

Note on changes arising from pre-consultation on draft Change Request to the MPOC for market-based balancing

1. Introduction

1.1 The Commercial Operator of Maui Development Limited ("MDL", "we", "us" or "our") provided gas industry stakeholders with a draft Change Request to the Maui Pipeline Operating Code ("MPOC") on 13 August 2014. This Change Request is intended to introduce a market-based balancing regime on the Maui Pipeline.

1.2 In response to that pre-consultation we received submissions from:

- (a) Contact Energy
- (b) emsTradepoint
- (c) Genesis Energy
- (d) Greymouth Gas New Zealand
- (e) Major Gas Users Group
- (f) Methanex New Zealand
- (g) Mighty River Power
- (h) Nova Energy
- (i) Shell Exploration New Zealand
- (j) Shell Todd Oil Services
- (k) Trustpower
- (l) Vector

1.3 As a result of those submissions, as well as our own internal reviews and further thinking, changes were made to the final Change Request to be submitted to Gas Industry Company.

1.4 This document describes the main changes that were made for the final Change Request, in comparison to the pre-consultation draft. A full marked-up comparison is attached.

2. Overview of changes

2.1 The main changes were:

- (a) Extension of the "soft landing" period
- (b) Clarification of product selection for Balancing Actions
- (c) Addition of Cash-Out Trading Fee Price

- (d) Expansion of "default rule" provisions
- 2.2 These main changes are covered in more detail below, followed by a summary of secondary changes. The full rationale for all amendments to the MPOC are presented in our Change Request Application.
3. Extension of the "soft landing" period
- 3.1 We originally proposed a "soft landing" period by allowing for a ROIL Multiplier in section 12.18 of the amended MPOC. Several submitters requested a longer period that would allow industry participants to adjust. In response, we have extended our proposed time frame for a "soft landing":
- (a) from 30 June 2015 to "1 March 2016 or such later date as may be notified by MDL" for a minimum ROIL Multiplier of 2; and
 - (b) retained it for a period of six Months thereafter for a minimum ROIL Multiplier of 1.5.
4. Clarification of product selection for Balancing Actions
- 4.1 We proposed a merit order for balancing product selection in section 3.5 of our pre-consultation draft. We received a comment that this did not provide sufficient certainty. Unfortunately, it is not possible to describe definitively in advance which balancing product should be used in which balancing scenario. As we explain in our Application, the best priced product may not always be the most cost effective for achieving a balancing objective. The selection of balancing products must depend on the nature of the balancing objective and on the range of products available at the time.
- 4.2 Nevertheless, we have redrafted section 3.5 to providing additional clarity.
- (a) We have changed the heading from "Merit order" to "Balancing product selection".
 - (b) We added an explicit phrase that the section applies "for a Balancing Action".
 - (c) We moved the phrase "acting as a Reasonable and Prudent Operator" from 3.5(c) to the opening sentence.
 - (d) We added a provision to explicitly give preference to the use of Standard Products over non-standard products.
 - (e) For this purpose we removed the description of a "standard product" from section 3.2 and replaced it with a refined definition in section 1.1.
 - (f) We clarified the order in section 3.5(d) to explicitly give preference to use of "products listed on an eligible Trading Platform" over other sources of products.

5. Addition of Cash-Out Trading Fee Price

5.1 Our pre-consultation draft contained a new section 12.12 that provided for cash-out prices based on the higher/lower of:

- (a) price plus/minus applicable trading fees for a Balancing Action; and
- (b) Average Market Price plus/minus an adjustment.

5.2 We received a suggestion to include market trading fees with the Average Market Price in order to allow the adjustment to initially be set at zero. We have not yet developed views on what the appropriate adjustment value should be initially, but we acknowledge that the adjustment was originally intended to cover trading fees as well. Therefore, the adjustment can indeed be lower if the trading fee component is split out.

5.3 To achieve that we have added a new definition for a Cash-Out Trading Fee Price that:

“means, with respect to a Cash-Out Transaction, an amount that is equal to the unweighted mean value of all categories of trading fees per GJ posted by eligible Trading Platforms on their websites (or provided to MDL) at midday on the Day prior to the Cash-Out Transaction.”

