

8 August 2014

Hon Simon Bridges
Minister of Energy and Resources
Parliament Buildings
Wellington

Dear Minister

Gas transmission pipelines interconnection reviews

Gas Industry Co reports to you regularly on reviews of gas transmission interconnections, in accordance with a formal request by your predecessor (letter dated 9 March 2011). In essence, that oversight was designed to (and in our view still usefully does) provide industry transparency and incentives that help avoid the need for regulation.

In our letter to you dated 20 December 2013, we proposed that we hold-off from providing you with a full update on transmission pipeline interconnection arrangements until two anticipated Maui pipeline interconnections were completed. We could then report to you on two interconnections to the Vector transmission pipeline and two interconnections to the Maui transmission pipeline, as requested¹. We also advised that we would report on the recent 'interconnection' of the two gas trading markets.

One of the anticipated Maui pipeline interconnections is now complete but the other is on hold. Considering how infrequent interconnections are, we think it is best to report to you now on the information we have at hand rather than wait for the next Maui pipeline interconnection. We can then maintain a watching brief on future interconnections and give you further advice if any issues emerge.

¹ In a letter dated 9 March 2011, the then Associate Minister of Energy and Resources, Hon Hekia Parata, asked us to complete a review '... after the next two interconnections to each of the transmission pipelines, or by the end of 2013, whichever is sooner.'

We attach two reports for your consideration:

Report on interconnections to Maui and Vector transmission pipelines: relating to the physical interconnections of the McKee/Mangahewa field facilities to the Maui pipeline and the Sidewinder and Cardiff/Cheal field facilities to the Vector pipeline.

Report on gas trading market interconnections and related issues: relating to the establishment of the NZX Limited gas trading market on the Maui transmission pipeline and the Transpower Limited gas trading market on the Vector transmission pipeline.

In relation to the physical interconnections we found that:

- the owners of the Vector and Maui pipelines now each have very comprehensive interconnection policies , procedures and documentation;
- although there are some differences in their interconnection arrangements, both are closely aligned with the *Interconnection Guidelines* Gas Industry Co published in 2009;
- the recent interconnections have all been effective, with pipeline owners and interconnecting parties working collaboratively;
- of the few issues that have arisen, we believe some arose from misunderstandings that can be avoided in future;
- confusion arises from the various roles performed by Vector. This was found to be an issue for both Tag Oil in relation to its Vector pipeline interconnections, and Todd Energy in relation to its Maui pipeline interconnection.

We will be discussing these matters directly with the pipeline owners, who we have found to be very willing to consider further improvements.

In relation to the gas market interconnections we found that:

- Gas Industry Co considers that the introduction of a gas trading market is a significant step towards achieving the Government's policy objective of efficient arrangements for short-term trading of gas;
- an independent review of the process for achieving gas trading market interconnection arrangements on the Maui pipeline found no issues requiring intervention, but did identify a number of concerns the Maui pipeline owner has about pipeline balancing that could be exacerbated by the introduction of a gas trading market;
- we recognise the Maui pipeline owner's concerns, but we consider that the risks arising from the introduction of the market are manageable. However, we believe it is prudent to keep track of balancing metrics in the immediate future and to be alert to any adverse consequences; and

- the on-going industry efforts to improve transmission access arrangements in response to recent recommendations from a Panel of Expert Advisers under the Gas Transmission Investment Programme (GTIP) may also have consequences for pipeline balancing. Gas Industry Co will continue to encourage and monitor these developments.

Gas Industry Co believes that the pipeline owners have made significant efforts to improve interconnection arrangements and to facilitate the introduction of gas trading markets. We will continue to work with the pipeline owners and other market participants to address the few remaining concerns and will keep you abreast of any further developments.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Steve Bielby', with a large, sweeping flourish underneath.

Steve Bielby
Chief Executive

Copy: Jamie Kerr, David Buckrell - MBIE