



24 December 2012

Ian Dempster
General Manager – Operations
Gas Industry Company Limited
Level 8, The Todd Building
95 Customhouse Quay
Wellington 6143

Dear Ian,

Re: Submission on the Statement of Proposal - amendments to the Gas Governance (Critical Contingency Management) Regulations 2008

1. This following submission is made on behalf of the Major Gas Users Group (MGUG):
 - a. Ballance Agri-Nutrients Ltd
 - b. Carter Holt Harvey Ltd
 - c. Fonterra Co-operative Group Ltd
 - d. New Zealand Steel Ltd
 - e. New Zealand Sugar Ltd
 - f. Refining NZ

2. The following comments relate to specific concerns we have with the Statement of Proposal. While the views are expressed on behalf of the MGUG, we note that members may have views specific to their operation that they may choose to correspond directly with the GIC.

Regulatory Objective

3. We note that GIC (Para 2.2 on Page 9) is proposing not to change the purpose statement although it notes (page 9) that "it will use it in formulating evaluation criteria for assessing options etc". This matter has not been raised previously but on analysis of the regulations, guidelines and after participating in the workshop held on 6 December 2012, we believe there may be value in adding more clarity to the purpose.
4. The stated purpose of the regulations is *to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply*. GIC notes the first part is self-evident but from a MGUG perspective the second part is less so.
5. MGUG believes that the regulations and any guidelines around critical contingency should be explicit and as clear as possible. We believe the current purpose statement is inadequate in that regard and we question whether it is appropriate to formulate evaluation criteria using the purpose statement as it currently stands.
6. For example the current purpose statement does not *explicitly* refer to the priorities that may arise in the course of a critical contingency nor the considerations that would

influence curtailment. These priorities/considerations will include health, safety and risk of damage to the environment, questions of economic value (impact on plant with the rate of curtailment, completion of critical processing, timeliness of restoration to minimise disruption to the wider economy) and efficiency (getting best value out of any available gas).

7. Some stakeholders may consider health and safety considerations to be overriding but the SoP also contemplates matters of economic and efficiency value. We agree with that but believe that it will help in the administration of the regulations if the purpose statement contains more explicit reference to these priorities/considerations.

Back Up

8. The assumption in the SoP is that gas users will install alternative fueling capability to provide business continuity in the event of a gas contingency. This is suggested despite what appears to be uncertainty about whether supply of alternatives will be sufficient in a major event.
9. This raises the question whether there should be some mechanism allowing priority access to other fuels in a major event, where the risk to supply of these alternatives looks a possibility. MGUG believes the regulations should address how this might be managed e.g. a more centralised control mechanism or some wider body with overarching responsibility to ensure fuel is available for back up.

Communications

10. We support 'backstop' regulation to formalise the informal public communications protocol. However, the regulations and resulting amendments to the CCO and TSO's Critical Contingency Management Plans (CCMPs) and Information guides need to be more detailed (to provide clarity), inclusive of major users, and any communications should provide full transparency.
11. Currently, the Critical Contingency Communication Plan and Information Guides prepared by the CCO and TSO do not require major users of gas to be notified directly of an actual or potential critical contingency ('large users' as defined in the regulations are on the list). We propose that major users are added to the schedule of stakeholders to be notified. Major users typically operate 24/7 so contacting them will not be an issue.
12. Members of this group currently rely on the 'trickle down' of information from the retailers to receive notification of a critical contingency (or potential critical contingency). Being major users of gas with sensitive equipment, early information of a potential or actual critical contingency is essential for response planning.
13. Furthermore consultation during any event should be maintained at regular intervals, regardless of whether there has been any change in the status of the event.
14. In addition, the CCMPs are prepared after consultation with a limited number of stakeholders. The outcome of the CCMPs and their effectiveness has a large impact on

end users if information does not flow quickly. We therefore propose that major end users are consulted in the preparation of the CCMPs.

15. The MGUG would be willing to work with the CCO to establish the communication channels.

Asset Information

16. We support the principle that those with the best asset information should communicate information on the asset. We assume that the CCO and TSOs form a collaborative team to manage and communicate the crisis and one party (the CCO?) takes overall responsibility for the response. Nevertheless we think that it is important that information expectations are clearly determined
17. With regards to transparency during a critical contingency, there seems to be no requirement that the asset owner of the failed asset disclose the options being considered for repair and what economic considerations are being taken into account (for example, a repair solution combining a quick fix to stabilise the system and then undertaking a long term repair solution during off peak hours may be more expensive for the asset owner but will prevent wider economic loss, while a permanent but lengthy fix may be more economic for the asset owner but result in overall economic loss).
18. We understand the need to make quick decisions during a critical contingency however wider considerations should also be taken into account (we note Schedule 2(b) of the regulations requires curtailment arrangements to minimise net public cost). We believe a similar obligation should be put upon TSOs and transparently communicated.

