10 June 2016

Submission prepared by: Major Gas Users Group (MGUG) – len.houwers@aretelimited.com

	QUESTION	COMMENT
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?	An overriding theme of our submission is to try and identify a stakeholder centric approach to measures in the broader context of supplier RPO obligations. The interpretation of measures and their usefulness would benefit from ; having a clear statement on which audiences they might serve; how they link to stakeholder objectives; what the targets are, including, where appropriate, relevant external benchmarks. This structure would also provide a basis for ongoing dialogue between stakeholders and suppliers to improve the informational content of the measures. End users want visibility on how pipeline management affects their business risks. There is therefore a greater interest in the outcomes of the asset management programme that ensure a reliable supply. There needs to be visibility on potential congestion risk, and reassurance that investment is being made to maintain a minimum level of security. Other stakeholders such as the Commerce Commission, Worksafe, MBIE, Treasury National Infrastructure Unit, local government, and public would have different interests to protect. Ideally measures should be reported in one place and easy to locate. At the moment the asset performance measures are spread over AMPs and Financial and Network information disclosures. Measures within the AMP are more informative but harder to locate and interpret. Trend information is only available in the AMPs. By themselves the information is not easily interpreted because of terminology that might be unique to the supplier (e.g. "incident", "Significant Event", "emergency" etc.) This makes the information, including trends also difficult to interpret since there are no clear external references to assess whether performance is good or bad. Most of the measures are lagging indicators and don't differentiate on seriousness or materiality to determine whether incidents are minor or major. Given that major incidents of a safety or reliability nature should be avoided we would expect to see a number of leading indicators to give some level of comfort to consumers that risks are being properly managed – for example asset reliability leading indicators might include; % adherence to scheduled maintenance on critical asset programme, % adherence to system audit schedule etc. There is also no clear linkage or structure between measures in terms of how they cascade or influence each other or key outcomes that might allow more informed interpretation. For example there is extensive reporting under compressor availabilities but little is said about how that influences supply reliability (apart from also being unclear whether the reported performance is good or bad).

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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?	The Information Disclosure schedules provide one type of dashboard with some limited interpretation. A dashboard (with interpretation) for AMPs at the front of the document would be a good start to overcome the current difficulties in finding and interpreting measures. However a dashboard is only effective if the measures show some structure and reveal information that is relevant to stakeholders. Key points on this are captured in the response to question 1. More specifically for AMPs, these could focus more clearly on asset objectives and performance in context of transaprent asset management philosophy and policies. AS/NZS 2558.1 in conjunction with ideas from ASME B31.8 provides a useful approach to a risk management and compliance framework within which various measures can be identified and communicated to stakeholders.
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?	In general there is good alignment between suppliers and consumers on desired outcomes, however there are gaps in identifying adequate/ efficient control/ mitigation measures because of externalities. Examples are supply interruptions that create asymmetric risks. The financial cost of an outage can be far greater for affected upstream and downstream parties than the supplier; social costs (labour force disruptions and flow on effects to communities); environmental and health and safety risks created on other sites; are also not borne by suppliers. Consequently how suppliers manage and respond to disruptions may be suboptimal from an overall NZ Inc. perspective. (We would see this as an under investment example as described in S4.7 and would note that rather than being "extremely uncommon" is actually inherent in the supplier's risk management framework) For example MDL is estimating a repair time of between 5 and 20 days in its latest AMP "depending on location". It is not clear what drives these estimates in terms of constraints. The difference between 5 and 20 days could be $600 million economic loss if the 2011 outage was extrapolated, not counting other losses (e.g. environmental damage from dumping milk because dairy plants cannot function, social costs of a disrupted labour force etc.) $600 million would buy a lot of mitigation if 20 days is simply being determined as optimal from MDL's economic position. Expanding on this example further, all outages of equal duration are not equal in outcome. The public and private cost of a 20 day disruption from an unplanned event is likely to be much greater than if it was planned because of stakeholders' ability to minimise impacts through better planning and orderly implementation of business continuity measures. A supplier might have a choice between a 3 day temporary repair outage followed by a 20 day planned outage which costs it more (or the same) as one single 20 day unplanned outage. External parties are likely to have a clear preference for a planned outage but would be frustrated by the supplier optimising its own outcomes rather than minimising broader system impacts.

