



Beyond the Boundaries

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28 January 2016

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Gas pipeline issues - IM and DPP review

Dear Keston,

Thank you for providing us with the opportunity to make submissions on gas pipeline specific aspects of the IM and DPP reviews.

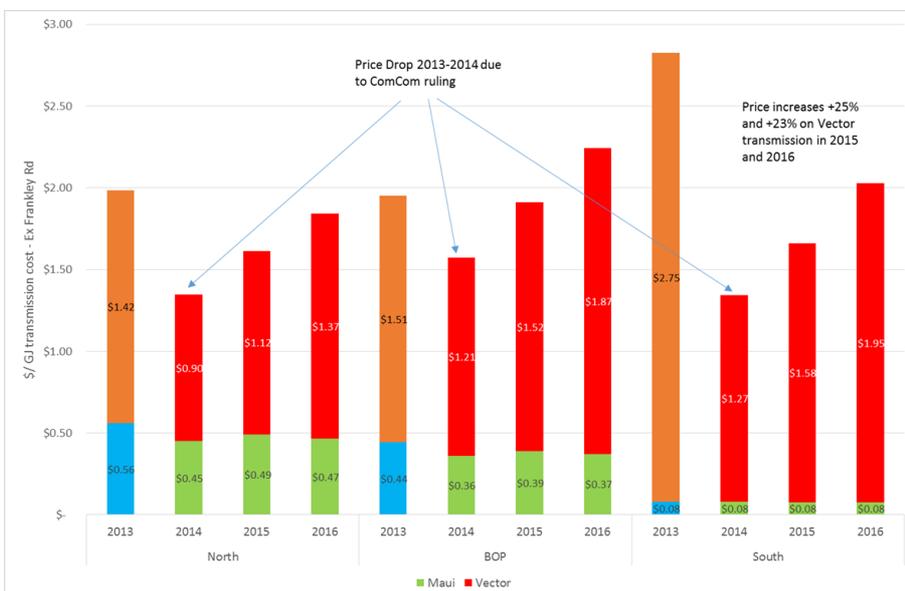
We support the submission made by the Major Gas Users Group on these matters and in addition have some specific comments as below.

1. Quality of service and security of supply.

- a. We consider that the present quality requirements in the DPP in particular for the Gas Transmission system are quite inadequate.
- b. We **recommend** that as discussed at the 8th December meeting, a working party is convened to assist the Commission to determine appropriate measures for standards in the DPP for security and reliability of supply. Since in the case of the Gas Transmission system, loss events are in the low frequency high consequence category, the normal backward looking measures are not very appropriate and forward proactive measures will be necessary.
- c. Determining such measures will in our view be no small task and so we consider that this matter should be addressed as a matter of urgency.

2. Form of control, pricing and risk sharing.

- a. Our experience in terms of costs we have incurred for gas transmission can be summed up by the Figure 1 in the MGUG submission repeated below.



- b. Our cost variation experience comparing the Maui and the Vector pipelines has been quite different as can be seen.
- c. Our conclusions from this are
 - i. The Maui line cost structure/methodology has remained stable.
 - ii. Apart from the Commerce Commission mandated changes in 2014, the Vector line cost structure has had one major change in 2014 that moved the charge structure to largely fixed (based on capacity needed) from largely variable (throughput) and also based generally on assets used to supply gas to the various major branch lines. This principle appears to have been adjusted somewhat for the 2016 charges to spread the revenue makeup necessary due to the loss of revenue from the Northern pipeline (Southdown and Otahuhu gas cogen closures) amongst all pipeline users.
 - iii. This seems to us to squarely put the risk of changes in line usage as well as pricing methodology changes on users.
- d. We **recommend** therefore that the form of control guidelines are tightened to minimise the scope for what we see as essentially ad hoc adjustments to pricing based on the circumstances that pipeline owners find themselves in at any particular time.

Thank you for the opportunity to make this submission. We are happy to respond to any further questions you may have.

Yours Sincerely



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