quantity for that Day. The Parties acknowledge that the effect of this section 12.19 is that there shall be no Operational Imbalance, Running Operational Imbalance or Excess Daily Imbalance at the Trading Hub Delivery Point. The Notional Point Welded Party shall use all reasonable endeavours to ensure that at all times there is no Operational Imbalance, Running Operational Imbalance or Excess Daily Imbalance at the Trading Hub Receipt Point;

- Amendments to section 13.2 and 13.3 to confirm that Operational Profile Notices and Incentives Pool Debits for exceeding the Peaking Limit only apply to Physical Welded Points;
- Amendments to section 15.1 to enable MDL to curtail Approved Nominations and associated Scheduled Quantities at any relevant Welded Point in order to prevent Operational Imbalance occurring at Notional Welded Points. This amendment is required due to OATIS's inability to 'see through' the Trading Hub Delivery Point and carry through a curtailment to the Trading Hub Receipt Point (or vice versa);
- An amendment to section 19.1(c) to reflect the fact that Tariff 2 will not be payable on Gas transported to the Trading Hub Delivery Point;
- An addition of section 22.13, which states:

MDL may suspend the ICA of a Notional Point Welded Party by giving the Notional Point Welded Party 30 Days' notice. During any such suspension Shippers shall not be able to submit Nominated Quantities in respect of the Trading Hub Delivery Point or the Trading Hub Receipt

Point. MDL may reinstate the ICA of a Notional Point Welded Party that has been suspended by giving the Notional Point Welded Party 7 Days' notice; and

- Amendments to Schedule 3 to allow for the establishment of Notional Welded Points in Welded Party Agreement form.

Other amendments

Amendments to sections 6.4, 8.1, 8.7, 12.1, 12.8, 14.6, 19.5, 19.7, 21.4, 24.2 and Schedule 1 that are purely of a drafting nature and consequential to the amendments described above.

Effects of October Change Request

In its application, MDL outlines what the effects of the proposed amendments will be. These are summarised below.

ICA/TSA

In its application, MDL notes that the parts of the MPOC that will be amended by the Proposed Amendments are incorporated in each ICA and TSA thus resulting in changes to each. These impacts include:

- Shippers will not be able to nominate any quantity of Gas to or from a Notional Welded Point (and therefore trade gas through the Trading System) unless the Notional Point Welded Party has requested MDL to register the Notional Welded Points on the MDL IX as included in that Shipper's TSA.
- Shippers will be prevented from using the Notional Welded Points if the Notional Point Welded Party requests MDL to de-register the Notional Welded Points from that Shipper's TSA; or MDL suspends the ICA of a Notional Point Welded Party.
- As MDL cannot predict every implication Notional Welded Points may have on pipeline operations and management costs, MDL argues that it needs to have a broad right to suspend the Notional Welded Party's ICA if the operation of the Notional Welded Point is impacting on the pipeline. Consequently, the proposed section 22.13 gives MDL the right to suspend even if it is just a potential problem that has yet to have an effect.

Tariff

A Shipper transporting gas to the Trading Hub Delivery Point will not be charged Tariff 2 as MDL will receive Tariff 2 with respect to transportation from the Trading Hub Receipt Point to the relevant Physical Welded Point.

Title tracking

MDL also notes that it will not track the title of gas through the Trading System for three reasons:

- OATIS cannot track the title of a Shipper's quantity of gas from when it is delivered to the Trading Hub Delivery Point through all of the subsequent Trading System trades relating to that Shipper's gas to when it is received back into the Maui Pipeline at the Trading Hub Receipt Point;
- If curtailment occurs at a Notional Welded Point, Shipper's Approved Nominations will be reduced based on MPOC provisions and pro-ration rules in OATIS; and
- The Notional Welded Party will be required to reconcile any differences between title allocated under the MPOC and title tracked on the Trading System.

Operational Imbalance

MDL also outlines that Operational Imbalance will be determined on the following basis:

- The Daily Operational Imbalance Limit (DOIL) and Running Operational Imbalance Limit (ROIL) at each Notional Welded Point shall be zero; and
- The Deemed Measured Quantity used to calculate Operational Imbalances at the Trading Hub Receipt Point and Trading Hub Delivery Point will be the quantity of Gas equal to that Day's Scheduled Quantity for the Trading Hub Delivery Point.

