



MAJOR ELECTRICITY USERS' GROUP

3 November 2006

Ian Dempster
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By email to info@gasindustry.co.nz

Dear Ian

Submission on Wholesale Market – September discussion paper

1. This is a submission by the Major Electricity Users' Group (MEUG) on the September 2006 discussion paper entitled "Wholesale Market Design."
2. As per the MEUG submission lodged with the Gas Industry Company (GIC) in April 2006 industrial users of gas may be potential users of a wholesale gas market from time to time. Currently, most industrial gas users tend to purchase their gas requirements via 12 month (or longer) duration contracts. The characteristics of the gas consumption profile of industrial gas users make it unlikely that trading by industrial gas users by themselves warrant the establishment of a formal market simply because the number of trades and the volume of gas traded by industrial users would not, in MEUG's opinion, justify setting up an elaborate formal market. Nevertheless a low cost matching platform funded on a user pays basis is likely to be supported if several important condition precedents can be met (see paragraph 4 below).
3. Industrial users, who may either use gas in some stage of their production process or in the co-generation of heat and power on their process sites, attempt to accurately assess their gas requirements on a daily, weekly, monthly and annual basis and enter into contracts that match their consumption profile. Therefore any surplus (or shortfall) of gas will "predominantly" only arise following a contingent event, i.e. unexpected machine outages or machine maintenance programmes or dramatic changes to finished product sales orders resulting in market downtime or conversely further shifts being run to meet increased orders. Where gas is the major input to an industrial process (eg methanol, fertilizers and chemicals) there could be other drivers which provide opportunities for trading gas.

4. The requirements for industrial users (see last sentence of paragraph 2 above) include the explicit right to trade being included in all supply contracts plus the necessary transmission/carriage rights to enable a short term sale or purchase to be effected. MEUG is aware of a number of gas supply contracts between industrial users and gas suppliers which specify that the customer shall not purchase or obtain gas from any other source. These two items (the right to trade and carriage arrangements) are necessary pre conditions before industrial users could participate in any wholesale market. The comments made by MEUG in April 2006 on conceptual aspects remain relevant, in particular the need for pro-competitive outcomes and maximum transparency.
5. However in general terms MEUG members support the general approach being adopted by the GIC, namely making further progress on a standard contract, a measured development of a simple matching platform and analysis and investigation of a more sophisticated platform.
6. The questionnaire (attached) has been completed to the extent possible given the conditional position adopted by MEUG.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Terrence Currie', is written over a horizontal line. The signature is stylized and cursive.

Terrence Currie
Chair

Questionnaire

	Question	Comment
Q1	Do you agree with regulatory objective for the component of the Wholesale Market work stream? If not, what objective should the Gas Industry Co be considering?	Yes but feel that the GIC objectives including regulatory components need to be expressly stated.
Q2	Do you agree with the general approach to assessing the different options using both quantitative and qualitative criteria? If not, what alternative approach, that also complies with the Gas Act, would you suggest?	Yes.
Q3	Are there other time horizons that should be considered for the trading of gas? If so, what are those time horizons?	No.
Q4	Are there any other reasonably practicable alternatives for longer term trading of gas that should be considered and if so, what are they?	No, but the industry would benefit from there being a high level of transparency in respect of key terms of long term contracts. New entrants into the market would find this information of considerable importance.
Q5	Are you satisfied with this evaluation of options for longer term trading of gas, and if not, what aspects would you alter and why?	Satisfied but see also answer to Q4.
Q6	Do you agree that there is no case for formalising arrangements for longer term trading of gas to improve transactional efficiency? If not, what alternative do you prefer and why?	Agree there is no case for formalising arrangements for longer term trading but there would be a lot of support from some MEUG members if a database of bilateral contracts entered into was developed as has been proposed for the Electricity Hedge Market. See also answer to Q4.
Q7	Are there any other options that should be considered for short term gas trading, and if so, what are the options?	No other options which appeal to industrial users The theme of transparency and information is re-iterated.
Q8	Are you satisfied with the qualitative assessment of short term trading options? If not, what aspects would you change and why?	Yes see also answer to Q7.
Q9	Do you agree that the standard contract should allow for both types of approaches? If not, what would you prefer and why?	Yes. However it is not clear that the standard contract will be widely used. If supply parties wish to use bespoke contracts it may be necessary to require the publication of key summary information so everybody knows where the market is at and what types of key terms and conditions apply in contracts that are actually signed.
Q10	Do you agree that the standard contract should not provide for price adjustments for taxes and government charges? If not, what changes would you prefer and why?	Yes see answer to Q9.
Q11	Are you satisfied with the proposed approach for addressing s.41 of the Crown Minerals Act in the standard contract? If not, what alternative would you prefer and why?	The approach must include a resolution of this issue i.e. a change to s41. or a legally acceptable code of practice or binding rule that precludes any retrospective consequences to participants in wholesale gas trading.

