



**The New Zealand  
REFINING COMPANY LTD**

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7 July 2010

Gas Industry Company Limited  
Level 8, The Todd Building  
95 Customhouse Quay  
Wellington

**Submission: Options for Vector Transmission Capacity**

Thank you for the opportunity to submit our views regarding this subject.

We provide the following as context for our submission:

- The natural gas distribution system is a critical part of New Zealand's energy infrastructure. Many industries and other end users rely on it for adding value to the economy at large.
- The owner/operator of the distribution system has a natural monopoly.
- New Zealand has substantial natural gas and other petroleum resources, adding value to the economy. The government has recently announced a programme to give impetus to the development of the country's petroleum reserves. This is likely to grow the availability of natural gas as a domestic energy source.
- Natural gas competes with other fuels and is generally more desirable than coal as a fuel from a greenhouse gas emission perspective.

The criteria for evaluating options and for determining further steps therefore need to also consider the wider strategies and incentives that are in the interests of the economy and country as a whole.

A carriage system that constrains investment in vital national infrastructure (such as natural gas pipelines) would be contrary to the country's best interests. Uncertainty about the future availability of Natural Gas (as a result of insufficient transmission capacity, not gas production) will force large gas consumers to consider alternative energy sources and will deter potential new users. Paradoxically, this uncertainty about reliable gas supply may destroy future demand to such an extent that additional investment in transmission capacity may not be necessary or viable.

From a gas supply perspective constraints in the distribution system will be a disincentive for seeking/developing gas prospects for domestic use.

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In conclusion it is clear that a contract carriage system (essentially the current regime) is by far the least preferred option. We support your finding that the regime needs to change. Our view is that a common carriage system will be in the best interest of all stakeholders.

Whilst outside the scope of the paper, we also understand that due to the lack of regulation certainty, hinging on the outcome of the Commerce Commission investigation, any further investment in transmission capacity is on hold. From our perspective this is not acceptable and it is in the interest of all parties and the country in general to resolve this uncertainty as soon as possible.

The appendix contains our views and answers to your specific questions.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'David Gray', written over a horizontal line.

David Gray  
Business Planning Manager

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*Petroleum Refiners Marsden Point, Private Bag 9024, Whangarei, New Zealand.  
Telephone +64-9-432 8311, Facsimile +64-9-432 8035*

## Appendix – Answers to specific questions

QUESTION	COMMENT
<b>Q1</b> Do you agree the objectives identified in section 5 are appropriate criteria for evaluating transmission capacity options?	The objectives given are appropriate however we recommend adding the following two objectives: <ul style="list-style-type: none"> <li>ensure efficient use of capacity;</li> <li>in the national interest and supports government energy objectives.</li> </ul>
<b>Q2</b> Do you agree with the evaluation of the current capacity arrangements?	We disagree with two ratings: <ul style="list-style-type: none"> <li>Efficient investment (6.3): We rate this as “poor”. The current mechanism deters potential future users and distorts information for deciding on future investment.</li> <li>Simplicity &amp; transparency (6.5): We rate this as “very poor” based on the North Pipeline situation.</li> </ul>
<b>Q3</b> Do you agree with the evaluation of the contract carriage option?	We disagree with the “good” rating of price stability. Price shocks on renewal could be substantial and a “moderate” rating is more appropriate. We agree with the conclusion that this is by far the worst option.
<b>Q4</b> Do you agree with the evaluation of the common carriage option?	We agree with your evaluation. If “efficient use of capacity” is added as objective this option would have a “good” rating.
<b>Q5</b> Do you agree with the evaluation of the current hybrid option?	
<b>Q6</b> Do you agree with the evaluation of the MDL carriage option?	
<b>Q7</b> Do you agree with the evaluation of the incremental change option?	
<b>Q8</b> Are there other options you think should be considered and evaluated?	
<b>Q9</b> Do you agree that only the hybrid and incremental change options should be considered further?	No, in our view the common carriage option also needs to be considered further.
<b>Q10</b> Do you agree with the proposed next steps?	

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