

Gas Transmission Access – Submission of Spindletop Law

Gas Transmission Access

Single Code Options Paper - Part 1

Submission prepared by:



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| QUESTION | COMMENT |
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| <p>Q1: Do you agree with the proposed regulatory objective? If not, how would you propose describing the objective?</p> | <p>There are two major threats to ongoing gas supply that are not specifically covered in the proposed Regulatory Objective:</p> <p>(i) Major outages caused by pipeline integrity issues: This issue was best demonstrated when the Maui pipeline ruptured in 2011 at Pukearuhe resulting in significant disruption to Northern industries (losses estimated at \$200 mm). And yet, the Maui pipeline remains exposed along a 1.8 km section at White Cliffs and other parts are similarly at risk. The owners have no mandate to act quickly to repair the section because there is no guarantee the costs will be recoverable in a Customised Price Path analysis and such repairs fall outside the Default Price Path.</p> <p>Any review of access issues should have as an objective, as a matter of priority, that services continue and the Owner/Operator is able to make urgent repairs and ensure system integrity without dealing with the bureaucracy that comes with a CPP application up front.</p> <p>(ii) Gas Supply: There are only ~10 years' worth of 2 P gas reserves left for transmission in New Zealand – so the MBIE data set tells us (Maui reserves were cut from 430 PJs in 2015 to 182 PJs this year – 6 years supply at current production rates).</p> <p>However, no one believes that gas supply will end in ~10 years (otherwise First gas wouldn't have bought the pipeline and we wouldn't be bothering with Code development). As such, the most important deliverable from any review should be to incentivize the owners of 3P reserves and Contingent resources to bring them into the 2P category where they are 'bankable'. Only then can such reserves be relied upon as likely to be transmitted in the pipeline system and be the subject of long term investment (e.g. new urea plant, new methanol train) and supply to existing businesses.</p> <p>The pipeline owners in North America provide financing, technical support and DBOO capital lease structures to facilitate new connections and development of upstream/downstream facilities that could help move reserves into the 2P space. With First gas being backed, ultimately, by the Commonwealth Bank, those types of structures</p> |

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| | <p>should be encouraged.</p> <p>As such, a key objective should be that the new code and structure facilitates investment in the upstream (with consequential downstream investment).</p> |
| <p>Q2: Do you agree that it is not necessary to specify what elements of the access regime will be addressed in a new code at this stage of the process?</p> | <p>Yes but the range of elements needs to be narrowed in the short term.</p> |
| <p>Q3: Do you agree with the suggested synthesis of the PEA's guiding principles?</p> | <p>The PEA guiding principles were developed in response to a capacity constraint on the Vector system at a time when both pipeline systems were held under a different ownership structure and so whilst useful, should not constrain other principles applying and that might have been implemented in other jurisdictions.</p> <p>The 'synthesis' set out of page 35 of SCOP1 seems a reasonable summary but the question is how relevant it all will be to the discussion at hand.</p> |
| <p>Q4: Do you agree with the suggested initial scope of the options?</p> | <p>Yes. It is pretty broad.</p> |
| <p>Q5: Do you consider that the process outlined above is appropriate?</p> | <p>The leadership taken by GIC in combination with working with the new owner, First Gas, is appropriate and welcome. That said, gas transmission in NZ has been the result of light touch regulation that has produced less than optimal arrangements because, for Maui at least, the E & P owners had no incentive to use the pipeline as a profit centre and so customers were not a focus. It appears that neither the Maui or the Vector systems have enjoyed widespread support from the shipping community – perhaps a reflection of the priorities the respective owners gave them.</p> <p>Whilst the present arrangements have been built upon in a piecemeal manner, with the change to an independent transmission system operator and the potential to transform the network into something that aligns with international models of system owner and operatorship, perhaps the process would benefit from some specialist international and independent expertise (e.g. Brattle (Dan Harris) /McKinsey (Christer Tryggestad)) to provide some benchmarking and oversight to ensure that mistakes that have occurred elsewhere are not repeated and that the final product is balanced, fit for purpose and sustainable.</p> |