

Management of Statutory Maintenance at Exit

EOWG, 3rd May 2006

Statutory Maintenance – Key Regulations

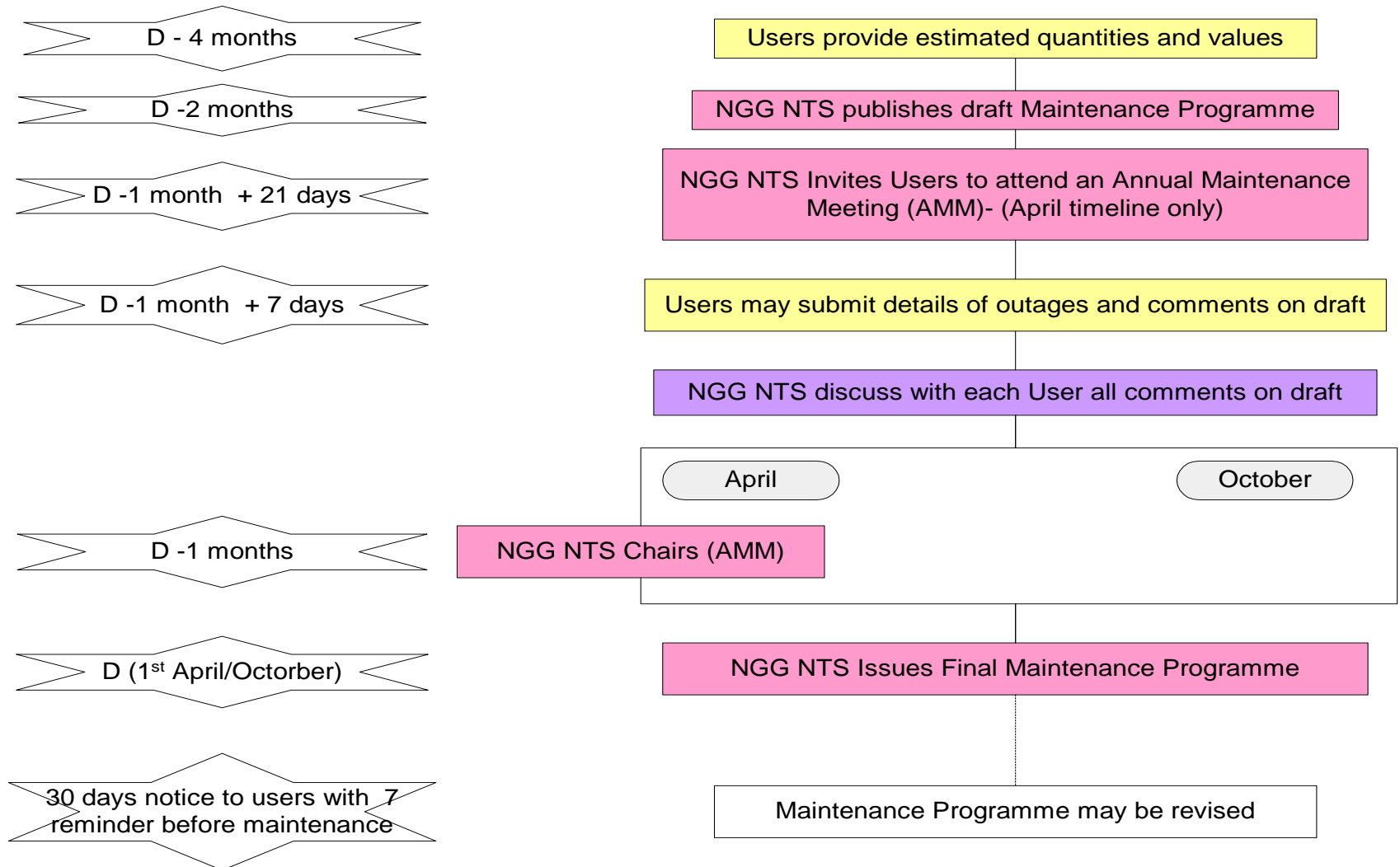
- ◆ PSSR (Pressure Systems Safety Regs. 2000)
 - ◆ Prevent serious injury from the hazard of stored energy as a result of the failure of a pressure system or one of its component parts
- ◆ PSR (Pipeline Safety Regs. 1996)
 - ◆ The operator shall ensure that a pipeline is maintained in an efficient state, in efficient working order and in good repair
- ◆ HASWA (Health & Safety at Work Act)
 - ◆ Failure to comply with any aspect of the above Regulations could result in prosecution

Types of Maintenance

- ◆ To comply with Statutory obligations, there is a requirement for regular maintenance on:
 - ◆ Pipelines (involving many End Users)
 - ◆ On-Line Inspections – 1 to 15 years based on risk assessment
 - ◆ Site Specific Maintenance (involving 1 End User)
 - ◆ Critical valves - full movement every 12 months
 - ◆ Non-Critical valves - full movement every 24 months

Maintenance Planning

Seek to minimise impact on users by co-operative planning



Maintenance Entitlements

- ◆ Transporters are relieved of its obligations to make gas available for offtake for a maximum number of days in any planned maintenance period
 - ◆ CSEPs/Supply Points – stated in connection agreement
 - ◆ NTS/LDZ Offtakes – 8 days per year
 - ◆ LDZ Supply Points – depends on AQ
- ◆ Beyond this, Transporter incurs “failure to make gas available” liability
 - ◆ Based on multiple of Capacity x Daily Rate
- ◆ For entry points, we are required to buy back capacity.....

Comparison Entry vs Exit

Entry

- ◆ Impacts can often be avoided
 - ◆ typically duplicate pipework
 - ◆ typically able to co-incident with entry shut down period
 - ◆ scope for within-day management
- ◆ Competition
 - ◆ If buy back is required, there may be some competition

Exit

- ◆ Impacts typically unavoidable
 - ◆ by-passes un-common
 - ◆ complete cessation normally required
 - ◆ Harder to arrange with co-incident user's maintenance plans
- ◆ Lack of competition
 - ◆ Buy back will typically be required to meet statutory requirement, but limited/no competition result in "distressed buyer"
- ◆ Safety Case
 - ◆ Change to current arrangements would require HS&E support

Greater scope for partial reduction

Greater requirement for cessation

Buy-back incentive design challenges and assessment

- ◆ Target, sharing factors, caps and collars
 - ◆ Need “fair” scheme to address maintenance
- ◆ Limited competition
 - ◆ risk of high buy-back prices?
 - ◆ priced against alternative of duplicate pipeline/kit?
 - ◆ Competition Act influence?

➔ (Low?) probability of high cost events

➔ Requirement to cap prices?

➔ Maintain current regime

- **duties to co-operate**
- **“disputes only” regulatory intervention**