If there is an Operational Imbalance at the Trading Hub Receipt Point at the end of the Transmission Day then the Operational Imbalance will be cashed out and an Incentives Pool Debit will accrue for the Excess Daily Imbalance.

The Notional Point Welded Party will not accrue Incentives Pool Debits for exceeding the Peaking Limit (which will also be set at the minimum limit).

DOIL, ROIL and Peaking Limits at the Notional Welded Points will be set at their minimum limits to remove any impact on the calculated flexibility linepack during OATIS capacity checks.

MDL also notes that there may be an Operational Imbalance at the Trading Hub Receipt Point due to errors that may occur in Shippers' Nominated Quantities to or from the Notional Welded Points, the Notional Point Welded Party Confirmations; or the Welded Party confirmations at the Physical Welded Point. It expects that any such errors will be corrected during the subsequent Intra-Day Cycle. If errors are not corrected, and the imbalance is contributing to declining linepack, MDL may curtail the Notional Welded Point to reduce the imbalance. If errors remain at the end of the Transmission Day, MDL will cash out the Operational Imbalance on the following Business Day.

Curtailments due to Maui Pipeline or Welded Point events affecting Approved Nominations to or from the Notional Welded Points may result in an Operational Imbalance. In order to carry the curtailment through to the opposing end physical Welded Point(s), MDL will balance the Notional Welded Points by curtailing (relying on MPOC section 15.1(vi)) the appropriate Notional Welded Point (the one with the higher Scheduled Quantity).

Complex OATIS validation checks, which are part of the MDL/OATIS approvals process including the check that prevents negative Scheduled Quantities as a result of Displaced Gas Nominations, may result in an Operational Imbalance. Therefore, MDL may be required to perform a number of curtailments at the Notional Welded Points. It is noted that any Operational Imbalance remaining at the end of a Transmission Day, regardless of cause, will be cashed out and the Notional Welded Party will have an Excess Daily Imbalance and be liable to incur Incentive Pool Debits.

MDL will have access to imbalance management and cost recovery tools at Notional Welded Points enabling it to:

- cash out all Operational Imbalances¹ that remain at the end of the Transmission Day at a Notional Welded Point;
- curtail a Notional Welded Point under section 15.1;
- require the Balancing Agent to make an Incentives Pool Claim for a Day where balancing gas was utilised to replace a Notional Welded Point's Excess Daily Imbalance; or
- suspend the Notional Welded Party's ICA on 30 Day's notice.

Peaking

MDL will not manage 'operational profile' notices and Incentive Pool Debits in relation to peaking at Notional Welded Points since peaking gas flows only occur at Physical Welded Points.

¹ Note that no DOIL or ROIL limits apply at Notional Welded Points.

5 Submissions

Gas Industry Co received four submissions on the October Change Request. Submissions were received from:

- Contact Energy Limited (Contact);
- Genesis Power Limited, trading as Genesis Energy Limited (Genesis);
- Mighty River Power Limited (MRP); and
- Vector Gas Limited (Vector).

Set out below is a brief summary of each submission. For a copy of the submissions please refer to the 'MPOC Change Request 5 October 2009' work programme on Gas Industry Co's website www.gasindustry.co.nz.

Contact

Contact supports the October Change Request yet seeks clarification on two points:

- that MDL does not become a Welded Party; and
- how each Notional Point Welded Party will recover the costs of an end of day cash out.

Genesis

Genesis supports the October Change Request.

MRP

MRP generally supports the October Change Request, however it notes several concerns with the Proposed Amendments. MRP argues that the proposed section 22.13 is too broad and suggests that any suspension notice should outline the issues MDL has identified and that suspension can only occur

if these issues are not rectified within the 30 day notice period. Otherwise, MRP believes that the Notional Welded Party and/or Shippers should have access to some form of independent disputes resolution process to challenge any proposed suspension.

MRP believes that, in the future, longer term contractual arrangements may be operated through the Notional Welded Point and, therefore, argues that if MDL were to exercise its right to suspend operations it should not apply to pre-existing contractual arrangements for deliveries and receipts at the Notional Welded Point.

