

# Consultation on a Standard Exemption Application under the Gas (Downstream Reconciliation) Rules 2008

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- **Application DR09-13-S regarding a new direct connect consumer gas gate at Kupe**

## 1 Introduction

This consultation paper seeks submitters' views on an exemption application in respect of the Gas (Downstream Reconciliation) Rules 2008 (the Rules) from Genesis Energy Limited (Genesis).

The exemption application seeks to have the interconnection point between the recently commissioned Kupe gas field and the Vector transmission system exempted from certain provisions of the Rules in a similar manner to the direct connect gas gates covered by the following existing exemptions:

- [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption: Direct Connect Gas Gates\) Notice 2008](#); and
- [Gas \(Downstream Reconciliation\) Rules 2008 \(Exemption DR09-01-U: Direct Connect Gas Gate\) Notice 2009](#).

An urgent exemption was granted on an interim basis on 30 November 2009, which exempts the Kupe gas gate from certain rules relating to the provision of consumption information and the allocation process. This was to ensure that Gas Industry Co was able to probably consider, and consult on, the application and the applicant was not unduly disadvantaged in the interim as the field went live and the gas gate came into use. The urgent exemption expires on 31 January 2010 and following the completion of this consultation Gas Industry Co must decide, pursuant to rule 20.2.4, whether to revoke, replace or amend the exemption.

Submissions are sought no later than Tuesday 26 January 2010. Submissions can be made by registering on Gas Industry Co's website [www.gasindustry.co.nz](http://www.gasindustry.co.nz) and uploading your submission, preferably in the form of the submissions template attached to the consultation document as Appendix A.

All submissions will be published on the website after the closing date. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

A general information paper on the exemptions process and criteria has been issued by Gas Industry Co and can be viewed by downloading from Gas Industry Co's website at the following link: <http://www.gasindustry.co.nz/work-programme/market-administration/exemptions>

## 2 Application DR09-13-S regarding a new direct connect gas gate at Kupe

### Summary of application

The full application is attached as Appendix C. A summary of the application follows:

**GIC Code:** DR09-13-S

**Applicant:** Genesis Energy

**Exemption Type:** Standard exemption to replace, pursuant to rule 20.2.4, the urgent exemption previously granted

**Exemption Sought:** In respect of the new Kupe (KUP37503) gas gate, an exemption is sought by Genesis from the application of rules 29, 31-33, 39, 40, 48-53, 78 and 79.

**Summary of Reasons:**

- The Kupe gas gate is a direct feed site with no other customers off the Frankley Road pipeline system.
- There is no point in downstream allocation applying to direct consumer gas gates as there is no UFG to be allocated.
- The exemption will have no effect on other participants or the allocation agent.

### Additional information

The Kupe gas gate is a delivery point for the Kupe gas field into the Vector transmission system. As such there is unlikely to be consumption of gas from the transmission system at this gas gate under normal business operations. Consumption will only occur in the initial stages of commissioning the field and in the future if there is an event such as a plant trip or production station outage that requires extra gas in order to bring the field back online. It is only in these limited circumstances that consumption information will be registered at the gate. Hence the Rules have limited application at this gas gate as there is no UFG, no consumers other than the Kupe production station itself and no other participants at the gate who would be impacted by an exemption.

Direct connect gas gate exemptions already cover 37 gas gates. 36 gas gates were identified as fitting the characteristics of direct connect consumption when the Rules went live and were all granted a standard exemption until September 2010. In February 2009 a further exemption was granted on the same terms for the newly commissioned Stratford 3 gas gate, which also feeds a consumer directly connected to the transmission system. The application for the Kupe gas gate requests an exemption on the same terms as the existing exemptions.

As previously mentioned, an urgent exemption was granted on 30 November 2009 which exempted the Kupe gas gate from the same rules as the existing direct connect gas gate exemptions. A copy of the exemption, which expires on 31 January 2010, is attached as Appendix B. An equivalent process was followed with the exemption application for the Stratford 3 gas gate, where an urgent exemption was granted so that the applicant was not

unduly disadvantaged by having to comply with the Rules, in their entirety, in the period between the gas gate being commissioned and the exemption application being considered.

Following consultation on the Stratford 3 exemption application, the urgent exemption was replaced by a standard exemption pursuant to rule 20.2.4. If, on completion of this consultation under rule 20.2.3, the Kupe exemption application is approved, then the urgent exemption will also be replaced by a standard exemption under rule 20.2.4.

