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24 November 2014

Gas Industry Co
Level 8, The Todd Building
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By email to Ian.Wilson@gasindustry.co.nz

Dear Ian,

Maui Development Ltd Application for GIC Recommendation 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 Maui Pipeline Operating Code proposed amendments and additional documentation provided by the Gas Industry Company.

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. Any proposal to amend Pipeline Operating Codes to address pipeline balancing should define clearly the problem that needs to be resolved and provide an indication of the financial dimensions of the problem. This does not appear to be the case for this change request.

c. We note that in the process for dealing with amendments as outlined in Attachment 1 of the MOU between the GIC and MDL that, counter or cross submissions appear to be an integral part of the process. We recommend that in the light of the interest engendered by this amendment application, that cross submissions should be included in the process both at the initial submission and the draft recommendation stages.

d. We support the recent initiative that Vector has taken in convening industry meetings involving all interested parties to

   i. *identify what balancing (or "pipeline management") issues remain outstanding since the issue was first addressed; and*
   ii. *Co-ordinate a collaborative industry approach to resolving those issues from a whole-of-pipeline perspective.*

   And consider that this process is the appropriate method under the current industry structure to address these issues.

e. We note the Government's objective for the entire gas industry as laid out in the Government Policy Statement on gas Governance (April 2008) is

   "To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner"

   And believe that this objective should be the overriding consideration when reviewing any Code changes.

f. We support the submission by the Major Gas Users Group on this issue.

Noting that as outlined above, we consider that there is a better approach to resolving pipeline management and balancing issues, below are our responses to the three questions posed in this consultation request.

a. Basis for comparison of the change request

   i. The present situation where a Code change request (Back to back Balancing) has been approved but not yet put into practice is perhaps an indication of inadequacies in the present regulatory environment.

   ii. Since the approved back to back balancing change request was approved, it presumably would have had a net positive benefit for the overall industry. For any new proposal to be implemented, it must be shown to be of greater net benefit than the already approved back to back balancing change request.

   iii. It would be appropriate therefore for any new proposal to be compared with both the status quo and the approved back to back balancing Code change as has been done in the draft cost benefit analysis.

b. Change request

   i. We have difficulty in understanding the problem or issue to be addressed in this application and note that if the issue is related to appropriately allocating the costs involved in balancing the pipeline, then the graph on page 3 of the Covec draft Outline of a Cost-Benefit Analysis seems to show that this is of relatively minor financial significance.

   ii. We note that a fundamental concept in this request appears to disconnect pipeline balancing charges from actual pipeline balancing costs.

   iii. This does not seem to us to be an efficient method of addressing pipeline balancing in that it is likely to increase charges to users in excess of actual costs. This seems entirely at odds with the Government Policy Statement on Gas governance Section 11 (d) *" Delivered gas costs and prices are subject to sustained downward pressure"*

iv. We therefore believe that any process for pipeline balancing which disconnects charges from actual costs runs counter to the Government Policy Statement on Gas Governance and accordingly we recommend that this application is declined.

c. **Draft Outline of a Cost-Benefit Analysis.**

i. We found this document useful in understanding the characteristics of the three pipeline balancing scenarios considered.

ii. We note that one of the costs and benefits listed in section 3.3 is *Strong incentive for primary balancing* which is presumably considered to be a benefit. It is quite possible and indeed likely that consumers will respond to a strong primary balancing incentive that is inherently likely to be greater than the actual cost of balancing by curtailing its economic activity in order to avoid the charge. This would clearly be inefficient behaviour and so should be considered as a net cost as the cost of curtailing would inevitably be greater than the avoided cost of any balancing action.

iii. We recommend therefore that this aspect is considered in any Cost-Benefit analysis.

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

Yours sincerely

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