Vector

Vector conditionally consents to the October Change Request. As a result of the Proposed Amendments, consequential changes to the Vector Transmission Code (VTC) will be required. The October Change Request's introduction of the new concept of 'Notional Welded Point' as being distinct from 'Physical Welded Point', and amendments to several defined terms, means that VTC definitions of such terms as 'Excess Daily Imbalance', 'Operational Imbalance', and 'Welded Point' will need to be amended. Vector therefore states that until a Change Request for an amendment to the VTC is made, its support is conditional only. In the meantime, Vector states that it will prepare a VTC Change Request and issue it to its Shippers in anticipation of the MPOC October Change Request being approved.

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Gas Industry Co analysis

General considerations

Gas Industry Co has carried out an analysis of the October Change Request, which is summarised in this section of the Draft Recommendation.

Gas Industry Co considers that the Proposed Amendments, as MDL suggests, are:

- consistent with current arrangements (including dealings between MDL and its users of the Maui Pipeline, and with bi-lateral contracts (TSAs and ICAs)); and
- consistent with Government objectives in both the Gas Act and GPS.

Despite this, Gas Industry Co considers that the issues raised in submissions are valid and we have addressed them below.

Consideration of current arrangements

In its application, MDL submits that the changes are both consistent with dealings between MDL and users of the Maui Pipeline by being: transparent, commercial, at arm's length, and non-preferential.

Gas Industry Co agrees that the October Change Request is consistent with current arrangements.

Consideration of Government objectives

Gas Act and GPS objectives

In its application, MDL provides a thorough assessment² of the Proposed Amendments against Government objectives. Gas Industry Co agrees with MDL that the Proposed Amendments are consistent with the objectives of the Gas Act and GPS in that the Trading Hub will:

² See p7 of MDL's application for the October Change Request available on Gas Industry Co's website.

- facilitate and promote greater competition in the gas market, as a Trading System will enhance access and competition amongst market participants, which in turn leads to lower transaction costs and increased liquidity;
- minimise barriers to competition by enabling a greater number of participants to enter into the market thus increasing competition;
- ensure downward pressure on delivered gas costs and prices by enabling market participants to have access to the cheapest source of gas on the day; and
- signal the full costs of producing and transporting gas to consumers.

This analysis is consistent with work done by Gas Industry Co on establishing the Wholesale Trading Market.

Consideration of submissions

In its submission, MRP raised several issues in relation to MDL's ability to suspend a Notional Welded Party's ICA that warrant consideration. MRP suggests that the proposed section 22.13, which allows MDL to unilaterally suspend the operation of the Notional Welded Point by giving 30 days notice, is too broad. It suggests that any notice should specify the details of the issues that MDL has identified. Further, it believes that the suspension should cease if the Notional Welded Party rectifies those concerns within the 30 day notice period; if it fails to do so, then the suspension would begin.

MRP is also of the view that in the event that MDL invokes section 22.13, the Notional Welded Party and/or Shippers should have access to some form of independent disputes resolution process to challenge any proposed suspension. MRP also considers that if MDL is to exercise its right to suspend operations, any such suspension should not apply to pre-existing contractual arrangements for deliveries and receipts at the Notional Welded Point.

Gas Industry Co refers to section 4.3 of the October Change Request which states:

MDL does not know all of the implications that the Notional Welded Points may have on pipeline operations and management costs. Accordingly, MDL needs to have a very broad right to suspend the Notional Point Welded Party's ICD if the operation of the Notional Welded Points is impacting on the pipeline at all (or is likely to do so).

We note that the Trading Hub is a new and untested arrangement and that, because of this, it is preferable from Gas Industry Co's point of view that MDL does have this broad right of suspension to ensure the arrangements do not compromise the safe delivery of gas to end consumers.

Once the arrangements 'bed-down' and the consequences of the Trading Hub become more certain, then Gas Industry Co would agree that the provisions for suspension rights should be revisited so that they are consistent with provisions in section 22.1 for suspending a physical Welded Party's ICA or TSA. However, in the interim we maintain of the view that it is beneficial to allow MDL ability to suspend if it considers necessary.

In relation to MRP's concern regarding pre-existing long-term contractual arrangements for deliveries and receipts, we note that the development of the Trading Hub and all the supporting Gas Industry Co governance documents have been primarily premised on the short-term trading of gas, therefore we do not consider that this is an immediate concern.

