

16 December 2016

Ian Wilson
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Dear Ian

Submission on the GIC's Review of Market-Based Balancing

Introduction

1. This is Vector Limited's (Vector) submission on the Gas Industry Company's (GIC) consultation paper on the *Review of Market-Based Balancing* (the Review), dated November 2016.
2. We set out below our responses to the questions raised in the consultation paper.
3. No part of this submission is confidential. Vector's contact person for this submission is:

Anna Carrick
Manager Natural Gas Trading
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Responses to consultation questions

Q1: *Do you think our approach to the analysis is reasonable. [sic] If not, what further analysis do you think is necessary?*

4. We consider the GIC's analysis in this Review to be generally reasonable.
5. To determine the "net pipeline trading position" of First Gas Limited (First Gas) and the previous pipeline owners since market-based balancing (MBB) was introduced, we suggest that the GIC include an analysis of their cash-outs and balancing actions.
6. In the GIC's analysis of net pipeline trading position (Figure 12), the net volume position of First Gas is not factored into the calculation. For example, a put transaction at \$0/GJ would have no effect on the calculated net pipeline trading position of First Gas. We are happy to discuss this further with the GIC.
7. The above analysis would indicate the value being created for or lost to First Gas as a result of MBB.

8. In addition, we suggest that the GIC undertake analysis on:
- whether the decrease in primary balancing during the review period was caused by the introduction of MBB and/or by the D+1 trial and daily BPP;
 - the extent to which the increase in secondary balancing under MBB was in response to linepack or unaccounted-for-gas issues (rather than imbalance); and
 - whether there is a link between the reduced use of the Mokau compressor and the increase in secondary balancing since MBB was introduced.
9. We would support any efforts by First Gas to achieve efficiencies in the procurement of balancing gas.

Q2: Do you consider that there is merit in extending the analysis so that a full year pre- and post-MBB-implementation analysis can be done?

10. We do not see any merit in extending the timeframe of the Review to a full year pre- and post-MBB implementation.
11. We consider a deeper analysis of the current review period to be more useful, including the additional analysis we suggest above.

Q3: Do you consider that there is merit in asking pipeline users to re-assess the costs of changing their systems and business practices to accommodate MBB (given that some stakeholders believe the original cost estimates used in the CBA were too low)?

12. We do not see any merit in re-assessing the cost-benefit analysis (CBA) undertaken by Covec on the introduction of MBB. The costs associated with this 'one-off' process are already sunk as far as market participants are concerned. There are no marginal benefits for market participants and their customers from a re-assessment of the CBA.
13. However, we would be happy to provide information to the GIC should it wish to review its CBA process.

Yours sincerely
For and on behalf of Vector Limited

A handwritten signature in black ink, appearing to read "Luz Rose", written in a cursive style.

Luz Rose
Senior Regulatory Specialist