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		That is why S&R is context specific, and context is a function of all stakeholders, not just supplier, strategic objectives. Effective S&R therefore invites wider stakeholder input into identifying threats and mitigation measures. This is a process that needs to be led by the supplier but can be facilitated by for example the GIC to ensure the necessary stakeholder engagement and input.
Q4:	Do you think we have correctly identified the requirements to achieve the S&R objectives? If not, what requirements are unnecessary, or missing?	We would suggest that the list should be based on a risk assessment on key integrity and security threats as determined by the wider stakeholder group. A key/critical/significant threat being perhaps defined as one that generates, or has the potential to generate, a CCM event from a pipeline asset failure. This would keep the analysis focused on the critical few.
Q5:	Do you think the gap analysis is adequate? If not, what gaps have not been identified?	A lot of store is being placed on Certificate of Fitness as an assurance control in terms of identifying gaps. We think that the Certificate of Fitness only indirectly assures integrity and only to the extent of managing safety concerns. The gap is in assurance measures that address external stakeholder concerns on a continuous basis. There are also improvement opportunities in terms of how information is presented to ensure that it is, relevant, and easy to interpret. Several of our major users have expressed an interest in better understanding reliability in quantitative terms eg frequency rates of failure for major disruption events so that they can better assess site risks and appropriate investment in site specific mitigation measures. For example a 1 in 10 year event for a 5-day outage is a different risk, and therefore investment decision, than the same outage as a 1 in 1000 year event.
Q6:	Do you think we agree that it is not necessary to mandate any security standards?	Whether it is mandated or not, a security standard exists. It is inherent in the AMP. Design and construction implicitly includes inherent reliability and operation/ maintenance procedures either support or degrade this security, and investment determines future security. Security standards represent a service level and should at least be explicitly expressed in order for external stakeholders to understand how altering the asset policies of the supplier might change these. Making these service levels more transparent would assist in decisions such as White Cliff realignment – i.e. will solution improve overall system security, what are the tradeoffs between different solutions, and so forth. If a supplier implicitly proposes to reduce the inherent security standard (as suggested by one possible solution to White Cliff realignment) it should be made more obvious in order for it to be challenged and discussed.

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		Note we disagree on GIC's interpretation that N-1 security is currently not provided for in transmission pipelines, nor should be. The 8" Vector pipeline that runs parallel to the Maui line is currently providing critical backup to maintaining safety on distribution systems. Rather than dismiss N-1 as unattainable/ uneconomic this example invites a closer inspection of where similar vulnerabilities exist and whether partial duplication (for example looping) or other mitigations might also be beneficial for achieving broader stakeholder outcomes.
Q7:	Do you agree that the current AMPs are generally adequate, but missing a layer of GTB interpretation?	AMPs are not generally adequate because of the way that information is presented or is absent from the document. Hence the issue goes beyond just interpretation. There are real gaps in the document that prevent it from being as meaningful as it could be. The AMP should be considered a public communication document by the supplier with a range of audiences with different needs and different levels of technical skills to interpret. The stakeholders need to be at the centre of this document. This invites a different level of engagement by the supplier when developing these.
Q8:	Do you agree that it is unnecessary for a GTB's PIMP to be disclosed?	We agree in part. It should not be necessary to disclose the full PIMP but the alternative of no disclosure is not acceptable either. The PIMP is integral to understanding the service level being provided for and how this is being assured by the supplier. This requires visibility to external stakeholders – particularly in terms of the risk management process and framework that underpins the detail. Risks, risk tolerances/ risk acceptance criteria/ threats, mitigation measures and performance should be transparent. Furthermore this should be developed in an open and regular consultation process with stakeholders who bring their strategic contexts to the risk debate. We see this as beneficial not just for consumers but also suppliers as often parties can identify risks not known by each other We don't see this as an additional onerous requirement because any good risk management framework (including ISO 31000) identifies these as necessary inputs into the risk management conversation.
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)?	We have no opinion on this. Perhaps the arrangement should be tested to see if they are adequate.

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Q10:	Are there any aspects of the gap analysis that you do not agree with?	Already noted in previous responses.
Q11:	Do you agree with our suggested action points? Are there any other actions that you believe are necessary?	In broad terms yes but there are opportunities to improve the process with better stakeholder engagement.