

10 June 2016

Gas Industry Company
PO Box 10-646
Wellington 6143
(Submitted via GIC website)

Fonterra Co-operative Group
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Dear Gas Industry Company,

Re: Consultation Paper “Gas Transmission Security and Reliability”

Fonterra thanks the Gas Industry Company (*GIC*) for the opportunity to provide feedback on the issues paper, “Gas Transmission Security and Reliability”¹ (*Issues Paper*).

Fonterra is a major gas user and used approximately 4.8 PJ of natural gas (excluding the co-generation plants gas use) last season (1 August 2014 to 31 July 2015, aka FY15). Natural gas is used across 19 different Fonterra sites in the North Island and these sites are dependent upon a secure and reliable supply of natural gas in order to process the large volumes of milk they receive each season.

Fonterra is a member of the Major Gas User Group (*MGUG*) and supports the points raised in that submission on this Issues Paper, except where they may differ with any points raised in this submission by Fonterra.

Fonterra has provided answers to the questions prompted in the Issues Paper and would like to reiterate the following key points to GIC:

- Fonterra supports the suggestion to improve the current metrics by summarising the metrics into a dashboard format, accompanied by the Gas Transmission Businesses (*GTB*) interpretation and explanation regarding performance. A further improvement to the reporting would be details regarding the impact of the failures or a rating on the severity of some of the failures.
- The *GTB*'s should provide further details in their Asset Management Plans (*AMP*) of what their business continuity plans are, a risk matrix showing the major risks on the pipeline that rates them on their impact and likelihood to occur, and details on what the *GTB* was doing to mitigate/eliminate risks that are high impact and high likelihood to occur. This would assist users with understanding the pipeline risks and response to failures, which will then inform their own BCP's.

Fonterra looks forward to further engagement with GIC on this topic. If there are any questions regarding any of the points made in this submission, please contact Fonterra's Energy Manager (contact details below).

Yours sincerely,

Linda Thompson
Energy Manager
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¹ <http://gasindustry.co.nz/work-programmes/pipeline-security-and-reliability/#gas-transmission-security-and-reliability-issues-paper/>

Fonterra's response to individual questions raised in the Issues Paper:

| QUESTION | COMMENT |
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| <p>Q1: Do you agree that the current disclosed metrics provide useful status and trend indications? If not, what information do you think is redundant or missing?</p> | <p>Yes, the current disclosed metrics are useful to review network integrity, reliability, and interruptions.</p> <p>This could be improved by summarising the metrics into a dashboard format and accompanied by the Gas Transmission Business (<i>GTB</i>) interpretation and explanation regarding performance.</p> |
| <p>Q2: Do you agree that the metrics could usefully be summarised and displayed in a 'dashboard format', accompanied by the GTB's interpretation? Are there other improvements you would suggest?</p> | <p>A further improvement to the reporting would be details regarding the impact of the failures or a rating on the severity of some of the failures.</p> <p>It appears that there could be an opportunity for common methodology across the two pipelines regarding the metrics.</p> |
| <p>Q3: Do you agree that there are strong reputational, contractual, and legislative drivers for a GTB to achieve effective S&R? If not, what else do you think is needed?</p> | <p>There are currently several drivers as outlined in the Issues Paper for a GTB to achieve effective security and reliability of its assets.</p> <p>However, there is a concern that if a pure revenue cap is introduced then the commercial incentive to ensure that the pipelines are secure and reliable and delivering gas to customers will be reduced. This concern is also acknowledged by GIC in the Issues Paper but no suggestions are provided on how to address this.</p> <p>There is also only one quality standard set in the price quality regulation requiring a response to an emergency within 3 hours. This does not provide any reassurance regarding how quickly any event that led to an emergency will be resolved and gas supply resumed.</p> <p>Fonterra supports the observation raised by MGUG regarding the certificate of fitness and that it does not provide assurance on a number of factors that are important from a security and reliability perspective.</p> |
| <p>Q4: Do you think we have correctly identified the requirements to achieve the S&R objectives? If not, what requirements are unnecessary, or missing?</p> | <p>The Issues Paper summary of requirements is a good start but is missing a key component regarding reliability. Fonterra suggests that a further item is included regarding business continuity plans (BCP) or response plans that the GTB have in place to restore gas supply. This is similar to having the critical contingency management arrangements to manage demand, the GTB's need to have BCP's to manage outages and what their response is to restore gas supply when different failures occur.</p> <p>The Issues Paper footnote on page 26 states that "achieving enhanced transmission reliability might be cheaper than a back-up or alternative fuel solution for certain businesses" regarding the suggestion for the end-user and the GTB to explore enhanced Security and Reliability (S&R) options and contract for special arrangements. These comments do not take into consideration what may be better from a NZ inc perspective regarding the GTB's investing and maintaining S&R of the gas transmission system for the benefit of all users, rather than numerous individual parties investing in and installing back-up solutions which may be inefficient to do so.</p> |

