



Gas Industry Company Ltd
Level 8, The Todd Building,
95 Customhouse Quay.

PO Box 10 646
Wellington 6143.

Attention : Ian Wilson

Options for Vector Transmission Capacity - Submission To Gas Industry Company on behalf of Carter Holt Harvey Pulp & Paper Ltd.

Dear Sirs,

Introduction

The Carter Holt Harvey group of companies uses approximately 3.6PJ pa of natural gas at nine sites. While the majority of usage is from the Bay of Plenty gas line at the Kinleith, Tasman and Whakatane mills, there are other sites in Auckland, Whangarei, Hamilton and Levin.

The natural gas is used to provide process heat for CHH businesses that make a significant contribution to NZ's foreign exchange earnings, primarily by way of exported timber, pulp and paper products, but also in the form of avoided imports of paper and packaging utilised by NZ's agricultural and horticultural industries, which are themselves export focused. CHH businesses are substantial employers, with the majority of that employment being regionally based.

Natural gas is vital for our ongoing operations and constitutes a large portion of our overall energy costs.

Our current supply arrangements are via our wholesaler OnGas, who also take responsibility for shipping arrangements. Our gas demand is generally baseload, but with significant fluctuations occasionally according to plant operational needs.

General comments on gas transmission

Over the recent past, we have experienced a number of issues around the transparency, efficiency and suitability of the present gas transmission arrangements. These issues are listed below:

- Apparent gas transmission line constraints as advised to us by our wholesalers OnGas in both the Auckland and Whakatane area, have restricted us in considering options that we have in both of these locations in making more and better use of natural gas as an energy input. In the case of Whakatane, our review of the Pipeline Disclosure report for the year ended June 2009 appears to us to indicate that there is significant additional capacity at the Whakatane Mill offtake point. We have not been able to reconcile these apparent opposing viewpoints.
- Recent enquiries of natural gas suppliers for future gas supply volumes and prices made us aware that if one was to switch gas suppliers, then there would very likely be an issue with respect to the ability of a new gas supplier to actually provide the gas at our offtake points. We did not at the time fully test this potential issue by way of attempting to negotiate a supply contract. However, particularly where gas supply is already established, we consider that from an end user point of view, the ability to seek gas supply from any potential supplier without gas transmission issues is essential for maintaining a competitive gas supply market.
- A review of throughput fees for the Kinleith mill, our largest gas user, shows that the Vector throughput fee has increased by 49% (~10% compound pa) and the Maui throughput fee 38% (~8% compound) in the past 4 years. We have been unable to ascertain credible explanations for these increases which are well in excess of what one might consider normal for a relatively stable operation.

Overall recommendations

We consider that the operation of the gas market, access to the gas transmission infrastructure and hence consumer outcomes could be significantly enhanced by implementing the following general recommendations:

- Improvements in information made available regularly to gas market participants
 - Data on system usage and capacities both short and longer term for all lines that allows participants to arrive at an educated understanding of the overall use of the system both in the short and long term.
 - Regular reports summarising system usage and trends.
 - Regularly updated reports looking ahead (perhaps 5 years) from the transmission system owners providing information on plans including costs for major maintenance and system enhancements.
- Provision of a basic transmission contract structure that provides in particular end users with relatively large offtake with the ability to
 - Switch energy suppliers without encountering any problems with regard to transmission line access.
 - Tailor the access regime (within the realistic boundaries of pipeline management) to align with both short and long term end user needs and risk profile.



- Mandatory reporting to and approval by the regulating authority for any change in gas transmission costs that will be passed on to end users.

Our present understanding of the intricacies of the present gas transmission and contractual systems is at a relatively low level, and since our core business is wood processing, we believe that we must rely to a significant degree on the Gas Industry Company to promote the delivery of outcomes that we have outlined above.

Attached in Appendix 1 are our comments on the submission questions.

We are happy to discuss our submission further with you in more detail.

Yours sincerely

A handwritten signature in blue ink, appearing to read "L Haugh".

Lyndon Haugh
Energy Manager
Carter Holt Harvey Pulp & Paper Ltd

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7 July 2010

Appendix 1 - Carter Holt Harvey Pulp & Paper Ltd response to Options for Vector Transmission Capacity questions

QUESTION	COMMENT
<p>Q1 Do you agree the objectives identified in section 5 are appropriate criteria for evaluating transmission capacity options?</p>	<p>We generally agree with the objectives as listed with the following comments.</p> <ul style="list-style-type: none"> • Simple and in particular transparent design and operation will in our view lead to the achievement of the other objectives, so this objective should have a greater weighting than the others • While transition issues must be taken into account, the outcome should be focused on the long term result. Rather than an objective, this issue may be better addressed by asking the question “are there any transition show stoppers in the transition from the present regime to the preferred regime?” after the preferred regime has been selected.
<p>Q2 Do you agree with the evaluation of the current capacity arrangements?</p>	<p>We consider that the simplicity and transparency of the present arrangements are very poor. It is difficult then to consider efficient pricing and investment as being moderate.</p>
<p>Q3 Do you agree with the evaluation of the contract carriage option?</p>	<p>We generally agree with the evaluation of this option.</p>
<p>Q4 Do you agree with the evaluation of the common carriage option?</p>	<p>We generally agree with the evaluation of this option.</p>
<p>Q5 Do you agree with the evaluation of the current hybrid option?</p>	<p>We generally agree with the evaluation of this option.</p>

QUESTION	COMMENT
<p>Q6 Do you agree with the evaluation of the MDL carriage option?</p>	<p>We generally agree with the evaluation of this option.</p>
<p>Q7 Do you agree with the evaluation of the incremental change option?</p>	<p>We generally agree with the evaluation of this option.</p>
<p>Q8 Are there other options you think should be considered and evaluated?</p>	<p>We consider that the options listed cover all realistic options.</p>
<p>Q9 Do you agree that only the hybrid and incremental change options should be considered further?</p>	<p>Our overriding concern is that simplicity and particularly transparency is paramount in developing an efficient system for managing the gas transmission lines. The incremental option therefore should be seen as a transitional step to a long term result unless the simplicity and transparency of this option can be improved significantly.</p>
<p>Q10 Do you agree with the proposed next steps?</p>	<p>We understand that Vector is reluctant to make any significant investment in their gas transmission system until the way forward becomes clear. This is having a significant negative impact on future plans for users such as ourselves. As well as the next steps outlined in the options paper, we consider that the following additional steps would be very useful in understanding the present capacity issues and ensuring that the Commerce Commission plays a timely part in this process:</p> <ul style="list-style-type: none"> • Vector publish fully both the physical and reserved capacities and usages of all lines so that all parties with an interest in the transmission system gain a common understanding of the present capacity problems. • The next steps are integrated with any necessary Commerce Commission involvement along with a time line.