



7 June 2011

Melanie Leonard  
Gas Industry Company Limited  
Level 8 The Todd Building  
95 Customhouse Quay  
P O Box 10 646  
Wellington 6143

Dear Melanie

Re: Gas Transmission Investment Project

Thank you for the opportunity to comment on the GIC paper dated 25 May 2011 which outlines the background and suggested approach for the proposed Gas Transmission Investment Project.

These comments are made on behalf of the Major Gas Users Group (MGUG) which comprises:

- Fonterra Cooperative Ltd
- Carter Holt Harvey Ltd
- New Zealand Steel Ltd
- New Zealand Refining Company Ltd
- Ballance Agri-Nutrients Ltd

While these views are expressed to be on behalf of the group we note that members may have individual views which they may choose to provide to GIC directly.

The MGUG was established recently out of a concern that natural gas as a proportion of New Zealand's primary energy is diminishing. This is undermining confidence for future investment plans where gas forms part and risks opportunities for growth for the wider regional economy.

As major industrials competing internationally (by way of exporting or import substitution) the group makes up a significant part of the New Zealand economy. And as energy intensive industries they rely upon secure supplies of competitively priced gas as part of their energy and feedstock mix.

The aim of the group is to foster the development of a sustainable gas market in New Zealand which can provide secure supplies of competitively priced gas over the long term. Within that the group is committed to promoting effective/efficient market arrangements for delivery of gas.

The group holds the view currently that investment in gas infrastructure is not occurring in a timely and efficient manner. Some are already being restricted in their ability to secure supply because of capacity constraints that exist, both for Auckland and Northland and other areas

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such as Bay of Plenty. There is a growing sense that further out the constrained capacity situation will only deteriorate further.

Members have been active in the various GIC workstreams dealing with transmission pipeline capacity constraints, both the short term impact on retail competition and longer term actions needed to deal with capacity constraints going forward. The group has been at pains to reiterate that work on resolving the longer term issue should proceed with an equal sense of urgency as for the short term. MGUG is therefore pleased that the GIC has taken the initiative to put in place a gas transmission project which attempts to address the longer term.

Based on this we make the following responses on the specific questions in Section 8:

### **1. Establishing the current need/developing an effective pathway**

We agree there is a need for a project of this nature. Furthermore we believe taking a project approach is the most sensible way to deliver the outcomes sought as it will allow the relevant workstreams to be ring fenced and the work processes defined according to what is considered appropriate to achieve the project outcomes.

We are concerned however at the timeframes envisaged (Section 7). If the need for capacity investment is confirmed these timeframes will have added further delay to a process that could, in itself, take years to complete.

We support the view in Section 7 that the constrained growth situation demands some urgency. We believe that one of the aims of the project should be to define the pathway and timeline in a manner that minimises the amount of time required to eliminate the constraint. We think this could be achieved by scoping the project so that all key steps/ milestones that would normally be included in the lead up to any major investment sanction are included in the scope. This would enable the project to determine the critical path for investment (including the work streams indicated in Section 7).

### **2. Project management outline**

We support the management structure as outlined in Section 7 including the concept of a panel of strategic advisors. We would see the panel acting in conjunction with the project sponsor as a steering group. An alternative which we think worth considering is to combine the sponsor and panel into a project management group (PMG). We think this would strengthen the management structure of the project. In any event the panel should have representatives from across the sector (end to end) and perhaps include local government representatives to provide a regional perspective.

We support the suggestion that the project is managed by GIC although it is not clear what this means for the sponsor role and how that will fit within the current governance arrangements for GIC. We suggest that the project is primarily resourced through the GIC, which would include chairing the steering/project management group (PMG) and the provision of the Project Manager. The Project Manager could be a contracted individual specifically for this task.

The scope should clarify how the project management structure will interact with relevant government agencies (MED, Commerce Commission). We note the Ministry of Economic Development has the lead role within government on the regulatory framework for the gas industry and is also responsible for advising the Minister of Energy on the recommendations of the Gas Industry Company in the areas covered by the Government Policy Statement on Gas Governance. This suggests the current governance structure for GIC should overlay on the steering/project management group role to ensure that the relationship between the GIC and MED continues to operate to support the project outcomes.

### **3. Panel Representation**

We confirm that the Group would look to nominate a representative to participate in the Panel of Strategic Advisers.

### **4. Relationship with Existing GIC Workstreams**

GIC already has in place a number of work streams overlapping with areas contemplated by the project scope and existing budgets have been set based on these work streams. For the purpose of developing budgets for the project activity we would expect GIC to consider how existing budgeted areas can provide the desired outputs to the project. This may also require some re-prioritisation of workstreams to fit with the project timetable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Hale', with a stylized, cursive script.

For Hale & Twomey Limited/Aretê Consulting Ltd