



**Submission by New Zealand Steel Limited on The Gas Industry Company's
Transmission Balancing Second Options Paper**

by

**New Zealand Steel Limited
17 August 2009**

Introduction

New Zealand Steel Limited operates a fully integrated steel mill at Glenbrook, South Auckland, producing a large range of steel products for the local and export markets. It is a wholly owned subsidiary of BlueScope Steel Limited of Australia. New Zealand Steel wishes to make a submission on the Gas Industry Company Limited's December 2008 issue paper "Transmission Balancing Options Paper"

Company Profile

New Zealand Steel is a subsidiary of an Australian publicly listed company, BlueScope Steel Limited. It produces a range of iron and steel products from raw materials at its single site mill at Glenbrook on the southern shores of the Manukau Harbour. It lies in the Franklin District near the town of Waiuku. It began production in 1968 and major expansions completed in 1987 created an integrated steel mill.

New Zealand Steel produces a range of flat steel products for both domestic and export markets. Slabs are rolled into hot and cold rolled products, which are then on-sold or further-processed into products like hollow sections, galvanised steel, ZINCALUME® steel and COLORSTEEL® steel.

Background:

Natural gas is consumed at the New Zealand Steel Glenbrook site in a variety of processes associated with iron and steelmaking, and steel rolling and finishing operations. Site consumption ranges from 1.8PJ to 2.2PJ per year. The predominant use of natural gas is in the Hot Strip Mill Slab Reheat Furnace, which consumes approximately 50 % of the gas delivered to site, or 1PJ per year. Other uses are of considerably less volume and distributed widely across site. Usage patterns are volatile with a high degree of variability both on an intra and inter day basis.

While the predominant use of natural gas at NZ Steel is as an energy source, natural gas is also used for specialist purposes such as a coolant in the steelmaking process, and for influencing the ironmaking chemical process if required.

Submission:

New Zealand Steel (NZS) has reviewed the Gas Industry Company's (GIC) Transmission Balancing Second Options Paper published in July 2009 and is in agreement with the recommendation made by the GIC to adopt the Participative Regulation Option as described in the paper.

Following the changes to the Maui Pipeline Operating Code (MPOC) since they came into effect on the 12th December 2008 it has been clearly apparent that the mechanics and outcomes of pipeline balancing are misaligned with the primary goals as defined by the GIC in their 1st Transmission Balancing Options paper as criteria for assessment of balancing options.

These are:-

- the relevant service standard is that pipeline pressures should be maintained within an appropriate band, both for safety and so that transmission services are not interrupted; and
- the relevant aspect of 'economic efficiency' is that balancing is achieved at least cost.

This submission will not necessarily restate assertions made in NZS Submission addressing the GIC's first Options Paper, published in December 2008, instead it will briefly attempt to reiterate these and illustrate the requirements and framework necessary for an industrial end user to responsibly perform balancing actions in the following section responding to the questions posed by the GIC.

Answers to Questions as posed in the Consultation Document

Q1: Do you consider that the objective identified in section 2 is appropriate? If not, what other objective(s) would you propose?

Objective : *To provide an efficient, single balancing arrangement for managing pipeline imbalance.*

Yes, the objective is simple and does not limit the framework which may be needed to provide a suitable construct in order to meet it.

Q2: Do you agree that the scope of the proposed regulatory options for this paper identified in section 2.2 is reasonable? Are there any items that should be considered in the scope that Gas Industry Co has not identified? Alternatively, are there any items in the scope that Gas Industry Co has included that should not be included?

Yes.

NZ Steel considers the frequency and actual timing of the current intra- day nomination process needs reviewing. This is because this will be inextricably linked to requisite transactions, of a balancing market, needed to maintain a balanced pipeline. It , therefore, needs to be practicable which the current nomination cycle process is not.

Q3: Do you consider that the evaluation criteria set out in section 3 are appropriate for evaluating options for pipeline balancing arrangements? If not, why?

Yes, they are discussed comprehensively.

Q4: Do you consider that Gas Industry Co has correctly identified the need to consider the alternative options based on our conclusions from the consultation process outlined in section 4?

Yes, we consider the GIC has taken the various views submitted on the 1st Options paper into full consideration in delivering the current proposed options in the 2nd Options paper.

Q5: Do you agree that the contracts based option identified in section 5 is reasonably practicable? If not, why?

No, as it will not achieve the objective in the most cost effective manner.

Answers to Questions as posed in the Consultation Document contd.

Q6: Do you agree that the prescriptive regulation option A identified in section 6 is reasonably practicable? If not, why?

No, for reasons as such stated in the last paragraph of Section 6.2, and replicated below

“The prescriptive regulation option requires sufficient detail to be contained in the regulations to unambiguously specify the balancing regime. This would involve replicating substantial, complex and contentious sections of the MPOC and VTC into regulations. The regulations would require that the MPOC and VTC be read subject to the regulations. If either the codes or the regulations were to impose an obligation or liability in respect of the same matter, the regulations would prevail to the extent that there is an inconsistency between the two. This detail on systems and procedures would need to be compatible as far as is reasonably possible with existing systems and procedures. This level of detail is not available at this stage. There is therefore a risk that the timetable may become extended.”

Q7: Do you consider that the outline of the prescriptive regulations in Appendix B is appropriate? If not, why?

No, as it retains inflexibility which would require code changes to be made whereas the participative regime would not.

Q8: Do you agree that the prescriptive regulation option B identified in section 7 is reasonably practicable? If not, why?

No, for the reason as such stated in the conclusion drawn in section 7.5 i.e.

“...this option would still require the same changes identified in prescriptive regulation option A to be made which again involves complex aspects of the balancing regime to be replicated into the regulations after the necessary amendments are made.”

Q9: Do you agree that the participative regulation option identified in section 8 is reasonably practicable? If not, why?

Yes

Q10: Do you consider that the outline of the participative regulations in Appendix C are appropriate? If not, why?

Yes

Q11: Do you agree with Gas Industry Co's approach to evaluating the options identified as reasonably practicable in section 9? If not, why?

Yes

Answers to Questions as posed in the Consultation Document contd.

Q12: Do you consider Gas Industry Co's assessment of the options presented is fair and reasonable? If not, why?

Yes

Q13: Do you agree that Gas Industry Co has, through the evaluation of options, correctly identified the participative regulation option as its preferred option? If not, why?

Yes

Q14: Do you agree with the next steps identified in section 11? If not, why?

Yes. We would like to see more discussion and views on how the GIC would see virtual welded points operate, noting that we have already seen others' previous submissions depicting their views.

Whilst we are in full agreement over the position the GIC has on the issues of tolerances, as discussed in our previous submission, we must reiterate as an end user with a highly volatile use profile on both an intra and inter day basis due to the nature of our operations some of which are not necessarily easy to predict that we consider that some flexibility must be made for such end users.

It is of note that considerable input, to date, has been made by firms who are not end users of gas and who are not necessarily supportive of end user's issues. We urge the Gas Industry Company to continue to engage with end users to ensure changes such as for transmission balancing result in a solution which cater to the needs of all stakeholders.