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| <p>Q5: Do you think that the gap analysis is adequate? If not, what gaps have not been identified?</p> | <p>No, the gap analysis is inadequate and requires an additional requirement regarding the provision of GTB's BCP's.</p> <p>Fonterra notes that on page 29 of the Issues Paper is the first notification that downstream users had of the assessment that the Whitecliffs project could be deferred. This highlights that current communication of such important projects to downstream users that rely upon these gas transmission pipelines is inadequate and unsatisfactory.</p> <p>The Issues Paper notes that there is an option for end-users to obtain information from a GTB about its S&R risks. A preferred and more efficient approach would be that these risks are transparent and available without requiring a request.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Q6: Do you agree that it is not necessary to mandate any security standards?</p> | <p>In section 4.4. of the Issues Paper, GIC notes that the 'N' or 'N-1 redundancy' has been used by stakeholders for the S&R provided by having the Vector and the Maui transmission pipelines travelling concurrently from the Taranaki region into the Waikato. Fonterra notes that perhaps the terminology of N or N-1 is not correct to apply to this, but the principle of maintaining the two pipelines should apply and the GTB's need to ensure the integrity and separation of the two pipelines is maintained – this principle could be captured within a security standard. A large number of end users and a large amount of gas demand is dependent upon these pipelines so ensuring the limited 'back-up' that is available by having two separate pipelines is important, as was seen in the October 2011 critical contingency event.</p> <p>If this was not included in a security standard, perhaps this could be viewed as part of the BCP response by the pipeline owner.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Q7: Do you agree that the current AMP's are generally adequate, but missing a layer of GTB interpretation?</p> | <p>No, the AMP's would be improved if the BCP and a risk matrix were included. This would assist to assess whether the Part 4 purpose is being met, in particular that the assets are being managed for the long term, and allow for an assessment of asset-related risks.</p> <p>An example of a risk matrix is shown below (likelihood is on the x axis, consequence/impact is on the y-axis):</p> <table border="1" data-bbox="751 1370 1430 1599"> <tr> <td>Almost certain</td> <td>M⁸</td> <td>S¹⁴</td> <td>H²⁰</td> <td>H²²</td> <td>H²⁵</td> </tr> <tr> <td>Likely</td> <td>M⁷</td> <td>M¹⁰</td> <td>S¹⁵</td> <td>H²¹</td> <td>H²⁴</td> </tr> <tr> <td>Possible</td> <td>L³</td> <td>M⁹</td> <td>M¹²</td> <td>S¹⁷</td> <td>H²³</td> </tr> <tr> <td>Unlikely</td> <td>L²</td> <td>L⁵</td> <td>M¹¹</td> <td>S¹⁶</td> <td>S¹⁹</td> </tr> <tr> <td>Rare</td> <td>L¹</td> <td>L⁴</td> <td>L⁶</td> <td>M¹³</td> <td>S¹⁸</td> </tr> <tr> <td>SCENARIO</td> <td>Insignificant</td> <td>Minor</td> <td>Moderate</td> <td>Major</td> <td>Fundamental</td> </tr> </table> <p>A risk matrix would be useful for showing to stakeholders what the main risks are on the pipeline, and what the likelihood of failure is and the impact if that failure occurred. It would be useful for GTB's to provide details on what they are doing to mitigate or eliminate the risks that are identified as high impact and high likelihood to occur.</p> <p>In conjunction with the business continuity plans that show how they would respond to such a failure, this information would assist users with understanding the security and reliability of the pipeline to assist with their own business continuity plans.</p> | Almost certain | M ⁸ | S ¹⁴ | H ²⁰ | H ²² | H ²⁵ | Likely | M ⁷ | M ¹⁰ | S ¹⁵ | H ²¹ | H ²⁴ | Possible | L ³ | M ⁹ | M ¹² | S ¹⁷ | H ²³ | Unlikely | L ² | L ⁵ | M ¹¹ | S ¹⁶ | S ¹⁹ | Rare | L ¹ | L ⁴ | L ⁶ | M ¹³ | S ¹⁸ | SCENARIO | Insignificant | Minor | Moderate | Major | Fundamental |
| Almost certain | M ⁸ | S ¹⁴ | H ²⁰ | H ²² | H ²⁵ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Likely | M ⁷ | M ¹⁰ | S ¹⁵ | H ²¹ | H ²⁴ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Possible | L ³ | M ⁹ | M ¹² | S ¹⁷ | H ²³ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Unlikely | L ² | L ⁵ | M ¹¹ | S ¹⁶ | S ¹⁹ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Rare | L ¹ | L ⁴ | L ⁶ | M ¹³ | S ¹⁸ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SCENARIO | Insignificant | Minor | Moderate | Major | Fundamental | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Q8: Do you agree that it is unnecessary for a GTB's PIMP to be disclosed?</p> | <p>If a risk matrix, BCP, and details on what the GTB was doing to mitigate/eliminate risks that are high impact and high likelihood to occur, then the full PIMP is not required to be disclosed. If this information was not provided, then the disclosure of the PIMP would be required as it appears to contain these elements.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | Fonterra notes that a review of the AMP may be required to identify what information is not used by stakeholders to identify information that could be removed from the AMP to reduce the disclosure burden on the GTB. |
| Q9: Do you agree that there are statutory arrangements to permit scrutiny of a GTB's decisions to invest, or not invest (albeit that these arrangements have not yet been tested)? | No comment. |
| Q10: Are there any aspects of the gap analysis that you do not agree with? | Please refer to earlier comments regarding suggestions of additional information provision and the preference for transparency of information, rather than relying upon individual's requests. |
| Q11: Do you agree with our suggested action points? Are there any other actions that you believe are necessary? | As suggested earlier, the GTB's should provide details via a risk matrix, BCP, and details on what the GTB was doing to mitigate/eliminate risks that are high impact and high likelihood to occur. |