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20 December 2012

Ian Dempster
Gas Industry Company
2 Hunter Street
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Submitted online

Dear Ian

Statement of Proposal – Amendments to the Gas Governance (Critical Contingency Management Regulations 2008)

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company (“the GIC”) on the consultation paper “Statement of Proposal – Amendments to the Gas Governance (Critical Contingency Management Regulations 2008)” dated 12 November 2012.

Genesis Energy’s responses to the consultation questions are in Appendix A. Our additional comments on whether, and how, the Gas Governance (Critical Contingency Management Regulations 2008) (“the regulations”) should recognise rights for power stations to consume gas during a contingency are set out below.

Support clearer rights for power stations to consume gas during contingency

We strongly agree that power stations that can provide electricity system support should have approved rights to consume gas during a contingency.

Genesis Energy’s Huntly Power Station provides the largest amount of dual-fuel generation capacity in New Zealand. With the exception of Unit 5 (a gas fired combined closed-cycle gas turbine), all of the units at Huntly are capable of operating on alternative fuel to gas. Units 1, 2 and 4 can each provide a nominal

capacity of 250MW of electricity using gas or coal, and Unit 6 can also be used on diesel for short periods of time to provide some support.

Continued electricity generation from the Huntly Station may be extremely important in the initial stages of a contingency event when the sudden loss of electricity generation could trigger a widespread under-frequency event. In addition, during a prolonged contingency event, the continued operation of the Huntly Station can be integral to alleviating overall stress on the electricity system, particularly during low hydrology conditions. However, we are likely to require some gas in order to start or switch these units to total coal or diesel. We cannot perform such starts or switches if we are instructed to fully curtail our consumption of gas on the Huntly units.

Regulations should provide for use of gas in a way that promotes certainty for power stations but provides the CCO with ultimate control

The GIC has put forward two options for how this issue could be addressed in the regulations. While we consider both options are a good starting point, we consider that a combination of these options could achieve a more effective balance between providing power stations with the necessary certainty to respond to a contingency, while retaining ultimate control and risk management with the CCO.

Under our combined option, approved power stations would have:

- a separate designation category under the regulations: we consider that the situation applying to power stations would be more effectively dealt with through a separate designation category in the regulations (as suggested by the GIC's second option). Our view is that the existing MLC provisions do not lend themselves well to the unique situation relating to power stations. For example, Section 45 is not currently drafted in a way that would accommodate a scenario in which additional gas is required for switching fuel sources as opposed to shutting down.
- express authorisation to use gas in accordance with any pre-approved profiles provided to the CCO: this would provide power stations with a clear mandate to consume gas in accordance with their pre-approved curtailment profiles. A key benefit of this option is that it allows power stations to act decisively in their immediate response to a contingency event. For Genesis Energy this quickness of response greatly enhances our chances of being able to perform a switch or start our coal units safely, responsibly and using the least amount of gas. The GIC's second option, on the other hand, would require power stations to first obtain authorisation from the CCO during the contingency. The Maui Outage

highlighted to Genesis Energy the difficulties in relying on this decision-making process, and its effective communication, during the time of the event. We consider that the potential for delays in timing and communication breakdown could undermine efforts to use gas for the purposes of stabilising the electricity system.

- the regulations may also need to provide the CCO, (in consultation with the System Operator) with the powers to revoke any pre-approved curtailment plan during a contingency if they consider it necessary: this would ensure that the CCO retains ultimate control over the management of the gas contingency. We agree that it is necessary and appropriate for the CCO to have this overriding discretion, particularly in more severe circumstances when a greater level of curtailment may be required.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely



Lizzie Wesley-Smith
Regulatory Advisor

Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
Q1: Are there any other matters that should be addressed when considering proposals to amend the CCM Regulations?	No.
Q2: Do you agree with the Gas Industry Co proposal to combine bands 2 and 3? If not, please provide your reasons.	Yes. There appears to be no reason to keep these bands separate. Given the small number of users within band 2, it is likely that both bands will end up being curtailed at the same time.
Q3: Do you consider that the option of trading gas usage rights during a critical contingency is worth exploring? Please explain your reasoning.	<p>We do not object to the GIC exploring this further with interested parties. However, we question whether these types of trading arrangements are consistent with the underlying purpose of the regulations. We also have concerns about the potential for this trading to compromise the effective management of a critical contingency. To manage this risk any option would need to include strict implementation rules and criteria. Trading rights would need to be:</p> <ul style="list-style-type: none"> • well defined and measureable; • neutral in their effect on gas usage levels; • established in advance; and • provide appropriate limitations around whether exchanging users would need to be on the same gas gate / pipeline.
Q4: Do you agree that regulation 53(1)(d)(ii) and 53(2) provide the necessary flexibility for the CCO to respond to changing circumstances?	Yes.

