Ian Wilson
Gas Industry Company Ltd
95 Customhouse Quay
WELLINGTON

Delivered via Gas Industry Co's website

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Dear Ian

MPOC AUTHORISED QUANTITY PRODUCT

Transpower New Zealand Limited, trading as emsTradepoint ("**emsTradepoint**") welcomes the opportunity to provide a submission to the Gas Industry Company ("**GIC**") on its paper entitled *'Design Options – MPOC Authorised Quantity product'* (**AQ Paper**).

Whilst congestion on the Maui pipeline would seem somewhat speculative at this time, emsTradepoint supports the GIC in addressing these matters pre-emptively. In saying that, we do recommend that the GIC and Gas Industry Transmission Access Working Group's consideration of capacity allocation under the Maui Pipeline Operating Code and Vector Transmission Code respectively be more closely aligned going forward to avoid compatibility / convergence issues.

In summary, we support an auction-based initial allocation, and consider that the product must be standardised and tradable on a secondary market such as emsTradepoint's.

The cost of listing standardised AQ products for trade on emsTradepoint would be minimal and provide a serviceable status quo in preparation for capacity becoming scarce. The make-up of such listings are highly flexible, e.g. daily, week / balance of week, month / balance of month, quarterly, balance of term, etc., although emsTradepoint would recommend a basic preliminary listing and add / modify as trade frequency increases.

An appendix containing emsTradepoint's responses to the GIC's submission questions is attached.

If you would like to discuss any of these matters further, please contact me on (04) 590 6843.

Yours sincerely

James Whistler
emsTradepoint

Appendix A – Submission template

Q1	Section 1.3 proposes a design objective and assessment criteria. Do you think these are appropriate?
A	*Yes, but propose that "Arrangements should be tradable between eligible parties on a secondary market" also be added to the design objectives.*
Q2	Section 2.2 proposes that no change is required to the fundamental AQ concept, but that further attention should be given to the process for allocation of AQ, the AQ fees, and the standard definition of the AQ product. Do you agree?
A	*Agree.*
Q3	Section 2.3 argues that an auction-based allocation is the preferred mechanism for primary release of AQ. Do you agree?
A	*Agree. An auction-based approach further enforces the need for a standardised AQ product over bilateral negotiations with non-standard terms and conditions.*
Q4	Section 2.5 suggests that AQ products should be administered in three tiers. Do you agree that a tiered approach is best? And do you have suggestions about what should be in each tier?
A	*Agree that a tiered approach is sensible. We generally also agree with the proposed tier structure.* *However, we suggest that decision rights in Tier 2 use a third-party consultant such as Concept as 'Proposer' and the GIC as 'Final decision maker'. Specifically, we do not agree that it is appropriate for the pipeline owner to design auction rules as it lacks the necessary knowledge / skillset to do so efficiently.* *With regard to Tier 3, we accept that the pipeline owner should propose SOPs, but believe the GIC should again retain 'Final decision maker' rights.*
Q5	Section 3.1 sets out the parameters of a proposed AQ product definition. Do you consider these parameters are appropriate?
A	*Yes.*
Q6	Section 3.2 recommend that eligibility to participate in AQ auctions and hold AQ products would be restricted to MDL shippers. Do you agree?

A	*We agree that limiting AQ auctions to TSA holders is reasonable, but only to keep complexity down until such a time where capacity becomes (or is likely to become) scarce. At that point, there is no reason to exclude any party that wishes to secure AQ.*
Q7	Section 3.3 suggests that the standard AQ product should have a term of 1 year. Do you think this is reasonable?
A	*Whilst we believe the standard term for AQ could be one year, the initial auction should cover a minimum of 5 years, i.e. 5 x 1 year AQ products. It is likely that utilities such as electricity generators and large industrial users would value >1 year security. New entrants can then purchase AQ on a secondary market should they wish / value it sufficiently.*
Q8	Section 3.4 proposes the smallest AQ should be for 1 GJ (ie an entitlement to be “at the head of the queue” to nominate up the 1GJ on any day of the relevant year. Do you think this is appropriate?
A	*Yes, but could be bundled into a 100GJ product is desirable. It’s worth noting that the gas spot product (emsTradepoint) has a lot size of 1 GJ whilst the gas futures product (ASX) has a lot size of 100 GJ.*
Q9	Section 3.5 proposes that AQ should apply within a zone. Do you think this is the best approach?
A	*Yes, but only to demark North and South. No further granularity is necessary.*
Q10	Section 3.6 notes that the less pipeline capacity that is sold as AQ, the higher its security. It is proposed that: • the pipeline owner would assess the pipeline total capacity; • the definition of ‘firmness’ would be as currently set out in MPOC clause 7.3 (ie AQ nomination will always be met except when there is a Force Majeure Event, Contingency Event or Maintenance); and • the limits on the proportion of capacity to be offered as firm would be as currently set out in MPOC clause 7.1 (ie up to a maximum of 70% of the capacity of the relevant AQ Zone). Do you agree with these proposals?
A	*We would like to see a somewhat more scientific approach with regard to what the appropriate percentage is. 70% certainly seems somewhat arbitrary and whatever is decided (assuming scarcity) will be a key price driver.*
Q11	Section 3.7 recommends that the pipeline owner would be required to compile and implement an AQ Release Plan. Do you agree with that approach?