Contact sought two clarifications in its submissions. It asked whether MDL will become a Notional Welded Party. We note that for the Trading Hub market trial, Gas Industry Co will be the Notional Welded Party. It will recover its costs through the trading market governance arrangements.

Contact also asked how the Notional Welded Party will recover the costs associated with an end of day cash-out. Gas Industry Co notes that all potential traders, including Contact, have been supplied with Gas Industry Co's proposed governance documents. One of those documents was a Participant Variance Agreement (PVA) that outlines the approach to recovering cash-outs for Operational Imbalances at the Trading Hub. A PVA is between a Notional Point Welded Party and a participant of the Trading System who transports gas to or from the Trading Hub Welded Points. A PVA gives effect to the Participant's obligations to pay for variances between its Approved Nominations on OATIS and its actual quantities of gas purchased and sold by trades executed on a Trading System. Therefore, any Operational Imbalance at the Trading Hub Welded Point would have associated Participant Variances in which the Notional Point Welded Party would recover its costs by cashing out all participants who have a variance.

Gas Industry Co also notes Vector's conditional support for the October Change Request is based on the passing of a consequential amendment to the VTC. Gas Industry Co has discussed the matter with Vector and understands that the VTC Change Request is currently being drafted and should be circulated to its Shippers shortly.

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Draft recommendation

Gas Industry Co supports the October Change Request but notes that, once the arrangements 'bed-down', further changes such as those suggested by MRP, should be considered by MDL.

Gas Industry Co will therefore issue this Draft Recommendation and await any submissions before compiling a Final Recommendation.

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Appendix A Proposed amendments

Addition of definitions in section 1

MDL proposes that in order to establish and operate notional 'Trading Hub' Welded Points on the Maui Pipeline the following additional definitions are required in Section 1 (Definitions and interpretations):

Phrase	Interpretation/ definition
Notional Point Welded Party	Means the Welded Party at a Notional Welded Point.
Notional Welded Point	Means each of the Trading Hub Receipt Point and the Trading Hub Delivery Point.
Trading Hub Delivery Point	Means the notional Delivery Point established for the purposes of a Trading System (which, for the purposes of calculating any Throughput Charges, shall be deemed to be located at a point on the Maui Pipeline specified in the relevant ICA).
Trading Hub Receipt Point	Means the notional Receipt Point established for the purposes of a Trading System (which for the purposes of calculating any Throughput Charges shall be deemed to be located at a point on the Maui Pipeline specified in the relevant ICA).
Trading System	Means a wholesale market system for use for the trading of short-term quantities of Gas.
Physical Point Welded Party	Means a Welded Party at a Physical Welded Point.
Physical Welded Point	Means any point at which there is a connection between the Maui Pipeline and the infrastructure of a Welded Party (including the facilities connecting the Maui Gas production station at Oaonui to the Maui Pipeline).
Physical Delivery Point	Means a Delivery Point that is a Physical Welded Point.
Deemed Measured Quantity	Means, in respect of a Day and a Notional Welded Point, a quantity of Gas equal to that Day's Scheduled Quantity for the Trading Hub Delivery Point.