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Q5: Do you have any comments on the analysis of ESP consumers?	The analysis suggests that retailers are not applying the designation criteria consistently. This supports transferring this function to an independent body.
Q6: Are the proposed categories appropriate? Are there any additional categories that you think should be included? If so, please provide your justification.	<p>We strongly support creating a higher priority class of critical care providers and removing the consumption threshold for this ESP category.</p> <p>However, we do not support the proposal to limit approval of ESP designations to users who do not have back up fuel. This:</p> <ul style="list-style-type: none"> • could dis-incentivise gas users from investing in alternative fuel sources; and • would result in ESP customers not being equipped to cope in a full curtailment contingency, where no gas is available. In this type of scenario it will be essential for critical care consumers to have some form of back up supply.
Q7: Do you agree with the option evaluation set out above? If not, please explain why.	We agree that the amended concept review option best meets the criteria. However, the evaluation does not address the risk that distinguishing between ESP providers on the basis of access to back up fuel may compromise the overall resilience and preparedness of this curtailment band.
Q8: Are there any other criteria for MLC designation that you feel would be appropriate? Please include your justification for any that you consider should be added.	No.
Q9: Would you delete any of the proposed categories?	No.

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Q10: Should electricity generators be eligible for MLC status, as described in the first option above? Or should there be a separate category, as described in the second option?	Please refer to our cover letter.
Q11: Do you agree with the above evaluation of options? If not, please explain why.	Requiring a customer to have ToU equipment on their meter could significantly increase the customer meter lease cost. It is also unclear whether the GIC is proposing that it would interrogate ToU meters to assess compliance. This could be an expensive undertaking particularly for those ToU meters that need to be visited on-site to obtain consumption information.
Q12: Do you agree with the above evaluation of options? If not, please give your reasons.	Yes. We support assigning the approval of ESP designations to another body within the GIC.
Q13: Do you agree with the 9-month timeframe for transitioning to the new ESP and MLC arrangements?	Yes.
Q14: Do you agree with the tight provisions for designations during a critical contingency event?	<p>We agree that:</p> <ul style="list-style-type: none"> • customers should be appropriately designated as ESP and MLC prior to a contingency occurring; and • that the ability to obtain these designations during the course of a contingency should be limited to very exceptional circumstances. For example, a customer whose back up fails during the contingency should be able to obtain a late ESP designation. <p>To retain consistency in information, we suggest that the GIC lead the development of an informative set of</p>

QUESTION	COMMENT
	guidelines explaining the process and the criteria for applying for MLC and ESP designations.
Q15: Do you agree that the communications framework outlined above is the minimum that should be provided for in terms of public communications during a contingency event? If not, please give your reasons	Yes, in particular we support requiring the CCO to make timely public announcements at regular intervals during the contingency.
Q16: Have we correctly identified the parties that should provide communications and the information that each should provide?	Yes. However the CCO should obtain additional resources to ensure that it has the capacity to provide these communications. While communication with the industry and public at large is important, the key focus of the CCO should at all times be on managing the event and the risk of total loss of, gas supply.
Q17: Do you agree that contingency imbalances should only apply in the case of non-regional contingencies? If not, what rationale would you provide for applying contingency imbalances to all critical contingencies (given that the Vector Transmission Code already provides for shipper mismatch)?	Yes. We support maintaining the distinction.
Q18: Do you agree that a set of guidelines would be the most efficient way to identify regional contingencies?	Yes. Guidelines would assist in establishing whether the contingency is regional or non-regional as soon as possible so that parties can manage their imbalance risks appropriately
Q19: Do you agree that the CCO is the best party to determine regional/non-regional status of a critical contingency? If not, who would have better information on which to base a determination?	Yes the CCO should make a recommendation to the GIC.

