



MPOC 12 May 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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Contents

1	Introduction	1
2	Current change request and process to date	2
3	Changes proposed by MDL	3
3.1	Summary	3
3.2	The Approved Nomination process	3
3.3	Extending the definition of Payback Point	4
4	Submissions	5
5	Gas Industry Co analysis	7
5.1	Status of proposed Payback Point	7
5.2	Supply of balancing gas services	7
5.3	Transparency	7
5.4	Conclusion	8
6	Final recommendation	9

1

Introduction

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.

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

2

Current change request and process to date

On 12 May 2009, Gas Industry Co received a change request from MDL (May Change Request). The May Change Request seeks to extend the current MPOC definition for the 'Payback Point'. The change would allow 'Payback Point' to mean a virtual Receipt or Delivery Point at which Shippers may nominate quantities of gas related to balancing transactions.

After receiving the May Change Request, Gas Industry Co followed the process in the MoU for dealing with change requests. Gas Industry Co posted the May Change Request on its website on 19 May 2009 and sought submissions. Submissions were received from five parties.

After having considered submissions, Gas Industry Co issued a draft recommendation. Given the almost 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 May Change Request and a copy of submissions, please refer to the consultation section of our website at www.gasindustry.co.nz.

3

Changes proposed by MDL

3.1 Summary

On 12 May 2009, Gas Industry Co received the May Change Request from MDL. MDL prepared the May Change Request according to the standard 'recommendation request form' available on Gas Industry Co's website. The May Change Request seeks to extend the current MPOC definition for the 'Payback Point'.

The current definition of 'Payback Point' reads:

"Payback Point" means the virtual Receipt or Delivery Point (which, for the purposes of calculating any Throughput Charges, shall be deemed to be the Bertrand Road Welded Point) to which a Shipper requests Payback Quantities be delivered or from which a Shipper requests Payback Quantities be received in accordance with section 11.7 [of the MPOC].

The May Change Request proposes inserting a second paragraph. The change does not affect the existing definition, which would become paragraph (a) of the new definition. The changed definition would then read:

"Payback Point" means:

(a) a virtual Receipt Point or Delivery Point (which, for the purposes of calculating any Throughput Charges, shall be deemed to be the Bertrand Road Welded Point) to which a Shipper requests Payback Quantities be delivered or from which a Shipper requests Payback Quantities be received in accordance with section 11.7; or

(b) a virtual Receipt Point or Delivery Point to or from which a Shipper may nominate Gas sold or purchased by the Balancing Agent to manage Line Pack on the Maui Pipeline from time to time.

3.2 The Approved Nomination process

The Balancing Agent's role under the MPOC is to manage linepack on the Maui Pipeline. The Balancing Agent currently manages linepack by entering into balancing gas transactions: either purchasing 'call' gas to increase linepack; or selling 'put' gas to decrease linepack.

Standard terms and conditions govern the purchase and sale transactions. The transactions use the Approved Nomination process in the Open Access Transmission Information System (OATIS). Under

this process, OATIS accepts nominated quantities at Receipt Points only when matched by corresponding nominated quantities at Delivery Points, and vice versa.

When the Balancing Agent purchases call gas, the Maui pipeline physically receives the gas at a physical Welded Point. Likewise, when the Balancing Agent sells put gas, gas is physically delivered out of the Maui pipeline at a physical Welded Point. However, the Balancing Agent buys and sells gas only to increase or decrease linepack; the gas is not transported from a Receipt Point to a Delivery Point, as in a conventional Approved Nomination. Therefore, for the Balancing Agent to make an Approved Nomination in OATIS in relation to balancing gas transactions, a virtual Welded Point must be used as the corresponding Delivery Point for call gas nominations and a Receipt Point for put gas nominations.

3.3 Extending the definition of Payback Point

The Payback Point was developed in OATIS as a virtual Welded Point to allow Shippers to nominate 'Payback Quantities'. A Shipper may nominate a Payback Quantity to reduce a Mismatch, that is, a difference between its Approved Nominations at its Receipt Points and its Approved Nominations at its Delivery Points. The Shipper nominates the Payback Point as its Receipt Point or Delivery Point for the Payback Quantity, as appropriate.

Using the Payback Point as a virtual Welded Point to facilitate Payback Quantities is consistent with the current MPOC definition of 'Payback Point'. However, there is no rule in OATIS that restricts the use of the Payback Point as a virtual Welded Point for another purpose.

MDL argues that the change request to extend the current MPOC definition for the Payback Point will provide greater transparency for balancing gas transactions. The proposed amendment also means that no cost need be incurred in changing OATIS to create a separate virtual Welded Point for balancing gas transactions.

