



MPOC 30 April 2009 Change Request: Final Recommendation

Date issued: August 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

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Introduction

1.1 Gas Industry Co's role in MPOC change requests

Section 29 of the Maui Pipeline Operating Code (MPOC) assigns Gas Industry Co a role in respect of any proposed amendment to the MPOC (Change Request). Gas Industry Co's role is to consult on the change request with the gas industry and determine whether or not to support it. 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 (if necessary), and finally makes a 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.

1.2 Definition of terms used in this document

Capitalised terms used in this recommendation have the same meaning given to those terms in MPOC, unless stated otherwise.

For the sake of clarity, definitions of terms used frequently in this document are as follows:

Table 1 Definition of terms used in this document

Term	Explanation
Day	Day means a period of 24 consecutive hours beginning at 0000 hours New Zealand standard time.
Positive Mismatch Negative Mismatch	Mismatch is the difference between a Shipper's total nominated receipts and total nominated deliveries in a Day. Where there is a Positive Mismatch, the Maui pipeline is being used to store gas. Where there is a Negative Mismatch, linepack is being drawn from.

Term	Explanation
Negative Mismatch Price Positive Mismatch Price	<p>The MPOC requires Shippers to remove any mismatch within a specified period.</p> <p>If the Shipper does not remove a Negative Mismatch, then MDL settles the Mismatch by selling gas to Shippers at the Negative Mismatch price.</p> <p>If the Shipper does not remove a Positive Mismatch, then MDL settles the Mismatch by selling gas to Shippers at the Positive Mismatch price.</p>

Source: Refer to the MPOC for detailed definitions

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Current change request and process to date

On 30 April 2009, Gas Industry Co received a change request from MDL (April Change Request). The April Change Request sets out two amendments to section 4.1 of the MPOC to:

- reduce the minimum notice period for MDL to make changes to the Negative Mismatch Price and Positive Mismatch Price from seven Days to one Day; and
- amend the word 'days' to 'Day' as it appears in the 'Frequency of Posting' column in the table in section 4.1.¹

After receiving the April Change Request, Gas Industry Co followed the process in the MoU for dealing with change requests. Gas Industry Co posted the April Change Request on its website on 18 May 2009 and sought submissions. Submissions were received from six parties.

After having considered submissions, Gas Industry Co issued a draft recommendation. Given the unanimous support for the change, Gas Industry Co made the decision to confirm the draft recommendation as our final recommendation as long as no submissions opposed it. No submissions were received on the draft recommendation; therefore, this paper confirms our recommendation as final.

In addition to our final recommendation, this paper summarises the May Change Request, the submissions received, and Gas Industry Co's analysis. For further information, including a copy of the April Change Request and a copy of submissions, please refer to the consultation section of our website at www.gasindustry.co.nz.

¹ The wording in the main body of MDL's change request refers to changing the word 'days' to 'Days'. In the attachment to the change request, which shows the relevant part of the MPOC marked up with the proposed changes, the word 'days' has been replaced with 'Day'. We assume the intention is to change 'days' to 'Day', because MDL is proposing the notice period to be reduced to one Day.

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Change proposed by MDL

3.1 Summary

On 30 April 2009, Gas Industry Co received the April Change Request from MDL. MDL prepared the April Change Request according to the standard 'recommendation request form' available on Gas Industry Co's website.

The April Change Request seeks two amendments to section 4.1 of the MPOC to:

- reduce the minimum notice period for MDL to make changes to the Negative Mismatch Price and Positive Mismatch Price from seven Days to one Day; and
- amend the word 'days' to 'Day' as it appears in the 'Frequency of Posting' column of the table in section 4.1.²

3.2 Reducing minimum notice period for Mismatch Prices

Under section 4 of the MPOC, MDL is required to use its best endeavours to make certain information available on the MDL information exchange (MDL IX). Examples of the information the exchange receives and displays are: tolerances, Scheduled Quantities, incentives and fees, certain notices, and other information relating to MDL's operation of the open access regime for the Maui Pipeline.

Currently, the MPOC requires MDL to give a minimum of seven Days' notice of Mismatch Prices. The April Change Request proposes reducing the minimum notice period to one Day.

MDL argues that the seven-Day notice period restricts its ability to change the prices so that they reflect the buy and sell prices in the balancing gas market, which can change every Day. MDL refers to section 11.10 of the MPOC, which is reproduced below:

The Negative Mismatch Price and the Positive Mismatch Price shall be published on the MDL IX in accordance with section 4. These prices will reflect the Balancing Agent's costs in accessing and disposing of Gas. If a liquid Gas market develops, these prices will reflect the buy and sell spot prices in that market. MDL undertakes that, as the operator of the Maui Pipeline, it shall

² Refer to footnote 1 on page 3.

not seek to make a profit or loss from its activities in relation to the sale and/or purchase of Gas used to balance the Maui Pipeline, or settle Mismatches and Running Operational Imbalances.