A	*We agree with a Release Plan, but see this better executed by an appropriately skilled third-party consultancy. Estimating the most efficient release of AQ across multiple years is an undertaking best suited to an independent economics consultant, not the pipeline owners who may take a view that favours adding value to the underlying pipeline asset.*
Q12	Section 3.8 suggests that all of a shipper's AQ could be transferred to another shipper using the mechanism set out in the current MPOC clause 7.7 which provides that a shipper can use all or part of the AQ held by another shipper, provided the arrangement is notified to, and confirmed with the pipeline owner ahead of time. Do you support that approach?
A	*Yes. This could easily be arranged on a secondary market such as emsTradepoint, with back-end mechanisms to inform the TSO. This could also be done on an anonymous basis, which would have competition advantages.*
Q13	Section 3.9 suggests partial transfers of AQ, down to a single day, should be accommodated. One approach is as proposed for full transfers (see Q12) where partial transfers are recognised by the pipeline owner for the purposes of assessing nomination priority, but financial liability for AQ products remains with the original buyer. Another is for the AQ to be converted into two (or more) new AQ products whenever a partial transfer takes place. Which option would you prefer?
A	*We recommend allowing for both, i.e partial transfer in for the form of a 'shorter-that-full-term' specified trade (day, week, month etc.) and full-term trades (balance of term). To execute the trades, the market operator would notify te TSO of either two trade legs for partial transfers, or one trade legs for full-term transfers.*
Q14	Section 4.1 recommends that the auctions would only be triggered when: • one or more shippers request in writing the commencement of the AQ auction process and pay a refundable 'commencement security'; or • the pipeline owner (or its agent) determines that the first auction is to proceed. Do you agree with this approach?
A	*Agree.*
Q15	Section 4.2 proposes that auctions would lapse at the pipeline owner's (or its agent) discretion if no new AQ product is allocated via auctions during a continuous 24 month period. Do you agree with this approach?
A	*Agree.*
Q16	Section 4.3 proposes a reserve price of $0.10 per GJ of annual AQ capacity. This reserve price would avoid the granting of free AQ and would cover a portion of the incremental

	administration costs of running auctions, but not present an undue barrier to participation. Do you consider the approach and suggested price is reasonable?
A	*No. We do not agree that there should be a reserve price. It should be up to the market to 100% determine the value of AQ.*
Q17	Section 4.4 proposes that shippers who hold standard AQ products should be able to offer them for resale in subsequent auctions. Sellers could specify a confidential reserve price for each AQ product that is being offered, allowing the pipeline owner (or its agent) to rank such offers against 'primary' AQ products (for which a reserve price would apply, as set out in section 4.3). Do you agree with this approach?
A	*No. Buyers of initial auctioned AQ should only be allowed to re-sell that AQ on the secondary market. They would be able to do this at any time. This will limit the annual Initial AQ auction to 'opening' AQ volumes, which is appropriate.*
Q18	Section 4.5 recommends that AQ auctions be conducted as sealed bid tenders, with a uniform clearing price generated for each standard AQ product (i.e. for each standard duration and zone) offered in that particular auction. Do you agree that this type of auction is best suited to the sale of AQ?
A	*Agree, although the logic that a uniform (marginal-low) clearing price will better incentivise "true value" is not correct. It is generally accepted that both pay-as-bid and uniform clearing provide the same incentive with regard to price signalling. It is simply easier for parties to generate 'must-have' vs. 'nice-to-have' tranches with uniform clearing.*
Q19	Section 4.6 proposes a pay-as-you-go (PAYG) approach to paying for AQ product purchases (rather than upfront payment). Do you agree with the PAYG proposal?
A	*Yes, this will make secondary market AQ transfers easier, and avoid having to refund the seller of initial AQ.*
Q20	Section 4.7 suggests that the proceeds from AQ auctions should fund a rebate on transmission charges. Do you agree with this approach?
A	*Of course. Otherwise the TSO would generate profit above its allowable regulated return.*
Q21	Section 5.1 suggests that factors relevant to when the AQ arrangements should be introduced

	are: • having arrangements in place prior to the emergence of potential pipeline congestion; and • avoiding unnecessary costs. Do you agree these are the main considerations?
A	*Agree.*
Q22	Section 5.2 recommends ending the current MPOC rule that capacity not nominated by AQ holders is allocated on net historic usage. Instead, a simple pro-rata rule could apply. Do you agree with these recommendations?
A	*Agree. To do otherwise would be contrary to the objective regarding competition.*
Q23	Section 5.3 proposes transparency of: • the forward calendar of AQ product auctions; • clearing prices and quantities from previous auctions; and • bid prices and volumes from previous auctions (but not bidder identities). Do you agree with this proposal?
A	*Agree.*