Amendment of definitions in section 1

Definition	Proposed change
Excess Daily Imbalance	Means: (a) in relation to a <u>Physical Welded Point</u> on a Day, any flow of Gas that deviates from the Scheduled Quantity in a manner that depletes Line Pack in excess of the tolerance provided by the Daily Operational Imbalance Limit; <u>and</u> <u>b) In relation to the Trading Hub Receipt Point on a Day, any negative Operational Imbalance at the Trading Hub Receipt Point for that Day.</u>
Operational Imbalance	Means: (a) <u>in respect of a Physical Welded Point</u> , the difference between the actual quantity of Gas that flowed through that Welded Point on a Day and the Scheduled Quantity for that Day (under-injection into or over-taking out of the Maui Pipeline by the Welded Party relative to that Day's Scheduled Quantity being a negative Operational Imbalance and over-injection into or undertaking out of the Maui Pipeline relative to that Day's Scheduled Quantity being a positive Operational Imbalance); <u>and</u> <u>(b) in respect of the Trading Hub Receipt Point, the difference between the Deemed Measured Quantity for a Day and the Scheduled Quantity for that Day. A negative Operational Imbalance shall exist at the Trading Hub Receipt Point where the Deemed Measured Quantity for that Day is less than the Scheduled Quantity for that Day and a positive Operational Imbalance shall exist where the Deemed Measured Quantity for that Day exceeds the Scheduled Quantity for that Day.</u>
Reasonable and Prudent Operator	Means, in relation to the performance of obligations under this Operating Code: (a) for MDL and each TP Welded Party, an operator of a high pressure gas transmission system whose standard of performance is equal to or better than good gas transmission operating practice as determined by reference to proper and prudent practices recognised internationally as applying to the operation of such systems; (b) for a Welded Party (excluding any TP Welded Party <u>and Notional Point Welded Party</u>), an operator of gas facilities (which include production and treatment and gas consuming facilities, as the case may be) whose standard of performance in relation to those facilities is equal to or better than good gas facility operating practice as determined by reference to proper and prudent practice recognised internationally as applying to the operation of such facilities; and (c) for a Shipper, a shipper of gas whose standard of performance is equal to or better than good gas shipping practice as determined by reference to proper and prudent.
Scheduled Quantity	Means the net quantity of Gas (being the difference between receipt and delivery nominations) agreed by MDL and the Welded Party to pass through (<u>or, in the case of a Notional Welded Point, be deemed to have passed through</u>) the relevant Welded Point for a Day.
Shipper Rolling Forecast	"Shipper Rolling Forecast" means a Shipper's forecast of its Nominated Quantities for each Receipt Point (<u>excluding the Trading Hub Receipt Point</u>) and each Delivery Point (<u>excluding the Trading Hub Delivery Point</u>) for each Day of the next 12 Month period.
Transmission Day	Means the Day on which an Approved Nomination or Scheduled Quantity is to be: (a) <u>in respect of Physical Welded Points</u> injected into or off-taken from the Maui Pipeline; <u>or</u> (b) <u>in respect of a Notional Welded Point, transported from or delivered to that Notional Welded Point.</u>

Definition	Proposed change
Welded Point	Means any point at which there is a connection between the Maui Pipeline and the infrastructure of a Welded Party (including the facilities connecting the Maui Gas production station at Oaonui to the Maui Pipeline) a Physical Welded Point or a Notional Welded Point.

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Amendment/Additions of sections

Section	Proposed amendment/addition
Section 2.1	<p>Subject to section 3, MDL will deal with all users of the Maui Pipeline on an arm's length basis and in a manner consistent with this Operating Code. MDL undertakes that:</p> <p>(a) every ICA with a Welded Party (excluding (i) a TP Welded Party, (ii) Methanex in relation to the Bertrand Road Welded Point, (iii) <u>a Notional Point Welded Party</u>) and every TSA with a Shipper shall include only the terms and conditions of this Operating Code and necessary individual information such as Delivery Point, AQ Volume, AQ discount and the relevant Welded Party's or Shipper's address; and</p> <p>(b) Any special terms and conditions contained in its TSA or ICA with a TP Welded Party, Methanex <u>or a Notional Point Welded Party</u> shall be disclosed to all Shippers and Welded Parties in accordance with section 4.1.</p>
Section 8.32	<p><u>Notwithstanding any other provision of this Operating Code, MDL shall not deliver, and a Shipper shall not request MDL to deliver, any quantity of Gas to or from a Notional Welded Point unless that Notional Welded Point is at the relevant time registered on the MDL IX as included in that Shipper's TSA. MDL shall, if requested by the Notional Point Welded Party in writing, in respect of a Shipper:</u></p> <p><u>(a) register the Notional Welded Points on the MDL IX as included in that Shipper's TSA; or</u></p> <p><u>(b) de-register the Notional Welded Points from that Shipper's TSA on the MDL IX.</u></p>
Section 12.6	<p>Subject to this section 12.6, MDL shall set a Daily Operational Imbalance Limit at each Welded Point that is not a Small Station for each Day which will be not less than the quantity calculated in accordance with the parameters set out in Schedule 7 and will be:</p> <p>(a) the higher of a number of GJ and a percentage of the Scheduled Quantity at that Welded Point for that Day; and</p> <p>(b) posted on the section of the MDL IX in accordance with section 4.</p> <p><u>The Daily Operational Imbalance Limit at each Notional Welded Point shall be zero.</u></p>
Section 12.8	<p>Each Daily Operational Imbalance Limit shall:</p> <p>(a) be set as high as reasonably practicable and in any event, the limit shall be no less than the quantity calculated in accordance with the parameters set out in Schedule 7 <u>(except that the Daily Operational Imbalance Limit at each Notional Welded Point shall be zero)</u>;</p> <p>(b) only be set at a Welded Point in relation to a negative Operational Imbalance; and</p> <p>c) not apply in relation to a positive Operational Imbalance at Welded Points.</p>

