



17 December 2009 MPOC Change Request Status Update

March 2010
Feedback due: Friday 26 March 2010





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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Executive summary

This Status Update provides a summary of submissions received on Maui Development Limited's (MDL) proposed balancing-related Maui Pipeline Operating Code (MPOC) change request (December Change Request), and considers issues related to processing the December Change Request.

Considering the wide scope of the December Change Request, Gas Industry Co believes it may be difficult to approve the whole package unconditionally. We seek feedback from industry participants on the extent to which any recommendation Gas Industry Co makes could be conditional, and whether the MPOC is sufficiently clear on that point. We also seek views on whether MDL should subdivide the December Change Request into smaller, issue specific, packages.

Vector Gas Limited believes the December Change Request materially adversely affects its business and has challenged the change request under the terms of its interconnection agreement with MDL. Gas Industry Co's preliminary view is that this should not affect its processing of the December Change Request, but we are interested to hear industry views on the matter.

Gas Industry Co's impending recommendation to the Minister of Energy and Resources that balancing rules should be introduced is also discussed. We consider whether this should affect the processing of the December Change Request, and conclude that it should not. However, we would also like to hear industry views on this matter.

In addition, Gas Industry Co advises that it:

- requires more time to process the December Change Request than was estimated for in the indicative timetable it published in January 2010;
- has requested further information from MDL to aid its analysis;
- has asked MDL to hold workshops with the industry to allow for more interactive discussion of the change request; and
- will issue a revised timetable for processing the December Change Request after it has considered feedback from the industry and any further information that MDL provides.

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Introduction

1.1 Background

MPOC Change Requests

Under section 29 of the Maui Pipeline Operating Code (MPOC), Gas Industry Company Limited (Gas Industry Co) has been assigned a role in respect of any proposed amendments to the MPOC, known as a 'change request'. Gas Industry Co's role is to consult with the gas industry on the change request 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)¹ 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, and makes a final recommendation to MDL.

December Change Request

On 17 December 2009, Gas Industry Co received a change request from MDL (December Change Request). The change request proposes extensive amendments to the MPOC that would significantly alter current balancing arrangements.

In accordance with the MOU, Gas Industry Co published a timetable on its website for processing the December Change Request and notified participants of the process. The deadline for submissions on the December Change Request was 5 February 2010. Gas Industry Co received seven submissions in total, which can be viewed on our website.

¹ For further information (including a copy of the MOU) please refer to Gas Industry Co's website at www.gasindustry.co.nz

1.2 Purpose of this paper

In this paper:

- **Section 1.3** explains that the analysis of the December Change Request will take longer than originally thought due to:
 - the complexity of the proposal;
 - the need for further information to aid analysis; and
 - Gas Industry Co resource constraints;
- **Section 1.4** seeks industry feedback on:
 - The degree to which a Gas Industry Co recommendation should be conditional;
 - whether section 29.4(a) of the MPOC is sufficiently clear on that matter; and
 - whether MDL should subdivide the December Change Request into smaller packages;
- **Section 1.5** seeks industry feedback on our preliminary views in relation to:
 - Vector's challenge to the December Change Request; and
 - Gas Industry Co's proposed balancing rules;
- **Sections 2 and 3** provide a summary of submissions on the December Change Request; and
- **Section 4** lists areas where Gas Industry Co would like to have further information from MDL.

The paper notes that Gas Industry Co will continue to process the December Change Request but allow more time for the Company and industry to consider it. We will also ask MDL to consider holding industry workshops on the December Change Request to assist participants in understanding the likely effects of the change request.

Invitation for feedback

Gas Industry Co invites feedback on the process questions raised in section 1. Please submit your feedback to Gas Industry Co by **5pm Friday, 26 March 2010**. Feedback can be uploaded to our website: <http://www.gasindustry.co.nz/work-programme/mpoc-change-request-17-december-2009?tab=1574>

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

1.3 Revised timetable

Having completed an initial review of the December Change Request and considered submissions on it, Gas Industry Co considers that the December Change Request is extensive and complex and will be difficult to process in the timeframes we originally proposed. Submissions show there is a clear concern that the December Change Request may have some unforeseen consequences, and many submitters believed it should at least be discussed at workshops with industry participants before being considered further. Gas Industry Co agrees with this view and has written to MDL asking if it will do this.

In addition, there are many points on which participants and Gas Industry Co would benefit from further clarification before giving the proposal full consideration (see section 4). For these reasons, Gas Industry Co also believes that it would be beneficial for MDL to engage with industry on the proposed amendments before proceeding.

We also note that this is a particularly busy time for Gas Industry Co's Infrastructure Access Group. It is progressing a number of other projects, including:

- completion of a supplement to the October 2009 Transmission Pipeline Balancing Statement of Proposal (including an additional numerical cost-benefit analysis requested by the Associate Minister of Energy and Resources (the Associate Minister));
- a review of transmission pipeline capacity issues;
- a Vector Transmission Code (VTC) change request appeal;
- preparation for a review of transmission pipeline interconnection arrangements; and
- further consideration of daily reconciliation options ('D+1').

The volume of work has impacted our ability to meet the indicative timeframes.

We also note that this is a particularly busy time for industry participants, a number are heavily involved in the Commerce Commission's price/quality regime work, emissions trading work, and our own pipeline balancing work.

Q1: Do you consider there are any other issues relevant that are not identified above?