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Q20: Do you agree that the CCO's role should allow direction of system reconfiguration, as outlined above? Is it important that the CCO only make such a direction where it is supported by the affected TSO?	Yes. If there are any alternative means of getting gas to an affected region it should be utilised regardless. TSO should only be able to object on the basis of safety or pipeline integrity reasons.
Q21: Do you agree with this analysis? If not, please state why.	Yes
Q22: Do you agree that the CCO is best placed to write the performance report after a critical contingency? If not, who would be better placed?	Yes, the CCO should write a performance report which reflects actual events and performance during a contingency. The GIC should have the ability to request an audit of performance if it so wishes.
Q23: Do you agree with the modifications to the performance report provisions outlined above? If not, please identify those you do not agree with and explain why.	Yes
Q24: Do you agree that the CCO should collect and publish information on scheduled outages as outlined above? If not, please explain why.	Publishing this information will provide more transparency in the industry. It should not be difficult to provide this information on a quarterly basis.
Q25: Do you agree that if the CCO requires more granular data, the most efficient source would be the allocation agent? If not, what other means would you suggest, and why?	Yes. The demand model could be updated quarterly or monthly (as opposed to the current annual updates) using the data that retailers supply to the allocation agent on a monthly basis. This would make seasonal peaks and changes in demand more visible.
Q26: Do you have any comment on the need to ensure that Gas Industry Co is always able to appoint a party as the CCO and the need to ensure that the CCO always has access to the	We support future-proofing the regulations in this way.

QUESTION	COMMENT
information and data required to fulfil the role?	
Q27: Gas Industry Co proposes annual notifications to customers as a means of encouraging customers to make appropriate arrangements to cope with a critical contingency. Do you agree with this frequency and if not, why not?	No. While we agree with the need for on-going communication between a retailer and its customers, we consider that making these notifications on an annual basis may be overly excessive and could undermine customer confidence in the reliability of gas. We consider a requirement for retailers to notify their customers directly every two years and to make this information available on their websites would be sufficient. Any notification should involve the dissemination of standard guidance issued by the GIC.
Q28: Given that the seriousness of a situation that requires curtailment of Band 6, do you agree with the proposal to use text messaging to contact Band 6 customers urgently? If not, how would you propose to notify these customers in a manner that ensures they understand the need to curtail their gas use?	Yes. Regulations 56 (2) may also need to be redrafted to reflect that this communication will be made via text message. Retailers should still be required to communicate orally with customers in other bands as this remains the most effective way for the retailer to ensure the customer has received the message and understands the need to curtail gas.
Q29: While we are sympathetic to retailers' concerns about contacting large numbers of customers, there appears to be merit in placing a 'best endeavours' obligation on retailers to contact at least their largest customers in Band 6 regarding curtailment progress. Please provide your views on this issue.	We agree that this would be better dealt with as a best endeavours measure.
Q30: Please provide your views on the proposals outlined above for retailer curtailment plans?	While we would have no issues with making our retailer curtailment plans publicly available on our website (with confidential customer details removed)

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	we are not sure that this level of detail is particularly useful or relevant for our customers. We consider that submitting our plan to the GIC for their consideration would be a more effective way to monitor compliance.
Q31: Do you agree that retailers are best placed to assist their customers in applying for ESP or MLC status?	We agree that retailers may be able to add some value in pre-vetting applications, given the information they already hold about the customer. Customers should also have the option of applying directly to the GIC. Again, guidelines would be useful to assist customers and retailers for this purpose.
Q32: Do you agree with the changes proposed to improve compliance with the CCM Regulations?	Yes. We support putting in place clear consequences for non-industry participant consumers who breach the regulations. We suggest that the GIC body for managing ESP designations could be responsible for enforcing these types penalties.
Q33: Do you agree that using data from the allocation agent is the most expedient way of checking compliance with curtailment directions by ToU-metered customers? If not, what alternative would you suggest, and why?	Yes, for now. More expedient options may emerge with the advent of smart gas metering.
Q34: Do you agree with this proposal? If not, please give your reasons.	Although we agree that a timeframe is a good idea, once we have been notified of the contingency from the CCO, we generally rely on receiving this information directly from OATIS rather than waiting for it to be relayed by the TSO.