MLC criteria

19. It is important with complex industrial processes that curtailment recognises process inter-dependencies may influence the rate of "ramp down". And it may not be the case that the ramping down of plant will always follow a defined sequence - that may depend on processing activities at the time, and possibly influenced by the completion of critical processing.
20. We think the concept of ramp down is inherent in the discussion around completion of critical processing (page 48-49) but it is not explicit. We believe it should be – the definition and scope of what constitutes critical processing and what 'ramp down' means needs to be made explicit. It may be useful to also recognise the concept in bringing plant back into operation (similar to that envisaged for generation), where there may be a need for gas as part of the process of switching to other fuels.
21. Gas to electricity generators – we question whether provision of gas for start-up is justified at all times, without some degree of oversight. The requirement will depend on whether the System Operator requires the generation to meet demand or maintain frequency. We believe the System Operator should be part of the consultation in establishing the need for generation (and the requirement for gas).

22. Granularity of data (page 78) – Feedback from members indicates that current methods used by the CCO to gather data to determine how and when to curtail looks to be very basic. It seems difficult to see how the present MLC users are integrated into the model let alone any more sophisticated MLC users. We believe that more granularity is required and given that communication is such a critical dimension around decision making the Group considers that it would be useful to workshop the process with the CCO (including GIC), to understand information requirements, adequacy of current avenues for conveying information and the impact this has on decision making. This would bring a sharper focus to the flexibilities and practicality in curtailment.
23. We support determination of MLC status by GIC or a third party, as opposed to the status quo. It will be important to ensure that the technical framework for determining acceptance is reasonably straightforward and we support the criteria currently being applied, subject to our comments above.

Gas trading

24. We note the proposal to allow trading of gas between users during a critical contingency. As a Group we do not have a view on the proposal at this point.
25. It is important to note that for some major users, it may still be possible to reconfigure or optimise plant to run at a significant level, even with a greatly reduced gas supply. This can be done provided a minimal amount of gas is available.
26. From a wider economy perspective we believe it is important that the productive sector has the opportunity to optimise its operation even within the context of constrained energy supply.
27. However we believe that caution is needed in considering any proposal that would establish property rights in the context of critical contingency, particularly given the uncertainty around the system capability and information flows.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Hale', with a stylized, cursive script.

Hale & Twomey Ltd/Arete Consulting Ltd
For the Major Gas Users Group

1.0 Appendix 1: List of questions for submitters

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QUESTION	COMMENT
Q1: Are there any other matters that should be addressed when considering proposals to amend the CCM Regulations?	Clarifying/making more explicit the purpose statement in the regulation.
Q2: Do you agree with the Gas Industry Co proposal to combine bands 2 and 3? If not, please provide your reasons. [pg.28]	With the analysis provided, we see no reason to disagree with the proposal to combine the bands.
Q3: Do you consider that the option of trading gas usage rights during a critical contingency is worth exploring? Please explain your reasoning.[pg.31]	See our comments in Paras 24-27 above
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?[pg.32]	Yes. The Maui outage was managed within the existing regulations but we believe that the bias should be in favour of providing detail and guidance in the regulations, to minimise the risk for ambiguity and uncertainty.
Q5: Do you have any comments on the analysis of ESP consumers?[p 38]	
Q6: Are the proposed categories appropriate? Are there any additional categories that you think should be included? If so, please provide your justification.[p.43]	
Q7: Do you agree with the option evaluation set out above? If not, please explain why.[p.48]	No comment

QUESTION	COMMENT
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.[50]	See our discussion in Paras 19-23 of the above.
Q9: Would you delete any of the proposed categories?[50]	Ditto
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?[50]	See our comment in para 21
Q11: Do you agree with the above evaluation of options? If not, please explain why.[52]	
Q12: Do you agree with the above evaluation of options? If not, please give your reasons.[56]	
Q13: Do you agree with the 9-month timeframe for transitioning to the new ESP and MLC arrangements?[56]	Yes.
Q14: Do you agree with the tight provisions for designations during a critical contingency event?[58]	Yes
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.[65]	Please see comments in our covering letter.

QUESTION	COMMENT
Q16: Have we correctly identified the parties that should provide communications and the information that each should provide?[65]	Please see our comments in our covering letter, in particular the suggested approach to workshop communication and information requirements
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)?[70]	
Q18: Do you agree that a set of guidelines would be the most efficient way to identify regional contingencies?[70]	
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?[73]	Yes. However it is important that the CCO has sound information for making these determinations.
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?[74]	Ditto above
Q21: Do you agree with this analysis? If not, please state why.[21]	
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? [77]	Yes but will need to consult to a wider audience before finalising.

QUESTION	COMMENT
<p>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. [77]</p>	
<p>Q24: Do you agree that the CCO should collect and publish information on scheduled outages as outlined above? If not, please explain why.[78]</p>	
<p>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? [79]</p>	
<p>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 information and data required to fulfil the role?[80]</p>	
<p>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? [82]</p>	
<p>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?[83]</p>	

QUESTION	COMMENT
<p>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. [83]</p>	
<p>Q30: Please provide your views on the proposals outlined above for retailer curtailment plans.[85]</p>	
<p>Q31: Do you agree that retailers are best placed to assist their customers in applying for ESP or MLC status?[86]</p>	
<p>Q32: Do you agree with the changes proposed to improve compliance with the CCM Regulations?[91]</p>	
<p>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?[91]</p>	
<p>Q34: Do you agree with this proposal? If not, please give your reasons.[92]</p>	