Q12	Do you agree that the standard contract should not provide for any conditions precedent? If not, what alternative would you prefer and why?	See cover letter re carriage/ right to trade.
Q13	Do you agree that the standard contract should not make seller liable for gas specification? If not, what alternative would you prefer and why?	Yes but compliance with gas specs. must be enforced.
Q14	Do you agree that the standard contract should not provide for any priority rights? If not, what alternative would you prefer and why?	Yes.
Q15	Do you agree that the standard contract should set out a broad description of the transport obligations/rights on buyer and seller? If not, what alternative would you prefer and why?	Yes - resolution of carriage/transmission issues is critical and therefore the standard contract must specify obligations and rights.
Q16	Do you agree that the standard contract should have liability provisions that exclude indirect losses, and that direct losses (in equivalent \$/GJ terms) would be capped at the pipeline mismatch/imbalance price? If not, what alternative would you prefer and why?	Further work on this area is required because it appears that a pipeline/mismatch price can be set unilaterally. This does not appear appropriate if it becomes the default or capping price.
Q17	Do you agree that the standard contract should have FM provisions based on the principle that for very short term trades FM cannot be invoked unless balancing has been suspended – i.e. curtailment is occurring? If not, what alternative would you prefer and why?	Yes in principle. However further work on "curtailment" is necessary.
Q18	Do you agree with the proposed dispute resolution provisions for the standard contract? If not, what alternative would you prefer and why?	Yes
Q19	Do you agree that the standard contract should provide a standard assignment provision? If not, what alternative would you prefer and why?	Yes
Q20	Do you agree that the Gas Industry Co should make the standard contract available for use (once the feedback from this discussion paper has been considered and incorporated)? If not, what alternative path forward would you prefer and why?	Yes
Q21	Do you agree that a platform should extend the compliance regime being developed by the Gas Industry Co in order to keep costs to a minimum? If not, what alternative would you prefer and why?	Yes
Q22	Do you agree that the preferred approach to prudential management is the white-list? If not, what alternative would you prefer and why?	Support in principle but prudential requirements can be anti-competitive or barriers to participation. Further consideration is necessary
Q23	Do you agree that the platform should allow participants to nominate their preferred location for making offers or bids (provided this does not add undue cost to a platform development)? If not, what alternative would you prefer and why?	Yes

Q24	Do you consider the indicative cost ranges for the matching platform to be reasonable? If not, what amendments would you propose and why?	Yes
Q25	Do you consider the indicative benefit ranges for the matching platform to be reasonable? If not, what amendments would you propose and why?	Yes
Q26	Do you support the conclusion that it would be reasonable to proceed with development of a matching platform, provided it can be progressed at modest cost? If not, what path forward would you propose and why?	Yes
Q27	Do you consider the indicative cost ranges for the trading platform to be reasonable? If not, what amendments would you propose and why?	Yes
Q28	Do you consider the indicative benefit ranges for the trading platform to be reasonable? If not, what amendments would you propose and why?	Yes
Q29	Do you support the conclusion that it would be risky to proceed with development of a trading platform due to uncertainty over net benefits, but that it would be worthwhile to seek to narrow the uncertainties, and in particular to examine the costs and benefits of making the pipeline imbalance pricing mechanisms more responsive and dynamic? If not, what conclusion would you draw and why?	Agree with need for further work, analysis and consideration.
Q30	Do you consider the quantitative assessment methodology to be reasonable? If not, what amendments would you propose and why?	Yes