

16 April 2013

Hon Simon Bridges
Minister of Energy and Resources
Parliament Buildings
Wellington

Dear Minister

Update on gas transmission pipeline balancing

This letter provides an update on issues relating to gas pipeline balancing, as requested by the (then) Minister of Energy and Resources in 30 April 2012.

Transmission pipeline balancing is the management of the inventory of gas in a pipeline to keep gas pressures within safe operating limits. Effective balancing is necessary for the reliable transportation of gas. Balancing gas arrangements have been a contentious issue for the gas industry since the commencement of open access to the Maui Pipeline in 2005 and improvements have been hard to achieve. A complicating factor is the physical and commercial overlap between the Maui Pipeline (as governed by the Maui Pipeline Operating Code, or 'MPOC') and Vector's transmission pipelines (as governed by the Vector Transmission Code, or 'VTC'), which has made unified improvements to balancing arrangements difficult. Gas Industry Co has previously suggested a regulated solution to balancing, but the preference of the majority of the industry at the time was to pursue non-regulated solutions.

We kept Minister Heatley updated on developments during 2012. In particular, Maui Development Limited (MDL) proposed changes to the MPOC to improve balancing arrangements on the Maui Pipeline. The principal objective of that proposal makes the 'causers' of pipeline balancing actions more accountable for balancing costs. Gas Industry Co performs a formal role under the MPOC to consider proposed changes, consult on them, and recommend to MDL whether we support the changes. Our conclusion was to support the proposed balancing changes to the MPOC.

Parties who made submissions on the proposed changes argued that other improvements to balancing arrangements should complement them. In particular, submitters sought improved access to the balancing gas market, more timely downstream allocation of delivery quantities, and extended nomination arrangements. Also, it is important to align the VTC with the proposed MPOC changes.

Gas Industry Co accordingly reached an agreement with MDL to delay implementation of the MPOC change until 1 June 2013 to allow time for some of these other arrangements to develop.

We are pleased to report that industry momentum has continued on improving balancing arrangements. In particular:

- a) Vector has formally proposed a change to the VTC, to align it with the MPOC changes. Gas Industry Co, in performing an appellate role under the VTC, has issued a draft recommendation supporting the change and is considering industry submissions before issuing its final recommendation.
- b) In relation to improvements to the balancing gas market, there are two separate proposals for wholesale gas markets being progressed. One is being developed by Energy Market Services, a division of Transpower, and another by NZX Limited. We are staying abreast of these developments and are hopeful that at least one of these platforms will be in place later this year. A wholesale gas market would be an important development for the wider industry.
- c) Gas Industry Co has commenced its second phase of the review of the Gas (Downstream Reconciliation) Rules 2008 which will consider whether it is possible and efficient to develop more timely allocations.

We think the above represents significant progress towards good outcomes for gas balancing. At the same time, and primarily due to the decline in balancing costs since 2009, there are no significant current issues associated with balancing that demand any more immediate response. We will continue to update you.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'S. Bielby', with a long horizontal flourish extending to the right.

Steve Bielby
Chief Executive

Copy: Simon Lawrence, MBIE