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30 March 2015

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By email to lan.Wilson@gasindustry.co.nz

Dear Ian,

GIC Draft Recommendation (issued 25 Feb 2015) on Proposed Amendments to the Maui Pipeline Operating Code (“MPOC”) – 10 October 2014

This is a submission by Carter Holt Harvey Pulp & Paper Ltd on the GIC draft recommendation on Maui Pipeline Operating Code change request dated 10 October 2014.

We use 3.5PJ pa of gas to support approximately \$1B per annum of sales of pulp, paper and packaging much of which is exported, and our largest site (Kinleith) is fully involved via our retailer in daily usage nominations and updates.

High level summary response

- a. We support the concept that the causers of any pipeline balancing costs that the pipeline owners may incur should pay for those costs.
- b. We support the submission by the Major Gas Users Group on this issue.
- c. We note that the recommendation does not include a problem definition and we consider that the credibility of the proposed change as an optimum solution to the undefined pipeline balancing issue is damaged by the lack of problem definition.
- d. We have attempted with the assistance of our supplier to gauge the potential direct impact of the proposed amendments and have come to the conclusion that balancing charges could vary by a factor of approximately ten, depending on assumptions made as to the cost of balancing gas and the MDL adjustment factor.
- e. With these comments in mind we offer the following areas that we consider that the final GIC recommendation should specifically address.

Final recommendation areas to address.

- a. When considering the recent proposal by MDL on intra-day cycle times , we came to the conclusion that an improvement in the spread of cycle times during the day would have a significantly beneficial impact on our ability to provide more timely and accurate nominations of our usage and so reduce balancing problems.

We recommend therefore that MDL is requested to provide their preferred options paper on cycle times prior to your final recommendation or at least provide the opportunity for cross submissions on the final recommendation if this is not possible.

- b. While there is some commentary on the purpose of the MDL adjustment factor, it does not appear specifically clear what the purpose of the adjustment factor is.

We recommend that the final recommendation includes requesting from MDL the specific circumstances under which any adjustment factor is applied and if any change is made to this factor.

- c. The cost benefit analysis makes no allowance for user balancing costs because it says users will make investments aimed at increasing the financial benefit of the pipeline user. That may well be so but we consider that is not a valid reason to exclude those costs .As an example, a user could either invest or incur additional operating costs or indeed reduce production to avoid balancing charges that may well be far in excess of actual balancing costs. This would clearly be an inefficient economic outcome from an overall NZ inc point of view. It is therefore in our view not correct to limit any CBA to the costs of operating the pipeline alone and it should include consideration of costs from a NZ inc viewpoint.

We recommend therefore that the final recommendation includes an estimate of the ratio of balancing charges to balancing costs so that the potential inefficiencies in user response to balancing charges can be evaluated and included in the final cost benefit analysis.

- d. We consider that it is good business practice that any cost benefit analysis estimate for any proposed improvement should also include the means by which the cost benefit analysis should be evaluated after any change is implemented

We recommend that the final recommendation should include as an addition to the consultation cost benefit analysis, a methodology for evaluating the effectiveness of the change, in particular the reduction in actual balancing costs and the impact on reduction of the present socialised charges .

Thank you for the opportunity to contribute to this consultation request.

Yours sincerely

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