5.4 Using that definition allows us to explicitly add/deduct the Cash-Out Trading Fee Price to/from the Cash-Out Sell/Buy Price in section 12.12(h)/(i). Consequently, we have removed the trading fee adjustment to the Marginal Sell/Buy Price in our draft versions of sections 12.12(b)/(c).

5.5 We also added a provision in section 4.4 to publish the Cash-Out Trading Fee Price on the BGIX “For each Transmission Day, by 5.00 pm of the previous Day”.

6. Expansion of “default rule” provisions

6.1 We received some comments on the “default rule” provision we proposed in section 12(f) “for the the derivation of the Average Market Price for a Day in circumstances where information is not sufficiently or reliably available”.

6.2 Devising such a default rule, and describing the circumstances in which it will specifically apply, is an exercise that still needs to be done. In order to provide more clarity on potential circumstances we have expanded the provision to add that it applies:

“where information is not sufficiently available or reliable for that Day; including but not limited to circumstances where:

- (i) no eligible Trading Platforms were available on that Day; or
- (ii) the volume traded on eligible Trading Platforms both on that Day and on the prior Day for Delivery that Day was (in both cases) less than a specified volume.”

6.3 We also added a provision in section 12.12(g) that “the details of any amendments to that rule” will be published on the BGIX in accordance with section 4.4. The frequency of publication for the default rule in section 4.4 now reads: “When issued or at least 5 Business Days before an amended rule takes effect”.

6.4 Finally, we clarified at the start of section 12.12(a) that it applies "Unless the default rule defined in accordance with section 12.12(f) applies".

7. Secondary changes

7.1 In addition to minor changes in wording, and punctuation, several secondary changes were made as well. The more relevant of those are described below.

7.2 We replaced "Trading System" with "Trading Platform" throughout the MPOC. The descriptions for Trading Platform and Balancing Platform were amended to:

- (a) clarify that the platform is "electronic";
- (b) expand that they must be platforms "upon which MDL has both bidding and offering trading rights"; and
- (c) clarify that they relate to "short-term trading" of Gas.

7.3 Amended the "Force Majeure Event" definition to add:

"A failure by a participant on any Trading Platform or Balancing Platform to comply with, observe or perform (as and when due, in part, or at all) the rules governing that platform, or any agreement, arrangement or understanding between that participant and the operator of that platform in connection with such rules or the platform, shall not for any purpose be an event or circumstance beyond the reasonable control of any Welded Party being the operator of that platform."

7.4 Clarified the definition for Running Operational Imbalance Limit to more specifically refer to the values listed in Schedule 7.

7.5 Inserted a new section 3.7 stating:

"If MDL has published on the BGIX the name of a Trading Platform under section 3.6(a) but at a later time determines that the Trading Platform does not meet the eligibility criteria in section 3.4 (or has reason to believe that may be so), then MDL shall publish a notice to that effect on the MDL IX and remove the name of the Trading Platform from the BGIX until further notice."

7.6 Qualified the description for Open Access Personnel in section 3.10 (previously section 3.9) to let it apply only to Particular Open Access Personnel. This is to avoid the provision applying to all of Vector Gas Limited (who are Technical Operator and System Operator). Text added is:

"For this purpose "Particular Open Access Personnel" means an individual who at the relevant time:

- (a) receives remuneration in any way or by any means from an entity within the definition of Open Access Personnel; and
- (b) has access, or within the current or the previous Week had access, to Confidential Information other than information which is the Confidential Information only of the entity referred to in (a) above."

7.7 Clarified amounts payable descriptions in sections 19.4 and 19.6.

- 7.8 Clarified the Force Majeure provision in section 27.2(c) (because ILON settlement is no longer an option) to state explicitly that a Force Majeure Event does not provide relief for:
- “a Welded Party’s obligations to:
- (i) buy or sell a Cash-Out Quantity and (if the buyer) to pay for it;
 - (ii) settle a Running Operational Imbalance under section 12.13 and (if the buyer) to pay for the corresponding quantity of Gas.”
- 7.9 Amended Schedule 7 to provide DOIL of 3,000 (GJ) to Welded Points at Bertrand Road (Waitara Valley) and Faull Road. This is the same as the minimum DOIL for all other Welded Points except the Mokau Compressor Station.