Section	Proposed amendment/addition
Section 12.11	<p>If:</p> <p><u>(a) a Physical Point Welded Party receives an Imbalance Limit Overrun Notice pursuant to section 12.10 and has not complied with it within the time period set out in such notice, then MDL may at its sole discretion, settle the imbalance as follows:</u></p> <p>(a) <u>(i) if a that Welded Party has a Negative Running Operational Imbalance, MDL may sell a quantity of Gas equal to or less than the Accumulated Excess Operational Imbalance to that Welded Party at the Negative Mismatch Price; or</u></p> <p>(b) <u>(ii) if a that Welded Party has a Positive Running Operational Imbalance, MDL may buy a quantity of Gas equal to or less than the Accumulated Excess Operational Imbalance from that Welded Party at the Positive Mismatch Price, and title to such Gas will be deemed to pass from seller to buyer on the Day that the Imbalance Limit Overrun Notice expires.</u></p> <p><u>(b) a Notional Point Welded Party has an Operational Imbalance at the end of a Transmission Day, then MDL may, at its sole discretion, settle the remaining imbalance as follows:</u></p> <p><u>(i) if that Welded Party has a negative Operational Imbalance, MDL may sell a quantity of Gas equal to or less than that Operational Imbalance to that Welded Party at the Negative Mismatch Price; or</u></p> <p><u>(ii) if that Welded Party has a positive Operational Imbalance, MDL may buy a quantity of Gas equal to or less than that Operational Imbalance from that Welded Party at the Positive Mismatch Price, and title to such Gas will be deemed to pass from seller to buyer at the end of that Transmission Day.</u></p>
Section 12.19	<p><u>Notwithstanding any other provision of this Operating Code, for the purposes of calculating Operational Imbalance, Running Operational Imbalance and Excess Daily Imbalance in relation to a Notional Welded Point the quantity of Gas that on a Day has flowed through the Trading Hub Delivery Point and the Trading Hub Receipt Point, respectively, shall be the Deemed Measured Quantity for that Day. The Parties acknowledge that the effect of this section 12.19 is that there shall be no Operational Imbalance, Running Operational Imbalance or Excess Daily Imbalance at the Trading Hub Delivery Point. The Notional Point Welded Party shall use all reasonable endeavours to ensure that at all times there is no Operational Imbalance, Running Operational Imbalance or Excess Daily Imbalance at the Trading Hub Receipt Point.</u></p>
Section 13.2	<p>At each <u>Physical Welded Point</u>, the Welded Party must act as a Reasonable and Prudent Operator to inject or offtake Gas at an Hourly rate during the Day within the Peaking Limit unless it has previously given MDL reasonable prior written notice of (and obtained MDL's consent, not to be unreasonably withheld or delayed) when and the extent to which it will be exceeding the Peaking Limit or interrupting Gas flow at the <u>Physical Welded Point</u> for operational reasons (including Maintenance scheduled by the Welded Party). MDL will post the details of any such arrangement on the MDL IX in accordance with section 4.1.</p>