1.4 Approach to considering the change request

Considering the wide scope of the December Change Request, Gas Industry Co is considering to what degree its recommendation may be conditional. We are interested in whether industry participants believe Gas Industry Co's recommendation should be:

- (a) unconditional – ie restricted to either approving, or not approving, the December Change Request in its entirety; or
- (b) conditional, but with the conditionality restricted to minor and technical matters; or
- (c) conditional, but with the conditionality restricted to changes to elements of the December Change Request; or
- (d) conditional, with conditionality able to apply to changes to any elements of the December Change Request or any other element of the MPOC.

Under Section 29 of the MPOC one of the conditions for changing the MPOC (and each affected Transmission Services Agreement (TSA) and ICA) is that:

‘the GIC (or any entity granted formal jurisdiction) has made a written recommendation, following appropriate Gas industry consultation, supporting the Change Request;’

(MPOC Section 29.4(a))

We are interested to know if parties to the MPOC believe that this clause is sufficiently clear about the degree of conditionality Gas Industry Co can apply.

The issue of conditionality becomes more acute where a change request addresses a wide range of matters, because it is more likely that at least one element of the package might be unacceptable. Given the wide scope of the December Change Request, we are interested in whether industry participants believe that it would be preferable for MDL to subdivide the December Change Request into smaller, issue specific, packages (as some submitters have proposed).

Q2: What level of conditionality do you consider should apply to a Gas Industry Co recommendation on an MPOC change request?

Q3: Do you consider that section 29.4(a) is sufficiently clear on the matter of conditionality?

Q4: Do you consider that MDL should subdivide the December Change Request into smaller packages?

1.5 Consideration of related matters

Vector's challenge to the December Change Request

Vector Gas Limited (Vector) advised Gas Industry Co on 21 January 2010 that it believed the December Change Request would materially adversely affect Vector's Transmission business and the compatibility of MDL's and Vector's open access regimes. The interconnection agreement (ICA) between MDL and Vector² requires the parties to engage in a process to consider such a change request. The process involves MDL and Vector meeting to discuss the matter in the presence of their legal advisors. MDL is required to withhold its consent to such a change request until:

- Vector withdraws its objection; or
- through the MPOC dispute resolution procedure, Vector's objection is ruled invalid.

However, MDL advised Gas Industry Co on 22 February 2010 that it is wrong for Gas Industry Co to infer that Vector's objection can delay or prevent a change request from being implemented. Rather, MDL's consent to such a change request would simply give rise to a question of whether MDL was in breach of the ICA.

Gas Industry Co does not have a view on whether MDL would consent to a change request that was subject to dispute under its ICA with Vector, but notes that Vector's objection to the December Change Request could lead to a range of possible outcomes:

- Vector may withdraw its objection;
- Vector and MDL may agree that changes to the December Change Request are necessary to address Vector's concerns;
- MDL may dispute the validity of Vector's objection; or
- MDL may wait for Gas Industry Co to support the December Change Request then decide to either:
 - Dispute the validity of Vector's objection; and/or
 - consent to the December Change Request.

In essence, either Vector will withdraw its objection, or the December Change Request will be modified, or there will be legal action with an uncertain outcome.

Vector's challenge to the December Change Request gives rise to a possibility that Gas Industry Co and the industry will devote time and effort to the change request, but find that is ultimately not adopted by MDL, or is subject to legal challenge. Accordingly, we have considered whether we should delay processing of the December Change Request until the Vector objection has been withdrawn or

² The '2005-09-21 – NGC NZ Lid ICA' is available on the Publications page of the MDL OATIS website.

ruled invalid. However, at this stage we are comfortable to proceed with the work, but would value the views of participants on this matter.

Q5: Do you agree that there is no need to delay consideration of the December Change Request as a result of Vector's objections?

Gas Industry Co's proposed balancing rules

In December 2009 Gas Industry Co wrote to the Associate Minister advising her that Gas Industry Co:

- had considered whether recent balancing initiatives (the Industry Code Development (ICD) process and anticipated MPOC change request) would cause it to reassess the need for, or scope of, balancing rules, and had concluded they would not;
- had deferred sending a formal recommendation to introduce balancing rules to allow for further scrutiny of the draft rules and discussion of implementation issues with the industry; and
- would submit a formal recommendation to introduce balancing rules at the end of February 2010.

Responding to that letter, the Associate Minister asked that a quantitative cost-benefit analysis be completed before a recommendation is made. Developing this cost-benefit analysis has delayed submission of the formal recommendation. Nevertheless, at this stage it is expected that a recommendation will be made by the end of April.

The form of back-to-back balancing set out in the draft balancing rules is different to that now being proposed in the December Change Request. This may mean that, if adopted, the current MPOC changes would need to be changed again once a balancing plan is approved under the balancing rules. However, Gas Industry Co considers that, if the December Change Request will improve the efficiency of pipeline balancing, the impending introduction of balancing rules that will further improve efficiency should not prevent the December Change Request from being progressed.

Q6: Do you agree that the impending recommendation that balancing rules be introduced should not prevent the December Change Request from being progressed?

2

Overview of submissions

2.1 Submissions received

Gas Industry Co received seven submissions on the December Change Request from the following parties³:

- Contact Energy Limited (Contact);
- Evonik Degussa Peroxide Limited (Evonik);
- Genesis Energy Limited (Genesis);
- Greymouth Gas Limited (Greymouth);
- Methanex New Zealand Limited (Methanex);
- Mighty River Power Company (MRP); and
- On Gas Limited, Vector Gas Contracts Limited, Vector Limited (Vector).