MDL states that to comply with this section of the MPOC, Mismatch Prices should reflect market process. MDL also states that it may maintain a margin on such a process to cover all its costs (that is, including those costs apart from the cost of the gas itself).

MDL believes the benefit of its proposal is that it links balancing costs with the charges made to Shippers for balancing services. The benefit is likely to outweigh the cost of implementing the change, which relate to minor OATIS changes.

3.3 Amending 'days' to 'Day'

The second proposed change request also related to section 4.1 of the MPOC. The section contains a table containing the information to be available on the MDL IX and the frequency with which that information is to be posted.

The table currently states the Positive Mismatch Price should be posted 'from time to time with effect not less than 7 days after posting'. MDL wishes to amend the word 'days' to read 'Day' so that it correctly refers to the MPOC definition of 'Day'. This change would be consistent with the terminology used in the same table for Negative Mismatch Price.

4 Submissions

Gas Industry Co received six submissions on the April Change Request. Submissions were received from:

- Contact Energy Limited (Contact);
- Genesis Power Limited, trading as Genesis Energy Limited (Genesis);
- Greymouth Gas New Zealand Limited (Greymouth);
- Mighty River Power Limited (Mighty River Power);
- On Gas Limited (On Gas); and
- Vector Gas Limited (Vector).

For a copy of the submissions please refer to the 'MPOC Change Request 30 April 2009' work programme on Gas Industry Co's website www.gasindustry.co.nz.

All six submitters supported the proposed changes. Greymouth commented that the proposed change would mean the actual cost of a balancing gas transaction can be more quickly passed to causers. On Gas noted its belief that reducing the minimum notice period for Mismatch Prices will help ensure gas sold on any given day reflects the actual market price. In their view, this is both a fair and reasonable request to ensure MDL is able to effectively manage movements in price. In addition, changing 'days' to 'Day' in section 4.1 is logical because it helps ensure consistency across the code.

No submissions were received on the draft recommendation.

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Gas Industry Co analysis

In the draft recommendation, Gas Industry Co provided an analysis of submissions. That analysis is provided below. Given that no submissions were received on the draft recommendation, Gas Industry Co considers that this analysis stands.

5.1 Reducing minimum notice period for Mismatch Prices

Gas Industry Co has considered the issue of the seven Day notice period for Mismatch Prices in the context of the Transmission Pipeline Balancing work programme. This programme is concerned with improving the current arrangements for transmission pipeline balancing to achieve the objectives of the Gas Act and GPS. A key finding of Gas Industry Co's analysis is that efficient outcomes depend on the cost of a balancing action (the buying or selling of balancing gas) being signalled to the causers of that action through the price of balancing gas. Efficient price signals help reduce the overall cost of balancing services and therefore contribute to an efficient balancing gas market.

Under the Transmission Pipeline Balancing work programme, Gas Industry Co is proposing options to improving balancing arrangements. As part of the work programme, Gas Industry Co prepared an Options Paper³ in which it will outline some changes to existing arrangements that it believes are necessary regardless of what other changes, if any, are eventually implemented. One of these changes is to reduce the notice period for Mismatch Prices.

In the Options Paper, Gas Industry Co recorded its concern that the current MPOC requirement for MDL to post balancing charges with at least seven Days' notice prevents prices from reflecting cost, and might be a barrier to MDL developing more dynamic balancing gas procurement arrangements. A balancing market that maximises the use of available flexibility, minimises investment in new flexibility and sends accurate market price signals will achieve the efficiency objective of the Gas Act. Any change which encourages these outcomes is therefore desirable. Gas Industry Co therefore supports the MPOC amendment that forms the first part of the April Change Request.

Gas Industry Co also notes the industry's support for this change.

³ Transmission Balancing Options Paper, December 2008, available on the Gas Industry Co website www.gasindustry.co.nz

5.2 Amending 'days' to 'Day'

The second part of the April Change Request seeks to amend the word 'days' to 'Day' as it appears in the 'Frequency of Posting' column of the table in section 4.1 of the MPOC.

Gas Industry Co considers this amendment brings the requirement for Positive Mismatch Price into line with that of Negative Mismatch Price, and other daily disclosure requirements in the table, all of which relate to 'Day' rather than 'day'. Gas Industry Co therefore supports the MPOC amendment that forms the second part of the April Change Request.

Gas Industry Co also notes the industry's support for this change.

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Final recommendation

In relation to the April Change Request, Gas Industry Co supports:

- reducing the minimum notice period for MDL to make changes to the Negative Mismatch Price and Positive Mismatch Prices from seven Days to one Day; and
- amending the word 'days' to 'Day' as it appears in the 'Frequency of Posting' column of the table in section 4.1.

Attached is a marked up version of the MPOC showing the changes necessary to implement our recommendation. In addition to the April Change Request, the marked-up MPOC also includes changes necessary to implement our final recommendation on the 12 May 2009 Change Request.