Section	Proposed amendment/addition
Section 13.3	<p>Exceeding the Peaking Limit</p> <p>13.3 Subject to sections 1, 13.4, 14.5 and 14.6, if the quantity of Gas that flows through a <u>Physical</u> Welded Point during any Hour of a Day exceeds the then current Peaking Limit for that <u>Physical</u> Welded Point (or any other limit agreed pursuant to section 13.2), then that Welded Party shall incur an Incentives Pool Debits, calculated as follows:</p>
Section 15.1(b)(vi)	<p>MDL may, without incurring any liability to a Shipper or Welded Party under the relevant TSA or ICA respectively:</p> <p>(a) immediately and without prior notice interrupt or reduce transmission of Gas from and/or to any Welded Point, and curtail Approved Nominations and associated Scheduled Quantities at any relevant Welded Point; and/or</p> <p>(b) give a Welded Party notice of an operational flow order as soon as reasonably practicable to curtail or shutdown the transfer of Gas to or from the Maui Pipeline (such notice to be marked as an "Operational Flow Order"), and the Welded Party shall comply with such order, for any period which in MDL's opinion is necessary:</p> <p>(i) to prevent Non-Specification Gas from entering, or being taken from, the Maui Pipeline; or</p> <p>(ii) where Maintenance (other than Scheduled Maintenance) on the Maui Pipeline is required; or</p> <p>(iii) where a Force Majeure Event occurs; or</p> <p>(iv) where a Contingency Event occurs; or</p> <p>(v) where that Welded Party has an Excess Daily Imbalance or exceeds its Peaking Limit at a Welded Point and MDL considers that delivery of Gas to that Welded Party may impair MDL's ability to deliver Gas to any other customer of MDL including the Buyer;</p> <p><u>(vi) to prevent Operational Imbalance occurring at Notional Welded Points,</u></p> <p>provided that in so doing MDL acts as a Reasonable and Prudent Operator, in a non-discriminatory manner and in accordance with this Operating Code, whereupon the Approved Nominations shall be curtailed in accordance with section 8.29 and balanced in accordance with section 8.30 and the Scheduled Quantities deemed reduced.</p>
Section 19.1(c)	<p>(c) C is Tariff 2 multiplied by the sum of that Shipper's Approved Nominations at <u>Physical</u> Delivery Points regardless of distance.</p>

Section	Proposed amendment/addition
Section 22.13	<p><u>MDL may suspend the ICA of a Notional Point Welded Party by giving the Notional Point Welded Party 30 Days' notice. During any such suspension Shippers shall not be able to submit Nominated Quantities in respect of the Trading Hub Delivery Point or the Trading Hub Receipt Point. MDL may reinstate the ICA of a Notional Point Welded Party that has been suspended by giving the Notional Point Welded Party 7 Days' notice.</u></p>
<p>Schedule 3</p> <p>MDL proposes that the following amendments to Schedule 3 are required to allow for the establishment of Notional Welded Points in Welded Party Agreement form.</p>	<p>AGREEMENT</p> <p>1. MDL and the Welded Party agree to [connect the Welded Party's Pipeline and the Maui Pipeline at the Welded Points] [<u>create the Notional Welded Points</u>] set out in clause 4 and to transfer Gas [into and out of their respective Pipelines] [<u>through the Maui Pipeline and the Notional Welded Points</u>] on the terms and conditions set out in the "Maui Pipeline Operating Code" (as published by MDL, and as amended from time to time) ("Operating Code").</p>
Agreement 4	<u>Physical</u> Welded Point Name.
Agreement 4	Physical Point Welded Part.
Agreement 4	Form detailing Notional Welded Point Name, Notional Point Welded Party and Deemed location.

Amendment to sections 6.4, 8.1, 8.7, 12.1, 12.8, 14.6, 19.5, 19.7, 21.4, 24.2 and Schedule 1

Section	Proposed amendment/addition
Section 6.4	<p>6.4 Each Shipper shall:</p> <p>(a) have good title (either in its own right or acting as an agent) to all of that Shipper’s Approved Nominations at the time of injection at, <u>or transportation from</u>, Receipt Points; and</p> <p>(b) ensure that all such Gas at the Receipt Point and Delivery Point is free any lien, charge, encumbrance or adverse claim (as to title of otherwise).</p>
Section 8.1	<p>8.1 A Shipper must:</p> <p>(a) subject to sections 8.1(c) and 8.1(d), for each Nominated Quantity, nominate at which Receipt Point that Gas will enter (<u>or in the case of the Trading Hub Receipt Point be deemed to enter</u>) the Maui Pipeline; and</p> <p>(b) subject to sections 8.1(c) and 8.1(d), for each Nominated Quantity, nominate at which Delivery Point that Gas will be taken out of (<u>or in the case of the Trading Hub Delivery Point be deemed to be taken out of</u>) the Maui Pipeline; and</p> <p>(c) subject to section 8.1(d), if it wishes to create the opposite Mismatch for a quantity of Gas (the “Payback Quantity”) in order to reduce its Mismatch Balance, nominate the Payback Point as its Receipt Point or Delivery Point for that Payback Quantity; and</p> <p>(d) for each Displaced Gas Nomination, make such a nomination only if:</p> <p>(i) it has obtained the prior written consent of the Welded Party of the Welded Point affected by such nomination; and</p> <p>(ii) it has agreed to any terms and conditions required by MDL, or that Welded Party (MDL hereby consents to such nominations of the TP Welded Party made in accordance with section 8.17) provided that MDL shall not confirm any Nominated Quantity that would create a net receipt at a physical offtake Welded Point or net delivery at a physical injection Welded Point.</p>
Section 8.7	<p>8.7 Not later than 6 Business Days from the date on which MDL receives updated Shipper Rolling Forecasts from Shippers, MDL shall post an updated Rolling Capacity Forecast in respect of each <u>Physical</u> Welded Point for each Day of the next 12 Months on the section of the MDL IX available to each relevant Shipper and Welded Party in accordance with section 4.1.</p>