2.2 Brief overview of submissions

Contact

Contact, in principle, supports the development of changes that address balancing issues. However, while it supports parts of the December Change Request, it does not support others. It believes that a number of the changes discussed in the ICD process⁴ were not acknowledged in the December Change Request. It considers that MDL should withdraw the proposed change until it is discussed with users. It also stated 12 main areas of concern.

³ Submissions on the December Change Request are available on Gas Industry Co's website: <http://www.gasindustry.co.nz/work-programme/mpoc-change-request-17-december-2009?tab=1574>

⁴ Information on the ICD process, including the ICD MOU is available on Gas Industry Co's website: <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-balancing?tab=1511>

Evonik

In its submission, Evonik did not comment directly on the December Change Request but noted its opposition to Gas Industry Co's proposed balancing rules. They believe the rules would add no value and only result in increased cost. Evonik believes current industry 'self regulation' is working well. It also had several specific comments to make including, the suggestion that the cost recovery of imbalances could be built in to the fixed costs of transmission to reduce Transmission System Owners' (TSOs) financial exposure.

Genesis

Genesis commended MDL on its initiative but concluded that the December Change Request requires more work. It supports the scope and purpose of the proposed amendments but notes nine main issues; one of those issues was that the proposed amendments do not seem to fully and clearly delineate between MDL's functions and the Balancing Operator's functions as an agent. It plans to engage directly with MDL and other major Shippers on further development of the proposed changes.

Greymouth

Greymouth does not consider that the December Change Request is appropriate or that it should be supported. It suggested that the proposed amendments do not provide the right mix of balancing penalties and tools. It is concerned that the application:

- breaches several objectives of the Gas Act 1992 (Gas Act);
- does not reflect what was agreed in the ICD process Memorandum of Understanding (ICD MOU);
- seeks to codify MDL's objectives without discussion with industry aimed at resolving key balancing issues first;
- is inconsistent with Gas Industry Co's proposed balancing rules; and
- will increase costs to customers.

It notes also that the removal of tolerances and Peaking Limits, coupled with a reduction in daily limits and the adoption of 'back-to-back' cash-outs, means there will be no 'wins' for Shippers, Welded Parties, or customers. Greymouth believes that Gas Industry Co should 'strike it out' because of inadequate prior discussion between MDL and its users, and that the ICD process should continue.

Greymouth provided a number of detailed comments on the December Change Request.

Methanex

Methanex also noted support for a continuation of the ICD process. It made several comments on specific aspects of the December Change Request, and proposed that the best approach would be for MDL to explain it to affected parties at a workshop.

MRP

MRP noted that the proposed changes are extensive and expressed disappointment that only some aspects of the ICD MOU that resulted from the ICD process were adopted. MRP considers it important that such changes are not made in isolation but as part of an overall development plan for balancing both Vector and Maui pipelines. It suggested that the December Change Request be delayed until the Associate Minister has considered Gas Industry Co's proposed balancing rules.

Vector

Vector noted that the proposed change would materially adversely affect its business. Further, it noted that an integrated set of measures across both pipelines was necessary to allow the participants to manage their exposure to balancing costs, and the proposed change did not allow for this. Also MDL's wide discretion on Standard Operating Procedure (SOP) changes could lead to greater disparity between the operations of the transmission systems. The changes did not open up the balancing market to producers on the Vector Transmission system, nor provide a comprehensive 'tool-kit' to assist users to self-balance. Vector also pointed to a number of specific areas of the December Change Request that it considers require further work in order for back-to-back balancing to be implemented correctly.

3

Detailed comments on proposed amendments to sections and schedules of the MPOC

3.1 Section 1- Definitions

Accumulative Excess Operational Imbalance (deletion of)

Vector notes that the proposed removal of Accumulated Excess Operational Imbalance (AEOI) will remove all tolerances on running position for Welded Parties, and that this is contrary to the position reached through the ICD process that some small tolerance should be retained but get smaller over time. Vector suggests that the AEOI concept be retained but that the tolerance should only apply to a Welded Party's daily imbalance.

Genesis and Greymouth disagree with the removal of AEOI. Greymouth notes that it supports the minimisation, but not the removal of tolerances. It is, however, open to the removal of tolerances at Transmission Pipeline Welded Points (TP Welded Points) but not at non-TP Welded Points. Genesis also submits that it should be retained and that it should form the basis of the Cash-Out Quantity calculation.

Balancing Gas

Vector notes that there needs to be alignment between this definition and the changes proposed in section 3, Balancing Principles.

Balancing Gas Call/Put

Vector requests clarification of this definition. It believes that it is unclear what the proposed definition is intended to cover as it excludes Cash-Out Transactions and any operational Balancing Gas.

Cash-Out Quantity

Greymouth does not support the proposed new definition of Cash-Out Quantity.

Vector also considers clarification of this definition is required. It notes that there is confusion between the proposed definition and the definition of Running Operational Imbalance (ROI) due to the use of both daily and hourly time periods. It also notes that Welded Parties who are cashed-out will be faced with a proportion of MDL's imbalance costs as there is no removal of 'TSO imbalance' (ROI related to TSOs) from the cash-out amount. Finally, it believes the proposed definition is unclear as to whether or not Small Stations are included.

Genesis also questions whether any ROI related to TSOs and the Balancing Operator are determined and included in the cash-out amount.

Cash Out Transactions

Vector notes that the proposed definition only extends to Welded Parties and therefore will not cover Shippers. It questions how Shippers will be invoiced for their Mismatch.

Excess Daily Imbalance

Vector is unclear as to why, despite it being identified as a major flaw of the MPOC, daily and hourly imbalances only work in the one direction and not both. It notes that the proposed definition only deals with the depletion of Line Pack.

Daily Operational Imbalance Limits / Excess Daily Imbalance

Greymouth does not support the proposed change in the definitions. It does not support changing the limit to 3% of Scheduled Quantity (SQ) as it believes this provides no flexibility for industry to deal with end-user demand fluctuations.

Genesis considers it unclear why tolerances are reduced to zero for all Welded Points when an Operational Flow Order (OFO) is issued. It suggests that, instead, tolerances should be 100% of Hourly Scheduled Quantity (HSQ) rather than 0% of SQ.

Force Majeure

Vector notes that the proposed approach to critical contingencies is different to that of the Vector Transmission Code (VTC) and believes they should be compatible.

Imbalance Limit Overrun Notice

Greymouth will not support the removal of Imbalance Limit Overrun Notices (ILON), until such time as Vector provides non-business day gas gate information.

Incentives Pool Debit

Vector is of the view that overall balancing costs could increase due to the inclusion of the Incentive Pool for claiming Balancing Costs. Such an arrangement is made difficult by maintaining title tracking to the unallocated gas that has had its associated cost recovered through the Incentives Pool. As an alternative, Vector proposes parties be cashed-out first on their running positions and any remaining amount be allocated on the parties' daily position. It considers that the same principle could be applied to peaking for unrecovered amounts.

Incentives Pool Trustee

Given that it is a separate legal entity, Vector notes that the Incentives Pool Trustee should be a signatory to each Welded Party's ICA.

MDL IX

Vector notes that the correct web address for OATIS is www.oatis.co.nz.

Mean Call Price/Mean Put Price

Vector considers that it is unclear how the proposed definitions work with 'B' (the number of GJ of Balancing Gas Calls/Puts completed on that Day) as the Cash-Out Quantities are excluded.

Both Contact and Greymouth support this proposed amendment.

Mismatch Notice (deletion of)

If Mismatch is deleted then Vector believes that the tools available to Shippers to self balance should remain. Otherwise, it considers the whole concept should be deleted.

Contact also notes that the removal of this decreases flexibility available to users.

Peaking Limit

Greymouth questions whether it is right for MDL, acting as Reasonable and Prudent Operator (RPO), to reduce a Peaking Limit to 0% of the HSQ once an ILON has been issued. While it disagrees with some of the proposed changes in schedule 7, it agrees with including a reference to the schedule in the proposed amendments to the definition.

Vector notes that, in its current form, the definition can apply to hours that have already passed. To avoid this, it suggests, the 0% tolerance should only apply for hours remaining in the Day. It also notes the difficulty in relating such a change to the purpose of a 'back-to-back' balancing regime.

Vector considers it would be useful for MDL to provide some information on the impact peaking has on the operation of the pipeline.

Running Operational Imbalance

Greymouth questions what benefit there is in the proposed change to calculate ROI on an hourly basis, noting that since balancing occurs on a daily basis and the costs and benefits of hourly balancing have not yet been determined, the change seems unnecessary.

Vector notes that the definition provides for hourly calculation rather than daily. This conflicts with other provisions that retain ROI as a daily matter. It suggests the balancing period remain daily until the proposed balancing regime changes have been operational for some time.

Running Operational Imbalance Limits (deletion of)

Greymouth does not support the proposed removal of this definition as this, along with the deletion of AEOI and the new definition of Cash-Out Quantity will greatly disadvantage users by reducing flexibility creating significant extra cost.

Tariff 3

Greymouth considers that the proposed Tariff 3 is unfair and would effectively subsidise the Balancing Operator. It believes that the tariff should be designed to incentivise users to avoid balancing transactions. It considers that if there is a price per GJ, users will add this as a direct cost onto the price consumers pay. Greymouth also believes that the recovery of 'certain' balancing costs is too vague and that all balancing costs need to be in proportion to a user's contribution to the need for the Balancing Operator to buy/sell gas. Finally, it considers the tariff should be aligned with Gas Industry Co's draft balancing rules.

UFG

Contact considers that the proposed provisions relating to unaccounted-for gas (UFG) lack detail and transparency.

Greymouth considers that the new UFG definition requires further change by either containing more detail, or by aligning with Vector's regime.

Vector notes that the discretion given to MDL through the proposed definition should have some objective parameters. As an alternative, it suggests MDL adopt a specified method for determining UFG like the VTC.

General

MRP supports the proposed changes in section 1 subject to Gas Industry Co approval of any related amendments.

Greymouth would support other proposed changes in section 1.1 as long as they retain references to ROI Limits, are minor, or reflect aspects of the ICD MOU. It does, however, support the proposed changes in section 1.2.

3.2 Section 2 - Pipeline Services

MRP supports the proposed changes in this section.

Greymouth supports all but three of the proposed changes in section 2. Greymouth considers that given Vector's position to date, the proposed section 2.13 'pay now, dispute later' provisions might not lead to any improvements. It also disagrees with the new section 2.15, as it considers the proposed amendment will result in MDL's not being liable to TP Welded Parties for breaches by a Shipper. Further, Greymouth does not support the limited nature of the proposed section 2.18, citing that it does not reflect the agreed principles of the ICD MOU nor does it provide for users to initiate change requests.

Vector finds it difficult to relate the proposed changes in section 2.14 and 2.15 to a 'back-to-back' balancing regime. It notes further that the reason for the removal of MDL's indemnity to Vector for a Shipper breach is unclear and commercially unacceptable.

3.3 Section 3 - Balancing Principles

Contact makes several general comments on the December Change Request in relation to the proposed balancing provisions, including that:

- no attempt has been made to address coordination of balancing across the Maui and Vector transmission systems;
- if adopted, it would make the appointment of a single balancing agent across the whole transmission system impossible;
- the operation of the balancing market could be changed at any time by MDL;
- it does not provide certainty that users on the Vector system would be able to participate in the balancing market;
- it does not provide any improvement in the balancing tools available to users; and
- the circumstances in which MDL would undertake balancing activity are not specified.

Genesis notes that the timings in this section and section 4 need to be reviewed. By way of example, it notes that receiving advice of Cash-Out Quantities by 6pm on the Day following the cash-out, as proposed in section 4, is unacceptable.

MRP requests that a cost-benefit analysis is undertaken to justify the claim MDL makes that, following the appointment of the Balancing Operator, it is 'not expected that costs to Shippers will increase as a result of the tariff'. It will reserve its position on this change until it can be demonstrated that the benefits to industry outweigh the costs. Further, it is surprised to see this change given Gas Industry Co's proposal for a single balancing agent has yet to be considered by the Associate Minister.

Methanex notes its conditional support for the TSO appointing the Balancing Operator. However, it recommends that its appointment be reviewed by Gas Industry Co after a certain length of time to assess whether an independent agent is necessary.

Greymouth supports the deletion of provisions that related to Maui Legacy Contracts, but does not support the proposed new section 3 because it is restricted to the appointment of a single Balancing Operator by MDL for the Maui Pipeline and does not comply with section 43ZN(b)(i) of the Gas Act. For Greymouth, this section also ignores the possibility that Gas Industry Co's balancing rules may come into effect. It considers that several provisions in this section are inconsistent with the ICD MOU because:

- it does not include provisions for consultation on the management of Line Pack in accordance with SOPs; and
- it sets the Balancing Operator's role much wider than the ICD MoU and the draft rules. For example, its functions include the sale and purchase of UFG and fuel gas, which is unacceptable as these costs will be passed on to users through cash-outs.

Greymouth also considers proposed sections 3.2(b), (c), and (d) are inappropriate. It submits that:

- it should be irrelevant why the line pack breaches a threshold;
- section 3.2(a) seeks to only invoice Shippers whereas the ICD MOU stated that, for the Maui pipeline, the Balancing Operator's costs will be payable by Maui pipeline users; and
- section 3.2 (d) would essentially allow for the Balancing Operator to potentially undertake business-as-usual functions and have these activities funded by users.

Vector suggests that, as an agent of MDL, the Balancing Operator should also be required to carry out its roles in an efficient and transparent way. It considers the proposed section 3.2(a) to be unclear in terms of how the Balancing Operator will distinguish between UFG as part of a Balancing Gas transaction and ensure that it does not become an Incentive Pool claim. Vector questions whether proposed section 3.2(b)(ii) should have a reference to 'ROI', rather than, 'Operational Imbalance (OI)'

as otherwise it is daily. It also assumes subparagraphs (i) and (ii) apply to Day and before Day flows, respectively. Vector also requests stronger obligations to comply with the Balancing Principles should be placed on the Balancing Operator rather than merely a 'reasonable endeavours' obligation. It also notes that, when read with their definitions, the proposed changes to 'Balancing Gas Call' and 'Balancing Gas Put' appear circular. It appears that, as soon as Balancing Gas Calls are bought but the gas is then sold to the Welded Point. Finally, Vector notes that the proposed change to section 3.5(d)(iii) is made difficult as real time metering may not be economically feasible for Small Stations.

3.4 Section 4 - MDL IX

MRP notes that proposed changes to Section 4, Schedules 7, 8 and 10 are essentially summaries of other changes proposed in the operative provisions.

Given it does not support the removal of tolerances, Greymouth does not support the removal of information on ROI. It does however, support increased transparency of information for TSOs and Welded Points.

Vector considers that the publication of Tariff 3 in proposed section 4.1, should be every three business Days to provide industry with greater certainty. It is also of the view that the provision of OI information for each Welded Point should be limited to large stations on a daily basis. Otherwise, SCADA systems will need to be installed at all stations. Without Vector's regime also moving to hourly (which it says is not feasible) it notes that, a move to hourly data on the MDL system could, potentially result in limited improvements to balancing. It also asks for clarification on how ROI for each Welded Point will work given it is currently hourly. Vector questions why Cash-Out Quantities cannot be published within an hour of the transaction rather than by 6pm on the following Day. It also notes that there appears to be a mistake in the table, under the 'frequency of posting' column, as a number of lines have been left blank. As a general comment, Vector notes that the timings for nominations should be through the schedule as it can be revised through the change request process.

3.5 Section 8 - Nominations and Renominations

Vector notes that the proposed removal of TP Welded Party rights for Balancing Gas does not seem to support the purposes of a 'back-to-back' balancing regime. In relation to the proposed changes to Intra-Day Cycles, Vector believes it to be a significant step away from the position that no approved nomination is able to be bumped by another Shipper during nomination cycles. Further, it notes that the change may result in significant costs to test OATIS changes.

3.6 Section 9 - Scheduled Quantities

Vector considers the proposed change to delete the Post Intra-Day Cycle provisions are both inappropriate and commercially unacceptable. It does not agree with the removal of its rights in advance of a comprehensive regulatory balancing solution.

3.7 Section 11 - Shipper Mismatch

MRP believes that the proposed changes to section 11 and 12 coupled with the proposed changes in section 3 constitute a significant change. MRP will only support a move to back-to-back with daily allocations (D+1) for downstream allocation groups 4-6.

As noted earlier, Vector considers it unfair for Shippers forced into Mismatch to be cashed out without access to tools to assist in their ability to self-balance. In addition, it notes the change and the costs that may result should be considered carefully before proceeding.

Genesis considers that Shipper Mismatch under this section should be treated in the same way as Running Operational (AEOI) cash-out and cashed-out automatically.

3.8 Section 12 - Operational Imbalance

In its submission, Contact notes its support of the proposed amendments to remove the process of issuing ILONs as it considers such a change should result in better allocation of the costs to the causer. It also notes its support for the proposed inclusion of using average pricing to calculate the clearing price.

MRP would only support a change to the tolerance regime for the pipeline once its concerns with the operation of the balancing gas exchange (BGX) are addressed, including allowing all parties who wish to participate in the BGX the ability to do so.

Methanex considers it unreasonable that Cash-Out Quantities once calculated are considered final. It believes adjustments should be allowed if information is found to be materially incorrect.

Greymouth does not support any of the proposed changes in section 12. It believes that the proposed changes greatly disadvantage users by reducing flexibility. In particular, Greymouth considers that the removal of section 12.1 is unworkable as users need some flexibility. Like Methanex, it also disagrees with the removal of Cash-Out Quantity recalculations suggesting that amendments be made to the proposed changes or that, instead, there is a short time frame during which material changes could be made. The retention of Daily Operational Imbalance (DOI) and Excess Daily Imbalances (EDI) adds additional inflexibility to the proposed arrangements and Greymouth believes this to be counter to European Regulators Group for Electricity and Gas (ERGEG) balancing principles⁵.

Vector notes that alignment must occur between the proposed change to section 12.4 and the proposed definition of the term, 'ROI' in section 1.1. It also notes that the proposed change to section 12.5 does not allow for gross errors by the Balancing Operator. It suggests that this can be avoided if it is clear that the change only applies to quantities and not costs or allocation. It notes further that the proposed change has implications depending on what data is used to calculate the

⁵ See 'Guidelines of Good Practice for Gas Balancing (GGPGB) E06-GFG-17-04', ERGEG, 6 December 2006.

Cash-Out Quantity and it suggests this be done on validated rather than unvalidated data. In relation to the proposed change in section 12.7, Vector notes that given ROI is a fixed number it cannot trend to zero 'at all times'. It also considers that a reasonable timeframe should be included in the provision since the imbalance is 'running'. Another point it makes is that the proposed change that the Cash-Out Quantity transfer from the Balancing Operator to the Welded Party at midnight in section 12.8 does not account for New Zealand Standard Time. Finally, it notes two issues with the change proposed in section 12.11, 'forced' OI, that will require a change to the VTC to which Vector does not agree to.

3.9 Section 13 - Peaking

Having not been discussed in any great detail at ICD process meetings, MRP believes that arrangements for peaking need to be discussed with industry and any agreed changes incorporated in an integrated approach to balancing.

While Greymouth accepts peaking to be a reasonable tool for incentivising good behaviour and covering shortfalls in funding, it does not support the deletion of section 13.4 as it removes protections to parties due to a Force Majeure Event, a Contingency Event, a Pipeline Event, or Unscheduled Maintenance.

Vector, like Greymouth, does not support the removal of the right to relief for peaking liability due to uncontrollable circumstances. It notes that it will experience implications downstream and Vector does not agree to waive its right to this. Finally, as a general comment, Vector notes that all the provisions should make it clear as to when the respective obligations will occur.

3.10 Section 14 - Incentives Pool

Contact considers that the retention of the Incentives Pool mechanisms based on daily imbalance but with cash-out of OI based on ROI will be unworkable.

Like peaking, MRP believes that this was not a topic that was discussed in detail at ICD process meetings. It asks that arrangements for Incentives Pool be discussed with industry participants and that any agreed changes take an integrated approach to balancing.

Greymouth notes its surprise that this section was not removed. Despite this, it notes its support for the proposed changes in section 14.6 allowing the Balancing Operator the ability to access the Incentives Pool to make up for any short-falls in funding.

Genesis considers the provisions in this section that allow the Balancing Operator to make claims on the Incentives Pool should be removed. It suggests that such provisions be replaced with the concept that was discussed during the ICD process, which would involve any Balancing Gas not fully allocated

by a cash-out being allocated on the basis of, and to the extent of, any Incentive Pool Debits (with title transfer). Further, it questions the limit or basis of the pro-rata allocation under section 14.2(b).

Vector submitted the same comments as it provided in section 1 under the proposed definition of 'Incentives Pool'. In addition, it notes that section 14.5 limits the Incentives Pool Trustee's liability by removing the terms 'as a trustee' and 'negligent'. It considers this to be unacceptable and not relevant to the purpose of a 'back-to-back' balancing regime. In relation to proposed section 14.6, Balancing Gas Call quantities, Vector makes two comments:

- that providing for Cash-Out Transactions to be excluded again is unnecessary; and
- it is unclear what quantity is being used to cash-out Shippers.

Vector notes further that the changes proposed to sections 14.7 and 14.8 do not support the purpose of a 'back-to-back' balancing regime and that this limitation to a Welded Party's 'remedy' against MDL is unjustified.

3.11 Section 15 - Interruptions

MRP supports the proposed changes in this section.

Greymouth supports the proposed changes in this section but note that there may be 'interplay' problems between this section and section 19.5.

Vector notes that the 'relevant provisions of the Operating Code' in the proposed changes to section 15.9 need to be identified.

3.12 Section 16 - Measurement and Testing

MRP supports the proposed changes in this section.

Vector would like to see the 'Standards' referred to in the proposed amendment to section 16.5 published.

3.13 Section 17 - Gas Specifications

MRP and Greymouth support the proposed changes in this section.

3.14 Section 18 - Maintenance

Greymouth does not support the proposed removal of users' relief from breaching Peaking Limits in the event unscheduled maintenance is required on the pipeline.

MRP does not support the deletion of the right of relief from peaking charges during a Force Majeure Event during a period of unscheduled maintenance.

Vector notes that given Daily Operational Imbalance Limits (DOIL) continue to exist, MDL will need to provide Line Pack to meet this flexibility.

3.15 Section 19 - Fees

MRP will only support the introduction of Tariff 3 when its concerns in relation to sections 3, 11, and 12 have been addressed and resolved to the industry's satisfaction.

Genesis considers that the purpose of the proposed Tariff 3 is unclear as it is allocated on the same basis as Tariff 2. Further, it notes that if the proposed change is adopted, there may be conflict between section 19.9, which specifies the tariff may change once per year, and schedule 10, which states that the tariff will vary from month to month.

Greymouth does not support the proposed Tariff 3 as it considers it will lead to in a causer-pays system resulting in the right incentives for parties to improve their balancing performance. Instead it will result in a number of inefficiencies, such as the socialisation of costs to fund some parties' poor ability to balance. Greymouth considers a much more efficient way to recover costs would be in proportion to a Shipper, Welded Party, or TSO's contribution to the need for the Balancing Operator to take a balancing action. It suggests this 'pass on' be based on percentage contributions to cash-outs over a rolling historical 6-month period.

Greymouth does, however, support the proposed changes to incorporate average pricing rather than marginal.

3.16 Section 20 - Prudential Requirements

MRP and Greymouth support the proposed changes in this section.

3.17 Section 21 - Invoicing and Payment

MRP does not support the proposed changes in sections 21 and 23 for a 'pay now, dispute later' arrangement for disputes. It believes that this too, should be apart of an integrated package. MRP considers such an arrangement should only be implemented once an agreement has been made to refer disputes to an agreed Industry Expert or the Rulings Panel.

Greymouth does not support the following proposed changes in this section:

- 21.2(b), as such a change implies that Welded Parties will be invoiced for any hourly peaking and any EDI regardless of whether or not a cash-out has occurred. This would lead to an inequitable,

inefficient outcome that is inconsistent with the ICD MOU and discussions that took place during the ICD process.

- 21.4(e)(i), noting that parties cannot breach ROI as this is not a limit and therefore is unable to support the provision of information relating to this.
- 21.6, because it will result in double-payment to MDL and the Incentives Pool.

Further, Greymouth questions why all Incentives Pool payments are not going directly to the pool given it is operated as a trust. It also notes inconsistencies in the way invoicing occurs between the proposed changes to section 21.4(e)(iv) and 21.4(f)(ii). It suggests that proposed section 21.2 be amended to clarify that invoices issued are for the previous month.

Vector considers that the proposed amendment to remove section 18.13 would not support a 'back-to-back' balancing regime. In relation to the proposed amendment in section 21.2, Vector notes that the change does not appear to include the ability for the Incentives Pool Trustee to invoice Shippers. Vector considers that a move to 'pay now, dispute later' as proposed by section 21.11 also requires a comprehensive balancing solution within a regulatory framework. Further, such changes to invoicing and payment need to be compatible with the VTC as per section 2.14(a) of the MPOC.

3.18 Section 23 -Dispute Resolution

Contact notes that the proposed amendment to remove Gas Industry Co's independent oversight for Change Requests is inappropriate.

Greymouth does not support the proposed changes in this section.

In relation to the proposed amendment to section 23.1, Vector submits that Transmission Service Agreements (TSA) and ICAs should only be with MDL as this would ensure all rights and obligations are directly between the Welded Part/Shipper and MDL. Vector also considers that a requirement should be added in section 23.5 to ensure disputes are raised as soon as possible, regardless as to whether or not the invoice was paid.

3.19 Section 24 - Confidentiality

MRP and Greymouth support the proposed changes in this section.

3.20 Section 27 - Force Majeure

MRP and Greymouth support the proposed changes in this section.

3.21 Section 28 - Liabilities and Indemnity

MRP and Greymouth support the proposed changes in this section.

3.22 Section 29 - Modifications to MPOC

Greymouth supports the proposed changes in this section, but notes that the December Change Request lacks any transitional provisions.

Methanex submits that SOPs should be subject to the same change request procedure as other code changes.

Vector has reservations in regards to the proposed amendment to remove the word 'and' in section 29.4. It notes that such a small change will alter the intent of the benchmark for Change Requests significantly. It considers the current requirement to also gain the support of Gas Industry Co should remain. Further, Vector notes that it is unclear how the proposed amendments in this section support the purpose of 'back-to-back' balancing.

