



# Todd Energy

5 July 2004

Public Version

Gas Pipelines Inquiry  
Commerce Commission  
P O Box 2351  
Wellington

**Todd Taranaki  
Limited**

Level 15  
The Todd Building  
95 Customhouse Quay  
PO Box 3141  
Wellington  
New Zealand

## Submission in Response to the Gas Control Draft Report (21 May 2004)

Telephone  
64-4-471-6555  
Facsimile  
64-4-472-2474  
E-Mail  
energy@tpm.co.nz

### *Summary*

1. This submission is made by Todd Taranaki Limited ("TTL") in relation to the pipelines running from the McKee production station to the Faull Road mixing station ("McKee Pipelines").
2. TTL submits that there are no grounds for control of the McKee Pipelines under section 52 of the Commerce Act 1986 ("Act") because:
  - (a) the pipelines faces competition from the other pipelines that supply Methanex and therefore the test in section 52(a) is not met; and
  - (b) even if the Commission does not accept this submission, the cost of controlling the pipelines would far outweigh any benefits to Methanex and is therefore not in the interests of the acquirer.
3. Confidentiality is claimed in respect of all information contained within square brackets.

### *Background to the McKee Pipelines*

4. The two McKee Pipelines are owned by TTL and are dedicated to transporting gas from TTL's McKee and Mangahewa gas fields to Methanex. Energy and distribution are provided on a bundled basis. Both lines are 6", and are approximately 10 kilometres long. The second line was added to debottleneck the system to accommodate extra production from Mangahewa.
5. TTL currently supplies Methanex with gas from the McKee and Mangahewa gas fields under a [ ] year supply contract. This contract expires [ ].



## Todd Energy

6. Methanex has recently entered into an agreement with the Maui Joint Venture for purchase of up to 40 petajoules of natural gas from the Maui field. Methanex is expected to have used the last of that Maui gas by sometime in 2005.
7. To continue production from 2005 on, Methanex will need to secure an alternative supply of at least 16-17 petajoules of gas per annum. There are a number of options for supply and suppliers will compete to supply both gas and distribution services.

### ***Competition***

8. TTL submits there is workable competition in the market in which the McKee Pipelines operate. Competition is not "limited or likely to be lessened" and therefore it does not meet the test in section 52(a) of the Act.
9. In the Draft Report the Commission noted that NGC's LTS and North pipelines provide a competitive constraint on the McKee Pipelines. This is correct and will be particularly evident when Methanex has used its 40PJs of Maui gas and requires additional supply. At this time Methanex will have a choice of suppliers for both gas and distribution services as noted above. The Maui pipeline and NGC's LTS pipeline are both alternatives to the McKee Pipelines and there is also the threat of bypass. In the future, the Pohokura production station will be built next to Methanex's Motonui plant and it would be possible for Methanex to be supplied direct from the production station. The prices that TTL will be able to charge for distribution will be constrained both by competition between the pipelines able to supply Methanex and by the maximum price Methanex can pay before running the methanol plant becomes uneconomic.
10. The Commission noted in the Draft Report that the McKee Pipelines could have market power if Methanex became dependent on the McKee field for supply. Given the size of the McKee and Mangahewa gas streams and Methanex's other options for supply, this is extremely unlikely.

### ***Interests of Acquirers***

11. TTL agrees with the Commission's finding that control of the McKee Pipelines would not be in the interests of acquirers.
12. The pipelines are only 10 kilometres long and are unlikely to be used to transport gas to Methanex after [ ]. Inevitably, in these circumstances the costs of control would be unjustified.

### **Todd Taranaki Limited**

Level 15  
The Todd Building  
95 Customhouse Quay  
PO Box 3141  
Wellington  
New Zealand

Telephone  
64-4-471-6555  
Facsimile  
64-4-472-2474  
E-Mail  
energy@tpm.co.nz