## **Issues**

On the information provided by Genesis in its application, and also based on discussions with Vector Transmission and Origin Energy (the operator of the Kupe field) it appears that the Kupe gas gate fits the characteristics of a direct connect gas gate as per the currently exempted gas gates. It is also apparent that, since Kupe is a delivery point, consumption at this gas gate is not likely to be a common occurrence.

Does the policy rationale set out below for the existing direct connect gas gates exemption apply equally to an exemption for the Kupe gas gate?

- in light of the potential additional implementation and compliance costs, the initial benefits of applying the allocation methodology set out in the Rules in respect of direct connect gas gates are reduced;
- for reasons of simplicity and clarity, all direct connect gas gates should be treated the same in any exemption granted. All direct connect gas gates are connected to the transmission system and subject to existing upstream processes; and
- there are unlikely to be any detrimental effects on competition for retailers or transmission system owners at direct connect gas gates, and granting the exemption is likely to ensure consumers at these direct connect gas gates are not subject to increased gas costs or prices due to retailer compliance costs with the Rules.

*Q1: Do submitters have any comments on the exemption DR09-13-S proposed by Genesis regarding the new Kupe direct connect gas gate?*

# Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Consultation Paper. Submitters are also free to include other material on the exemption application in their responses.

Submission from:..... (company name and contact)

Question	Comment
Q1: Do submitters have any comments on the exemption DR09-13-S proposed by Genesis regarding the new Kupe direct connect gas gate?	

# Appendix B DR09-13-U existing urgent exemption

## Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-13-U: Direct Connect Gas Gate) Notice 2009

Pursuant to rule 20 of the Gas (Downstream Reconciliation) Rules 2008, Gas Industry Company Limited ("Gas Industry Co"), as the industry body appointed pursuant to s43ZL of the Gas Act 1992, gives the following notice.

### Notice

#### 1. Title and commencement

- (a) This notice is the Gas (Downstream Reconciliation) Rules 2008 (Urgent Exemption DR09-13-U: Direct Connect Gas Gate) Notice 2009.
- (b) This notice comes into force on the date of this notice.

#### 2. Interpretation

- (a) In this notice, Rules means the Gas (Downstream Reconciliation) Rules 2008 made by the Minister of Energy under sections 43F, 43Q and 43S of the Gas Act 1992 by notice published in the New Zealand Gazette, as may be amended from time to time.
- (b) Any term that is defined in the Rules and used, but not defined, in this notice has the same meaning as in the Rules.

#### 3. Urgent Exemption

An urgent exemption from the application of rules 29, 31, 32, 33, 39, 40, 48, 49, 50, 51, 52, 53, 78 and 79 is granted in respect of the Kupe (KUP37503) gas gate subject to the following terms and conditions:

- (a) To avoid doubt, as no quantities of gas will be allocated to a retailer by the allocation agent in an initial allocation under rule 48 in respect of the Kupe (KUP37503) gas gate, ongoing fees payable under rule 16 of the Rules do not apply to the Kupe (KUP37503) gas gate.
- (b) The exemption will expire on 31 January 2010.

#### 4. Reasons for granting the urgent exemption

The reasons for granting the urgent exemption are:

- (a) Genesis Energy has applied to Gas Industry Co to exempt the new Kupe (KUP37503) gas gate from the application of the Rules, consistent with the approach adopted for existing direct connect gas gates under the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (b) On the information provided to Gas Industry Co, the Kupe (KUP37503) gas gate supplies a consumer directly from the transmission system and therefore is considered to be a direct connect gas gate in the context of the *Gas (Downstream Reconciliation) Rules 2008 (Exemption: Direct Connect Gas Gates) Notice 2008*.
- (c) An urgent exemption is desirable to ensure that Gas Industry Co is able to properly consider Genesis Energy's exemption application and to ensure the applicant is not unduly disadvantaged in the interim.
- (d) The urgent exemption is limited to the end of January 2010 to allow consultation to occur and to enable Gas Industry Co to properly consider Genesis Energy's exemption application.

**DATED** at Wellington this 30<sup>th</sup> day of November 2009.

For and on behalf of Gas Industry Company Limited:

CHRISTINE SOUTHEY, Chief Executive.

# **Appendix C Standard exemption application DR09-13-S**