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18 October 2010

Gas Industry Company Ltd
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Attention: Ian Wilson

CC: commercial.operator@mauipipeline.co.nz

Dear Ian,

Maui Development Limited (MDL) thanks the Gas Industry Company Limited (GIC) for the opportunity to provide a submission on the Issues Paper for Gas Governance Issues in Quality. Our overall view on this paper can be summarised in one sentence as follows. We are broadly satisfied with current arrangements for quality issues, but we agree that improvements can be made if the benefits are considered worth their costs.

To be a bit more specific, our main views on the issues addressed in the paper can be summarised as follows.

- We are satisfied with current gas quality specifications
- We are willing to support improved monitoring by producers
- We are willing to support increased access to monitoring information, provided that benefits justify the costs
- We believe current liability arrangements on the Maui Pipeline are adequate
- We do not see the need for regulation

We will expand on each of those views below.

We are satisfied with current gas quality specifications

The current NZS 5442 gas specifications, which were last updated in 2008, are acceptable from our perspective. As pipeline operators we would prefer lower tolerances for items such as sulphur and water. We understand, however, that a further tightening of tolerances would come at a cost to producers of gas and could lead to higher prices for consumers. We accept that the current specifications are a workable compromise based on realities imposed by physics and economics.

We note the gas specifications also include qualitative prescriptions to limit contaminants, such as dust and oil, without setting specific quantitative limits on those. Given that we are not aware of any problems caused by contaminants in the Maui pipeline, we are comfortable with this approach. We see no need for further work on the gas specification itself.

We are willing to support improved monitoring by producers

The Maui Pipeline Operating Code ("MPOC") already requires monitoring of all gas before it flows into the Maui pipeline. Gas chromatographs are already installed at every production station. In particular the calorific value, relative density, and oxygen content are monitored continuously. Water content and hydrocarbon dewpoint are monitored on at least a daily basis, and more frequently if required. Other components may be monitored less frequently.

The monitoring needs to be performed by producers of gas to ensure they comply with the MPOC, which includes a requirement for all injected gas to comply with the NZS 5442 specification. Monitoring procedures and equipment vary between different producers and stations. Some stations provide a continuous data feed of various gas components. Other stations only meet the minimum requirements and provide hourly updates.

From our perspective as a pipeline operator we would like to receive as much gas composition data as possible as frequently as we can. Therefore, we are in favour of improved gas composition monitoring by producers; who need to meet minimum standards anyway. However, we recognise that this will require additional investments by some producers, which will have to be assessed against the benefit that will be gained.

Considering that the composition of gas does not change after it enters the pipeline, other than by mixing, we do not see any role for transmission operators to perform secondary monitoring of gas composition (except as required for metering).

On the other hand, contamination is most likely to occur while gas is in the pipeline system. MDL currently monitors the amount of oil used by its compressors, in order to assess the likelihood of oil contamination. It does not monitor for dust, other than by visual inspection of dust filters. We are not aware of any problems that require further measures to be taken. Before considering any investment in additional monitoring, a cost/benefit determination would need to be made.

We are willing to support increased access to monitoring information, provided that benefits justify the costs

We are not in favour of setting detailed notification, alert, and curtailment limits for each gas component, as is suggested in the issues paper. (We do recognise the existing notification requirements if gas is, or is suspected to be, not meeting specification.) The acceptable range for such limits would depend on the usage of gas, and could vary from user to user. Instead, we suggest that users could determine their own limits and responses appropriate for their individual situation if they were provided with the gas composition information.

The current Open Access Transmission Information System ("OATIS") already contains some gas composition information. This system is accessible by all users of the Maui and Vector pipelines. It already displays many gas composition parameters, updated on an hourly basis. It would be possible to incorporate additional data feeds where these become available and to enhance OATIS to display this information. However, the cost of providing this service would have to be assessed against the benefits.

Users with critical needs could then set their own early warning systems based on the real-time composition of gas entering the pipeline. We expect that public access to monitoring information will also increase the confidence from all pipeline users.

We believe current liability arrangements on the Maui Pipeline are adequate

The liability arrangements among all parties of the Maui pipeline are very clearly defined in the MPOC. In fact, the MPOC contains five pages with provisions on these matters. These have been negotiated in detail among the parties, and we see no need to make changes in that regard.

