



GREYMOUTH GAS

13 December 2016

Ian Wilson
Senior Technical Adviser – Infrastructure
Gas Industry Company Limited
By email

Dear Ian,

RE: Review of Market-Based Balancing

Greymouth Gas New Zealand Limited (“GGNZ”) considers that the Gas Industry Company Limited (“GIC”) has not fully discharged its obligations in relation to this review.

This comment has nothing to do with the quality of the analysis – rather, the analysis is not complete. Context supporting this conclusion is as follows:

- As long as there are some benefits, then any review of any system will conclude that there are benefits (even net benefits) if the costs are not included in the analysis. It is not logical to do such a review without considering the costs.
- It was always going to be difficult for GIC to manage the conflict of interest arising from it reviewing arrangements which it supported during the MPOC change request process. Given the level of trust being placed in the GIC by the industry, this conflict could have been managed better – e.g. by carrying out a cost-benefit review and by consulting on terms of reference.
- GGNZ agreed to provide information to the GIC for the purposes of this review, and in return GIC agreed *[it] will be well-placed to assess whether MBB provides an effective and efficient set of balancing arrangements compared with the previous ILON-based approach*. One cannot assess efficiency without considering the cost incurred to achieve the effectiveness. GIC has therefore not (yet) done what it said it would do with the information provided by industry.
- A proper assessment of the costs and benefits and, therefore, the efficiency and effectiveness of MBB would be invaluable to First Gas Limited’s (“FGL”) code development process. FGL’s SCOP2 paper, which is concurrently in the consultation phase doesn’t rule MBB in or out. The GIC should complete a full review of MBB so that parties can properly evaluate whether to include it in final code arrangements.¹

¹ This would add value to the industry, and should justify the additional resource being applied. It is not relevant that some costs are already sunk.

- Both the costs and the cost-benefit paper that were central to GIC originally approving MBB were highly contentious in the industry. GGNZ considers that:
 - There is no point paying a consultant to redo the cost-benefit analysis. But rather, the GIC should do an assessment of how the costs actually panned out compared to what was estimated in the cost-benefit paper.
 - Such a cost analysis should not just be in relation to shipper costs (as GIC implies), but in relation to any costs incurred to derive the benefits.
 - This should include the cost of the D+1 pilot arrangement which was only implemented because of MBB.² Alternatively, the benefits need to be re-analysed (and reduced) because the GIC attributes some of the MBB benefits to D+1. The former makes more sense than the latter.
 - It is not relevant whether or not GIC retrospectively revisits its decision to support MBB in 2015. However, addressing this point would add credibility and accountability to the GIC's ongoing decision making process.
 - Even if GIC concludes that it was (or may have been) wrong to support MBB (had it known then what it knows now), MBB is already well established. Industry has moved on from the decision, but there is a need for closure.³

However, even after all of this, balancing remains an issue.

Balancing will be renegotiated in 2017 as part of FGL's new code process. The obvious options are a tweak of MBB, B2B, ILONs or other. GGNZ's initial views are that other⁴ or B2B are more favourable than MBB which in turn is more favourable than ILONs.

The GIC's review of MBB is critical here. If it does not review the costs / efficiencies, then it will be difficult for parties to accept (or ever to know) whether MBB is the cheapest or best option moving forwards. Extending the MBB review to include costs / efficiencies would address this issue and allow all balancing options to be fairly considered in the new code process.

It so happens that there is still a window for this to occur without the MBB review causing delay to FGL's process. GGNZ recommends that GIC takes this opportunity as soon as reasonably practicable to complete what it has previously agreed to do.

Yours sincerely,



Chris Boxall
Commercial Manager

² And should always have formed part of the MBB proposal.

³ There could even be a net benefit even after considering the costs – who knows.

⁴ Perhaps a load-factor charge of sorts – this would also align with a reframing of balancing as a service, rather than as a stick.