MDL also argues that the change is likely to increase the number of parties who can supply balancing services to the pipeline. Greater participation means increased competition, to the benefit of the pipeline and its users.

4 Submissions

Gas Industry Co received five submissions on the May 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);
- On Gas Limited (On Gas); and
- Vector Gas Limited (Vector).

For a copy of the submissions please refer to the 'MPOC Change Request 12 May 2009' work programme on Gas Industry Co's website www.gasindustry.co.nz.

Four of the five submitters supported the May Change Request. Greymouth agreed that the delivery or receipt of balancing gas is different from a normal Approved Nomination, and the concept of the proposed change to the definition of Payback Point is logical. Greymouth noted that MDL chose the word 'may' in the amended clause even though they argued the use of the Payback Point will be mandatory in the balancing gas market. Greymouth considered this a sensible approach because it gives MDL and Shippers the option not to use the Payback Point. According to the clause, Shippers are likely to have the final decision on whether to use the Payback Point, unless different terms and conditions are agreed for specific balancing gas transactions.

On Gas commented that the proposed definition change, which allows a Payback Point to be used as either a Receipt Point or Delivery Point for the purposes of making Approved Nominations for put and call gas by the Balancing Agent in OATIS is a fair and reasonable request. On Gas also agreed with MDL's assessment of the proposed amendment.

The fifth submitter, Contact, supported the May Change Request in principle. Contact, however, noted that MDL does not intend to define a physical location for the Payback Point where linepack can

be purchased and sold; and that MDL will not impose any Throughput Charges in respect of gas deliveries where the Receipt Point or the Delivery Point is the Payback Point as defined under MDL's proposed amendment.

Contact also noted that the proposed Payback Point does not seem to have the same status of an MPOC Welded Point and there would be no Welded Party for the Payback Point. Contact thought that could result in ambiguity over the rights and obligations at the Payback Point that might need to be resolved in the future if it became an issue.

Contact believed some additional provisions must be included in the MPOC because the Payback Point does not seem to be a Welded Point. In particular, under section 4.1 of the MPOC, MDL is obliged to publish Scheduled Quantities at each Welded Point and under section 4.2 MDL is obliged to publish Approved Nominations. In Contact's view, MDL should publish Scheduled Quantities at the Payback Point in the same way that MDL publishes other Scheduled Quantities; and MDL should advise Approved Nominations for the Payback Point to the Shipper making nominations at the Payback Point. Contact suggested further additions to tables in the MPOC in relation to publishing Scheduled Quantities and Approved Nominations.

No submissions were received on the draft recommendation.

5

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 Status of proposed Payback Point

In its submission, Contact noted that the proposed Payback Point does not seem to have the same status as an MPOC Welded Point, because there would be no Welded Party. They considered this would result in some ambiguity concerning rights and obligations at the Payback Point.

Gas Industry Co considers this standard agreement covers the informational requirements. If Contact believes that further information is required then it can propose a further MPOC change and explain the need for such information more fully.

5.2 Supply of balancing gas services

Gas Industry Co agrees with MDL that the proposed amendment is likely to increase the number of parties who can supply balancing services to the pipeline.

Allowing greater access to the balancing gas market increases the availability of flexible capacity. The result is greater liquidity in the balancing gas market and lower overall balancing costs (that is, a more efficient balancing market).

5.3 Transparency

Gas Industry Co also believes that allowing the Balancing Agent to make Approved Nominations in OATIS increases the transparency of balancing gas transactions.

Contact suggests that the MPOC should include requirements on MDL to publish Scheduled Quantities and Approved Nominations at the Payback Point. Gas Industry Co believes this is a worthwhile suggestion, but one which would need to be submitted as a separate change request. However, it is understood that amending OATIS to include this information would incur cost. The benefit arising from this would need to justify that cost.

5.4 Conclusion

The outcomes noted above—transparency and efficiency—align with objectives under the Gas Act and Government Policy Statement on Gas Governance. In addition, the change is relatively minor and will not adversely interfere with parties' existing rights and obligations under the MPOC. Gas Industry Co therefore supports the proposal to extend the definition for 'Payback Point' to allow the Balancing Agent to make Approved Nominations in OATIS.

Gas Industry Co also notes submitters' general support for the proposed change.

6

Final recommendation

Gas Industry Co supports the May Change Request to extend the definition for 'Payback Point' to allow the Balancing Agent to make Approved Nominations in OATIS.

Attached is a marked up version of the MPOC showing the changes necessary to implement our recommendation. In addition to the May Change Request, the marked-up MPOC also includes the changes necessary to implement our final recommendation on the 30 April 2009 Change Request.