

20 December 2013

Hon Simon Bridges  
Minister of Energy and Resources  
Parliament Buildings  
Wellington

Dear Minister

### **Update on arrangements allowing interconnection to gas transmission pipelines**

On 20 December 2010 we advised the Associate Minister of Energy and Resources about the outcome of our review of interconnection arrangements to open access transmission pipelines. In response (9 March 2011), the Associate Minister (Hon Hekia Parata) requested Gas Industry Co to '...undertake a formal review of the current interconnection arrangements after the next two interconnections to each of the transmission pipelines, or by the end of 2013, whichever is sooner.'

In our 'Briefing for the Minister of Energy and Resources, January 2013', we confirmed to you that we would provide these reviews by the end of 2013. This letter and its attachment update you on that matter.

Although Gas Industry Co has reviewed two physical interconnections to the Vector pipeline, no substantial interconnections to the Maui pipeline have occurred since the Minister's request. However, two significant new Maui pipeline interconnections are expected to occur in the first half of 2014. We therefore propose that we hold-off from providing a full interconnection update until these interconnections are complete and have been reviewed by us.


In the meantime, and as a separate matter, we propose reporting to the Minister on our review of the 'interconnection' of the gas trading markets. During 2013, the New Zealand Exchange (NZX) and Energy Market Services (EMS, a commercial business group within Transpower NZ) negotiated with Maui Developments Limited (MDL) to enable 'interconnection' of their gas trading markets. Following negotiations over the period March to September 2013, NZX concluded an ICA with MDL, while EMS did not. EMS chose instead to establish its market to operate on the Vector pipeline, which it was able to do without negotiating an interconnection agreement with Vector.



These gas market arrangements do not relate to the interconnection of physical equipment, but do raise some similar issues. Also, given that gas trading on a centralised platform is a new concept for the New Zealand gas market, but potentially an important contributor to market efficiency, we believe that it is appropriate for Gas Industry Co to consider whether any policy issues arise, and to report to you on that matter.

We anticipate that our updates on both the physical and gas market interconnections will be available by the end of June 2014. In the meantime, further information on the background to our interconnection work and an update on activity in the market are provided in the attachment to this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Bielby', written over the 'Yours sincerely' text.

**Steve Bielby**  
*Chief Executive*

Copy: Simon Lawrence - MBIE

## Attachment

### Background

Gas Industry Co has been working with industry participants to improve arrangements for parties wishing to physically interconnect their facilities with the open access transmission systems. The Gas Act 1992 (Gas Act) provides for regulations to be made for the purpose of 'prescribing reasonable terms and conditions for access to transmission or distribution pipelines'. However, given the technical nature of pipeline interconnections, we believe the best approach is likely to be non-regulatory.

In 2009 we developed Interconnection Guidelines setting out our view of best practice. Transmission System Owners (TSOs) responded by evolving their processes to better align with those Guidelines. Our subsequent review of TSO interconnection arrangements in 2009 found that their interconnection documents were generally well aligned with the Guidelines, but incomplete. The most significant omissions were:

- interconnection policies to provide an overall framework of the process and improve transparency; and
- a means of resolving disputes with parties seeking interconnection that arise before contractual arrangements are entered into (pre-contractual disputes).

In response to our review, the TSO's continued to evolve their interconnection arrangements. Our second review in 2010 formally assessed those arrangements against the objectives in the Gas Act 1992 and Government Policy Statement on Gas Governance 2008. We found that, in response to the previous review, both TSOs had prepared draft interconnection policies, which met most of our evaluation criteria (which were based on the Gas Act and GPS objectives).

With respect to pre-contractual disputes, both TSOs have included dispute processes in their policies. In particular:

- Maui Development Limited (MDL) extended its contract dispute resolution process to cover some pre-Interconnection Establishment Agreement (ICEA) disputes. While this was a significant improvement, we nevertheless believe that the arrangement should be extended to allow for independent consideration of all issues in dispute.
- Vector Gas Limited (Vector) included a process for resolving pre-ICEA disputes into its draft interconnection policy, but did not provide for an independent review.

