

**Submission prepared by: Major Gas Users Group**

**Re: FY 2015 Strategy, work Programme & Levy**

Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2015? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

We believe GIC's work programme should include a focus on governance arrangements regarding gas quality.

MGUG's gas quality concerns relate to the TSO's approach to injecting parties' quality assurance practices, in particular the failure to actively monitor or audit compliance with interconnection agreements and pipeline codes.

If an end user suffers damage or loss related to a gas quality parameter not being met, their only legal redress for compensation is generally through contract. That contractual relationship sits with their retailer. Generally clauses in these contracts indemnify retailers for events beyond their reasonable control. The end user may therefore suffer loss but may not be able to claim against their retailer. Since the retailer suffers no loss there is no claim against the shipper. If the shipper suffers no loss there is no claim against the transporter (TSO). There is therefore at best only a weak incentive on the TSO on behalf of individual end users to ensure that injecting parties comply with ICAs and pipeline codes.

Given the consequence of quality non-conformance falls almost exclusively on the end user and the difficulty and cost of litigating for damages, the only effective controls to provide quality assurance to the end user are the rules and procedures that the TSO sets on its welded parties to prevent non-specification gas being brought into the system in the first place. A reasonable and prudent operator should therefore be actively monitoring welded parties control on that quality. TSO monitoring and audit does occur for fiscal purposes (receiving signals and reports), but not for quality parameters. Although the VTC and MPOC liabilities and indemnities are not inconsistent with other jurisdictions in that obligations are placed on the injecting party and the TSO itself, better practice jurisdictions ( Victoria and Denmark, as noted in GIC - Gas Governance Issues in Quality: Issues Paper- 7 September 2010) also ensure active monitoring and oversight on compliance.

As the gas supply base becomes more diverse in New Zealand, the risk of non-conforming gas entering the system increases. MGUG therefore contends that the "by exception" approach to monitoring compliance with ICAs and pipeline codes no longer meets RPO standards. MGUG supports TSOs placing greater requirements on itself and injecting parties to monitoring, feedback, and reporting on the adequacy of quality controls.

Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2015? Please provide reasons for your response.

Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volumes estimate to be?

Q4: Do you have any comment on the proposed levy for FY2015?

Q5: Do you have any suggestions for amending the annual levy regulations?