The liabilities are subject to indexed caps under the MPOC. An important reason for having those caps is that the MPOC also requires each Welded Party to maintain liability insurance, which includes cover for liability arising from the supply of non-specification gas. Such insurance is practically always subject to a cap.

The most important risk at present is that liability cannot be assigned properly because the causer of an event may not be identified. With improved monitoring, as suggested above, this risk could be significantly reduced.

We do not see the need for regulation

Making changes for any of the topics discussed above may require amendments to the MPOC. We are not opposed to such changes, provided that additional costs incurred by the Maui Joint Venture can be recovered. We expect such changes can be addressed, if desired, within the existing mechanisms for amending the MPOC. Therefore, we expect that industry participants should be able to agree on changes that are regarded as beneficial and cost efficient without requiring further regulation.

Conclusion

We have presented our main views on the discussion paper above. In that paper the GIC also asked for responses to some specific questions. To the extent that we have comments to offer, our responses to those specific questions are enclosed. For any further clarifications please do not hesitate to contact us.

Yours sincerely,

Don Gray.

General Manager, Commercial Operator Maui Pipeline

for Maui Development Limited

18 October 2010

Responses from Maui Development Limited to specific questions in Issues Paper for Gas Governance Issues in Quality by the Gas Industry Company Limited

Question 1: Are there any significant effects of non-specification gas, other than those identified in section 2.3, that Gas Industry Co should consider?	No comment.
Question 2: Do you agree with the assessment of the types of non-specification gas and potential causer, as set out in Table 3?	Yes, we agree.
Question 3: Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.	Not quite. The scope for risks addressed in the Gas Act are those "relating to security of supply". Therefore, the regulatory objective should remain within that scope too. This can be achieved with the following regulatory objective: "To ensure industry arrangements include reasonable terms and conditions regarding gas quality that: allow for the safe, efficient, and reliable delivery of gas; and provide for risks relating to security of supply to be properly and efficiently managed by those parties best able to manage such risks". We should also mention that we disagree with the notion that: "where the causers (of damage caused by a gas quality issue) cannot be identified, or the costs of doing so are disproportionate to the benefit, all potential causers should meet the costs of any damage caused". This notion is listed as possible evidence of gas quality efficiency.
Question 4: Do you agree we have interpreted the provisions contained within the transmission codes and contracts correctly? Are there additional contracts or provisions that should be considered?	We agree with the summary of the MPOC provisions. We have no comment on other codes and contracts. With respect to the MPOC we do not agree with the statement in section 4.9 of the paper that "the arrangements do not meet the proposed regulatory objective in all respects".

Question 5: Are there any aspects of the discussion in section 6.1 that you believe to be inaccurate or misleading? If so, please explain what these are.	We only comment on liability arrangements within the MPOC. Those comments are provided in our main submission. We can reiterate here that many of our liability arrangements are guided by the practicalities arising from the requirement for each Welded Party (in section 20.10 of the MPOC) to maintain liability insurance.
Question 6: Do you consider that liability for quality issues is best addressed through contractual arrangements or regulation? Please explain why.	We only comment on liability arrangements within the MPOC. As stated in our main submission these arrangements are specified in great detail, after having been negotiated extensively among all parties. Any amendments to liability arrangements would need to be reflected in the MPOC. If such amendments are generally considered to be desirable we propose using the modification process within the MPOC, rather than imposing regulations.
Question 7: Do you think the proposed regulatory objective would be better achieved with more prescriptive arrangements for the monitoring of gas composition and contaminants?	We remain to be convinced that more prescriptive arrangements are justified.
Question 8: Do you think further work to identify the options for more active gas quality monitoring, and to quantify the costs and benefits of those options, is justified?	Yes, to some extent. Even without a detailed quantification, we expect that industry participants could use their industry knowledge to make an initial cost/benefit assessment for options to be considered.
Question 9: Do you think TSOs should monitor gas quality more actively (for example, by continuously monitoring the water content in the transmission system to manage the risk of hydrate formation)?	Perhaps, but the benefits need to be worth the extra costs. TSOs can perform additional monitoring, but required investments and costs would need to be recoverable and would lead to higher transmission tariffs.
Question 10: Currently, the TSOs audit producers' monitoring of gas composition. Do you think this arrangement provides sufficient assurance against the delivery of non-specification gas?	We would not object against moving audit responsibility to a third party.