We advised MDL and Vector of the results of our analysis, and highlighted the areas that we believe have scope for improvement. Our subsequent correspondence with the (then) Associate Minister of Energy and Resources on these matters led to the request for the review of the next two interconnections to each of the transmission pipeline.



### **Physical interconnection activity – Vector pipeline**

In the past few years, there have been two significant interconnections to the Vector pipeline. One interconnected the Norfolk field facilities owned by TAG Oil Limited (TAG), and took place over 2010/11. The other interconnected the Cardiff field facilities, owned by Cheal Petroleum Ltd, a fully owned subsidiary of TAG, and occurred during 2012/13.

We commissioned Concept Consulting Group Limited to review the Norfolk interconnection in 2011. In summary, the finding was that all parties agreed that the interconnection process had been relatively smooth; commercial arrangements were all satisfactorily addressed, the roles and authorities of personnel were clear, and the process and documentation aligned with Vector's Interconnection Policy.

In April 2013 we received a letter from Vector confirming that the Cardiff interconnection was also complete, and provided us with a full description of the interconnection process. The Cardiff interconnection had many similar features to the previous Norfolk interconnection. In particular, the same parties were involved in each project; both interconnections were with Vector's Frankley Road pipeline; TAG owned the bulk of the new interconnection facilities (other than the hot taps, isolation valves and associated pipework owned by Vector); TAG employed the same consulting engineer on both projects; and both projects took around 40 weeks from initial application to first gas flow.

Given the strong similarities with the Norfolk interconnection, we did not consider that it was necessary to engage an external consultancy to perform a review. Instead we confirmed with TAG that Vector's description of the process was accurate. TAG confirmed that the project had no unusual features, and that Vector's account of the interconnection process was accurate.

### **Physical interconnection activity – Maui pipeline**

There has been only one recent temporary physical interconnection to the Maui pipeline. It was to provide an alternative supply point to New Plymouth City to allow maintenance work on the permanent interconnection station, owned by Vector. This work took place in 2012 and the temporary station only operated for the 3 days necessary for Vector to complete its work. The temporary station was then decommissioned. We have talked with MDL and Vector about this work and both agree that it was done co-operatively and efficiently, and that no issues or concerns needed to be brought to our attention.

A new physical interconnection for Todd Energy is at an advanced stage. The Interconnection Establishment Agreement is in place and preliminary investigation work on site is expected to start soon. Construction is likely to extend into the first quarter of 2014. We therefore expect that the interconnection will be ready for review by the end of the first quarter of 2014.

In addition, there is a likely interconnection for Nova Energy pending, associated with its Junction Road Power Station.

### **Notional interconnection activity to permit the establishment of gas trading markets**

Neither Gas Industry Co's Interconnection Guidelines or the TSOs' interconnection policies deal with 'notional' interconnections. The original Guidelines were developed with reference to physical interconnections, as were the subsequent interconnection policies. However, during 2013 two organisations sought to enable gas trading markets by negotiating arrangements to 'interconnect' their markets. Clearly there is no physical interconnection involved, rather 'interconnection' refers to the market provider contracting with the TSO to interpose gas trading market transactions onto the other transactions inherent in the TSO's access arrangements (as provided for in the TSOs' multi-lateral access 'codes'). These gas market interconnections are therefore commonly referred to as 'notional interconnections'.

During 2013, the New Zealand Exchange (NZX) and Energy Market Services (EMS, a commercial business group within Transpower NZ) attempted to negotiate Interconnection Agreements (ICAs) with Maui Developments Limited (MDL) to enable their gas trading markets. Following negotiations over the period March to September 2013, NZX concluded an ICA with MDL, while EMS did not. EMS chose instead to establish its market to operate on the Vector pipeline, which it was able to do without negotiating an ICA with Vector.

Gas trading on a centralised platform is a new concept for the New Zealand gas market. Historically, trades have been bespoke transactions between parties who were known to each other. So there has been little of the transparency and liquidity found in more advanced overseas markets. However, the inception of the trading platforms could now lower the barriers to trading, and associated search and transactions costs. So Gas Industry Co is keen to understand any issues that arose in arranging for interconnection.