Section	Proposed amendment/addition
Section 12.1	<p>12.1 Each <u>Physical Point</u> Welded Party shall inject or off-take a quantity of Gas from a <u>Physical</u> Welded Point on a Day equivalent to the Scheduled Quantity for that Welded Point. Notwithstanding the previous sentence and section 28, each Party acknowledges that a <u>Physical Point</u> Welded Party may inject or off-take a quantity of Gas greater or less than the Scheduled Quantity on any Day, and, subject to section 27, the sole consequences of which are set out in this section 12.</p>
Section 12.8	<p>12.8 Each Daily Operational Imbalance Limit shall:</p> <p>(a) be set as high as reasonably practicable and in any event, the limit shall be no less than the quantity calculated in accordance with the parameters set out in Schedule 7 <u>(except that the Daily Operational Imbalance Limit at each Notional Welded Point shall be zero)</u>;</p> <p>(b) only be set at a Welded Point in relation to a negative Operational Imbalance; and</p> <p>(c) Not apply in relation to a positive Operational Imbalance at Welded Points.</p>
Section 14.6	<p>14.6 Notwithstanding section 28, the Welded Party's sole liability to any other Welded Party, MDL, the Balancing Agent or a Shipper arising from, or in relation to, a claim that MDL or another Welded Party was prevented from taking its full Scheduled Quantity of Gas on a Day as a result of an Operational Imbalance or exceeding a Peaking Limit in any Hour, whether in contract, tort or otherwise, is limited to making a payment under section 12.11(a)(i) <u>or (b)(i)</u> or 12.13(c), or in respect of an Incentives Pool Debit incurred pursuant to section 12.7 or 13.3, as appropriate.</p>
Section 19.5	<p>19.5 Each Welded Party shall pay to MDL the Negative Mismatch Price for any quantity of Gas that MDL sells to that Welded Party in accordance with section 12.11(a)(i) <u>or (b)(i)</u> and any Throughput Charges for traded Operational Imbalance in accordance with section 12.17.</p>

Section	Proposed amendment/addition
Section 19.7	19.7 MDL shall pay each Welded Party the Positive Mismatch Price for any Gas that MDL buys from that Welded Party in accordance with section 12.11 <u>(a)(ii)</u> .
Section 21.4(f)	(f) in relation to an MDL invoice where applicable: (i) the quantity of Gas purchased on each Day at the Positive Mismatch Price under section 11.8(b) or 12.11 <u>(a)(ii)</u> ; and (ii) any MDL Charges payable by MDL;
Section 24.2(i)	<u>(i) where the Information Recipient is the Notional Point Welded Party, to its agent, nominee or assignee for the purposes of operating and balancing the Trading Hub Receipt Point and Trading Hub Delivery Point;</u>
Schedule 16	All gas that flows through a <u>Physical</u> Welded Point shall be measured at that Welded Point or, with MDL's agreement, at an alternative location, using Metering in accordance with this Schedule 1, such Metering to be located within a Station.
Schedule 1.7	The <u>Physical Point</u> Welded Party, or where MDL is the owner of the Welded Point or Station, MDL, shall ensure that: (a) each <u>Physical</u> Welded Point or Station shall have:
Schedule 1.12	In relation to any <u>Physical</u> Welded Point or Station, MDL (or the Technical Operator) shall be entitled to receive such of the following data as MDL (or the Technical Operator) shall specify: