



11 Chews Lane  
PO Box 10568  
The Terrace  
Wellington 6143  
New Zealand

Genesis Power Limited  
trading as Genesis Energy

Fax: 04 495 6363

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Ian Wilson  
Gas Industry Company  
95 Customhouse Quay  
WELLINGTON

By email: [submissions@gasindustry.co.nz](mailto:submissions@gasindustry.co.nz)

Dear Ian

## MPOC change request will be beneficial provided that an effective gas trading platform is introduced

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Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company ("the GIC") on the consultation paper "MPOC Change Request 13 October 2011" dated 13 October 2011.

### **Overview of Genesis Energy's comments**

We consider that the benefits of this Maui Pipeline Operating Code (MPOC) change request will outweigh the costs, provided that an enhanced gas trading platform, such as Maui Development Limited's (MDL) proposed balancing gas exchange ("BGX2"), is made available to shippers so they can effectively manage their risks with regard to cash-outs and peaking charges. As such, our support is conditional on MDL implementing its BGX 2, prior to the MPOC change taking effect.

We recommend that work on a gas trading platform be undertaken during the six month period that MDL has specified for Vector to undertake the necessary changes to the Vector Transmission Code (VTC). Further refinements to peaking charges would also ensure MDL can effectively allocate balancing gas. We expand on these points below.

## **Benefits of change request**

Genesis Energy supports the introduction of a back-to-back balancing framework and we consider that removing the incentive pool claims for excess daily imbalances will address one of the industry's major concerns with the interface between the MPOC and the VTC. In particular, we endorse the following aspects of the change request:

- the introduction of a new section 3A in the MPOC outlining the balancing principles;
- the publication of new information on OATIS and the current BGX;
- the removal of transmission pipeline (TP) welded parties' ability to nominate balancing gas during the post intra-day cycle;
- the removal of the current imbalance limit overrun notice (ILON) process and the corresponding introduction of back-to-back provisions; and
- the removal of the balancing agent's ability to claim against the incentives pool.

## **Need for an efficient industry-wide gas trading platform**

Genesis Energy's support for this change request is conditional on MDL introducing the BGX 2 gas trading platform (or another party introducing an effective trading platform), as the introduction of a gas trading platform will ensure that the benefits of this change request outweigh the costs. We note that industry work on a gas exchange led by the GIC ceased last year on the understanding that MDL was close to introducing an enhanced version of its BGX market that would allow bilateral trades between shippers. However, the BGX 2 has yet to be introduced.

A fully operational BGX 2 is essential for shippers with back-to-back balancing as it will enable the shippers' imbalance positions to be managed effectively. At present, there are only a limited number of parties that can trade balancing gas as participation is restricted to those welded parties on the Maui pipeline. The introduction of the proposed BGX 2 would enable parties to trade gas between themselves (to manage their cash out exposures) and would enable more parties to offer balancing gas services. This should place downward pressure on the cost of balancing gas over time and on the put-call spread.

We recommend that work on implementing BGX 2 is undertaken by MDL in parallel with Vector's work to make all of the necessary changes to the VTC.<sup>1</sup> We expect that this would be possible in the six month period sought by MDL.

### Peaking Charges

We understand that the rationale for maintaining peaking charges is to address MDL's concerns with the operation of peaking plants and the corresponding potential shortfalls in the recovery of balancing costs (peak charges are essentially a secondary cost recovery process). We consider that the proposed peaking charges may partly address these concerns and are a marginal improvement above the status quo. However, we are particularly concerned that the proposed peaking charges are not consistent with back-to-back balancing principles and further improvements are required.

In our view, the two major flaws with the amended peaking arrangements are that charges are not conditional on there being a balancing transaction on the day and the process does not incorporate a transfer of balancing gas title (in GJ), therefore it essentially remains a penalty payment. In addition, under the proposed peaking arrangements MDL can end up owning balancing gas. This would then need to be traded, so as not to impact the pipeline position. We consider that the four key elements of an effective peaking charge are as follows:

- a peaking charge should only occur where there is a breach of the Low Line Pack Threshold;
- there is also a call balancing gas transaction on the day;
- receipt welded points have a peaking tolerance of 75 percent and incur a peaking charge in the event that gas injections into the pipeline are below this level; and
- the extent of the peaking charge is limited to the extent of any unallocated call balancing gas and includes a transfer of this gas.

We recommend that further work on refining the peaking charge proposal is undertaken during the six months sought by MDL<sup>1</sup> prior to implementation of this change request.

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<sup>1</sup> As specified in paragraph 1.5(2) of the consultation paper.

### Further improvements to pipeline balancing

Following the introduction of back-to-back cash outs and BGX 2, the major issue still facing the industry will be the fact that the Vector Frankley Road pipeline is physically operated as part of the Maui Pipeline but the contractual arrangements are spread over both MPOC and VTC. This arrangement creates issues around the identification of causers of imbalance and peaking and it results in the socialisation of balancing and peaking charges.

Our preferred approach to address this issue would be the introduction of a full nominations regime on the Frankley Road pipeline. A nominations regime on this section of the transmission system would provide better information on gas flows and would better identify the causers of imbalance and peaking. A full nominations regime could be introduced either via the Maui Pipeline Operating Code (MPOC) or the Vector Transmission Code. Our preference would be via the MPOC as this would then move the TP welded point from Frankley Road to Kapuni, where Vector can manage gas flows and information on scheduled quantities. Actual flows to all the large receipt and delivery points would also be visible to all parties. We encourage MDL to investigate this option in consultation with affected parties.

If you would like to discuss any of these matters further, please contact me on 04 495 6354.

Yours sincerely



Karen Collins  
Senior Regulatory Advisor