3.23 Section 38 - Privity of Contract

MRP support the proposed changes in this section.

Greymouth does not support the changes in this section as it considers the change will confer further rights upon the Incentives Pool Trustee.

Vector makes the same comment as above that the Incentives Pool Trustee should be a signatory to each Welded Party's ICA with MDL given it is a separate legal entity.

3.24 Schedule 4 - Confidentiality Protocols

MRP and Greymouth support the proposed changes in this schedule.

3.25 Schedule 5 - IT Requirements

MRP and Greymouth support the proposed changes in this schedule.

Vector again notes the correct web address for OATIS as being, www.oatis.co.nz.

3.26 Schedule 7 - DOIL and Peaking Limits

MRP supports the proposed changes subject to Gas Industry Co approval of related changes.

Greymouth does not support the proposed changes in schedule 7 as it does not support the removal of tolerances or the reduction of Peaking Limits.

In relation to the proposed change to add Ngatimaru Road as a Welded Point in this schedule, Vector notes that it should be defined as Ngatimaru Road (Receipt) and Ngatimaru Road (Delivery).

3.27 Schedule 8 - Peaking Limits

MRP supports the changes subject to Gas Industry Co approval of related changes.

Greymouth supports the proposed changes in this schedule.

3.28 Schedule 10 - Tariff Principles

MRP supports the proposed changes subject to Gas Industry Co approval of related changes.

Greymouth notes its support for the proposed changes to Tariffs 1 and 2, but not to Tariff 3.

As noted above, Vector considers that the Tariff should make it clear where the cost for UFG goes. Further, it notes that it is unclear whether TSO imbalance is recovered under the proposed Tariff 3.

4

Matters requiring clarification

Gas Industry Co notes that many submitters are unhappy with the changes proposed in the December Change Request. Several submissions note that the proposed changes do not appear to align with MDL positions during the ICD process. Other submissions consider that some of the proposed changes would be unworkable. However, Gas Industry Co believes that some of this reaction may arise from an incomplete understanding of why a change has been proposed and how that change will work in practice.

To address these concerns, Gas Industry Co believe that it would be very helpful to the industry, and to itself, if MDL could hold some workshops to present the changes in a more interactive environment. We have written to MDL requesting this. We have also asked for clarification on the specific matters listed below.

4.1 Balancing Gas Puts and Calls

The proposed definition of Balancing Gas Puts and Calls exclude Cash-Out Quantities and operational gas quantities, but it is not clear how they will actually be calculated. Some examples would be helpful.

4.2 Cash Out Quantities

It appears that Cash-Out Quantities are to be calculated across all Welded Points. Will this change any provisions or operational requirements relating to Small Stations? Will it, for example, require SCADA systems be installed at Small Stations? We note that Vector believes that real time metering may not be economic at Small Stations.

4.3 Mean Put and Call prices

As defined, the prices are calculated as the amount received (paid) divided by the quantity. However, through the Balancing Gas Put and Call definition, gas related to maintaining Line Pack, UFG, and fuel are excluded. It appears that this would work, but some examples would be helpful.

4.4 No adjustments to Cash-Out Quantities

At face value it appears to be unfair that Cash-Out Quantities would not be adjusted for data validation, meter error correction, or any other post-facto adjustments (section 12.5), particularly if these errors were material. We would like to get more information on the likely cost and frequency of making such corrections.

4.5 Tariff 3

Potentially the introduction of Tariff 3 will increase transparency. However, the definition allows for the recovery of 'certain balancing costs, as posted on the MDL IX from time to time', which is quite unclear. We understand that only Balancing Gas costs not recovered through back-to-back and Incentives Pool mechanisms would be recovered through Tariff 3. If other costs are envisaged we would like to understand what they are.

4.6 Change Requests

Under the proposal, Gas Industry Co's support of a code change under section 29 is no longer required, and the concept of 'Transitional Provisions' being included in a change request has been introduced. Aside from being included in the same change request, these matters seem unrelated to balancing. We would appreciate some further explanation for the rationale for these changes.

4.7 Incentives Pool

As noted in Vector's submission, not all of the changes in section 14 relate directly to balancing. In particular, changes to sections 14.7 and 14.8 change Welded Party liabilities without explanation. We would like to understand the rationale for these changes.

4.8 Meter testing

There is no explanation for the change to section 16.5. We wish to know whether the rewording has changed the metering standards for Methanex or MDL, and how this might relate to balancing.

4.9 No Welded Point relief if MDL causes it to breach a Peaking Limit

We cannot follow the rationale provided by MDL for the removal of section 18.13. The section addresses a situation where MDL has caused a Welded Party to breach a Peaking Limit. Removing 18.3 appears to make the Welded Party responsible for the consequences of a breach arising from the actions of MDL, yet MDL proposes that the change reflects the causer-pays principle.

4.10 Deadline for notifying Cash-Out Quantities

The table in section 4.1 stipulates that Cash-Out Quantities will be available by 6pm on the following Day. We would like to understand why an earlier deadline is not feasible.

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Next steps

As noted in section 1.3, we consider that more time must be allowed to process the December Change Request. The indicative timetable previously published by Gas Industry Co allowed for it to make a final recommendation to MDL by 23 April 2010. After we receive feedback from the industry on the process questions raised in section 1, and from MDL on the issues for consideration identified in section 4, we will revise the timetable and circulate it to the industry.