

16 April 2013

Hon Simon Bridges
Minister of Energy and Resources
Parliament Buildings
Wellington

Dear Minister

Recommendation on the Gas (Processing Facilities Information Disclosure) Rules 2008

This letter provides you with Gas Industry Co's formal recommendation on the future of the Gas (Processing Facilities Information Disclosure) Rules 2008 (the Rules). The Rules were made in 2008 with the purpose of 'settling the issue of whether it is necessary to recommend rules or regulations setting reasonable terms and conditions for access to, and use of, gas processing facilities.' Our recommendation is in accordance with the Rules which require us to report to you on whether there is a need for rules or regulations setting terms and conditions for access to gas processing facilities.

Gas processing is a key component of gas production and is normally required to ensure that 'raw' gas is treated to become 'specification' gas that can be injected with other gas into the country's gas transmission pipelines.

The origin of the Rules was a potential concern that third parties would be unable to access existing processing facilities due to the potential for owners of processing facilities to deny third-party access on reasonable terms.

The Government Policy Statement on Gas Governance 2008 (GPS):

... expects Gas Industry Co. to pursue the outcomes below and report against these outcomes to the Minister of Energy. The Minister of Energy invites Gas Industry Co. to submit proposals for rules, regulations or non-regulatory arrangements if it concludes that they are required to achieve any of the outcomes that are specified.

.....

Access to key infrastructure

- Gas industry participants and new entrants are able to access the following physical assets and related services:

- *third party gas processing facilities on reasonable terms and conditions.*
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Analysis of the gas processing facilities market by Gas Industry Co in 2005/06 did not find a reason to regulate access. No market failures were discovered. Crucially, gas processing facilities were not found to exhibit strong economies of scale implying suitably sized processing facilities could be commercially developed by individual owners to suit their own specific requirements, including the unique gas specifications of their respective fields, regardless of field size. However, because the New Zealand gas market at the time was transitioning from a reliance on a few large fields to a greater number of smaller and medium sized fields, Gas Industry Co considered that it would be prudent to maintain a watching brief over developments to ensure no market failures emerged as these new fields were developed. We therefore recommended an information disclosure regime which would allow us to monitor these developments, and the Rules were made accordingly.

As noted above, the Rules requires us report to you on whether there is a need for rules or regulations setting terms and conditions for access to gas processing facilities. Having reviewed the material received during the information disclosure period and after consulting with the industry in December 2012, our assessment is that regulated access to processing facilities is not required. Processing facilities continue to be well utilised and, based on the information we have, all third party access requests have been resolved satisfactorily.

Our assessment accordingly is that the market is delivering on the GPS outcomes without the need for further regulation. Our recommendation to you is that regulated access to gas processing facilities is not necessary. We do not recommend that the period for which the Rules will be in force be extended. The Rules should therefore be allowed to expire.

If you accept this recommendation, the Rules will expire in June 2014 without need for any specific action. Gas Industry Co will continue to play a general oversight role as the industry body under Part 4A of the Gas Act, and nothing in this recommendation limits Gas Industry Co's ability to make regulations for access to gas processing facilities in future upon the discovery of a market failure.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'S. Bielby', with a long horizontal flourish extending to the right.

Steve Bielby
Chief Executive

Copy: Simon Lawrence, MBIE