
BALLANCE AGRi-NUTRIENTS (KAPUNI) LIMITED

21 March 2006

Gas Industry Company Ltd
PO Box 10 646
WELLINGTON

Attention: Ian Dempster

RE: SUBMISSION ON REVIEW OF NZ SPECIFICATION FOR RETICULATED NATURAL GAS

This letter is in response to an invitation of 20 March 2006 to comment on the Gas Industry Co's assessment of a macro review of the current specification for reticulated natural gas in New Zealand (NZS 5442:1999).

The submission is made by:

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Attention: Len Houwers

Ballance owns and operates New Zealand's only Ammonia Urea manufacturing facility in South Taranaki. Ballance (Kapuni) consumes approximately 7 PJ of gas annually as a base-load to produce over 260,000 MT of Urea for use as a Nitrogen fertiliser in the agricultural industry, and as a raw material in domestic industrial applications, notably resin manufacture for the timber processing industry. Natural gas is used as both a chemical feedstock and a fuel in the petrochemical process to produce Ammonia and Urea.

Ballance (Kapuni) was one of the eleven stakeholders submissions used by Plant and Platform in their report to the GIC on the review of NZS 5442:1999.

The following submission is structured around the requested format.

Q.01 What is your view of Plant and Platform's recommendation that the specification limits listed in Table 2 of NZS5442:1999 do not need to be changed?

Ballance disagrees with Plant and Platform's recommendation on the grounds that a number of submitters, including Ballance, made representations to change both the scope and detail of the specification. The fact that submissions often contradicted each other is not a statement that on balance everything is fine. Given that there clearly wasn't a consensus for the status quo, the basis for the subsequent recommendation by Plant and Platform is not clear. The Plant and Platform work and conclusions are not satisfactory in a number of areas:

1. Plant and Platform only partially addressed the WMWG brief.

The Terms of Reference from the WMWG included *reviewing the scope of the specification* as part of the total scope of the review.

The Plant and Platform report appears to have bypassed this discussion, other than to note (2.2.6 Feedstock Gas) that "NZS5442:1999 states that it is not intended to cover methane based gas for feedstock".

Similarly common issues around rate of change of gas variables are dismissed as "outside the scope of the standard" and therefore a matter of contractual relationships.

Ballance's key point on the scope of the specification was that the scope of NZS 5442:1999 should be broadened to account for gas uses other than combustion. The consideration of this important point appears to be absent in the analysis. The subsequent analysis on quality parameters is therefore too restricted and the conclusions on the specification are entirely predictable.

Ballance sees this as a major flaw in the analysis and subsequent conclusions.

2. Plant and Platform's comparisons with overseas specifications are very limited and conclusions drawn from these comparisons do not necessarily support the recommendation for the status quo in NZS5442:1999.

Plant and Platform's summary of reviewing just 3 overseas standards was that NZS5442:1999 is "generally in line with equivalent specifications" (Executive Summary).

Ballance believes this to be an overstatement of an extremely limited comparison. The two American standards mentioned (PG&E Rule 21, and SOCALGAS Rule 30) for example do provide for minimum specifications. These minimum specifications are more restrictive than NZS5442:1999 in a number of areas, including level of inerts (CO₂, N₂, and O₂), sulphur levels, and make no reference at all to Wobbe Index. The potential for high inert levels in NZS5442:1999 was a key point of Ballance's submission. To conclude that these standards are "generally in line" may well be true, but is misleading.

To also conclude that NZS 5442:1999 is "adequate for gas producers, shippers, and consumers" given the level of submissions prompting change, begs the question of what is adequate, and who decides?

Q.02 What is your view of the recommendation by Plant and Platform that there is little value to be obtained by undertaking an in-depth, rigorous review of the specification because it would be a costly and time-consuming exercise for stakeholders?

There is no information supplied on cost or benefit to justify this conclusion.

Furthermore, as outlined in the response to the first question, the omission of reviewing the scope of the specification seems to have led to this apparent subjective assessment. A more complete approach to the original Terms of Reference might well lead to the need for a more rigorous review.

Q.03 What is your view of the recommendation by Plant and Platform that these are matters best left to the stakeholders concerned and that they have the appropriate commercial incentives to handle these matters most efficiently?

This conclusion is again based on having predetermined that the existing scope of NZS 5442:1999 did not need to change.

Notwithstanding this point, it appears that there is an assumption that tightening the parameters of delivered gas is less optimal economically than getting the concerned party to address the issue themselves at their boundary. Without an even broad analysis, this is a matter of faith rather than proof. A few examples to challenge this notion are presented below:

- Is it more economically efficient for feedstock gas users to invest in capital to protect Plant from potential addition of odorant to the gas, or is it more efficient to update the (paper) gas specification, to reflect the status quo, of no odorant added to the high pressure transmission system?
- Is it more economically efficient to remove CO₂ at source, or to compress and transport it, then expand energy heating it and discharging it into the atmosphere in thousands of inefficient burner systems (an assertion made by gas producers) ?

Again, the conclusions drawn are absent of any transparent analysis and should be considered a matter of faith rather than fact.

Q.04 If there are any matters you are aware of that have a bearing on the specification for reticulated natural gas and have not been considered by Plant and Platform please detail these together with their effect(s) on stakeholders.

Plant and Platform has not reviewed the scope of NZS5442:1999 and has therefore appears to ignore the valid concerns of several stakeholders. The effects are all contained in the original submissions and do not need to be repeated here.

Q.05 Are there any changes that you are aware of, either recently or in the near future, that have not been accounted for in either NZS 5442 or on the report from Plant and Platform? If so, please provide detail on these.

Ballance has no submission to make on this question.

Yours sincerely,

Len Houwers
General Manager