



25 August 2006

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Dear Ian

Submission on Review of NGOCP

Thank you for the opportunity to make a submission on the Gas Industry Company's Discussion Paper "Review of Gas Emergency Arrangements", dated July 2006.

Contact's response to the questions contained in the paper is attached.

The main points that we would like to make are:

- The emergency arrangements must be mandatory;
- Market participants should be under incentives to minimise and control take of gas outside demonstrated entitlement;
- The arrangements must include provisions that provide compensation for gas that is taken from the holder of the title to that gas during the emergency event;
- The procedure to determine the price of gas subject to emergency arrangements should be clearly fixed in the emergency arrangements;
- The current gas market is completely different to the market under which the NGOCP was developed and that means the NGOCP only has very limited relevance to the emergency arrangements that are now required;

- There is nothing in the discussion paper on how the proposed arrangements will be policed. Policing of the proposed arrangements should be made clear;
- The scope of the proposed emergency arrangements appears wide ranging and will cover a number of complex issues requiring considerable resource and development time particularly if the arrangements are stand alone with dedicated supporting infrastructure;
- There is no estimate of the cost of the proposed arrangements in the discussion paper and how the arrangements will be funded;
- The Discussion Paper does not establish a work programme for development and implementation of new emergency arrangements. Contact would appreciate GIC advice of its programme which should include the provision of a timeline showing opportunity for further submissions.

Contact is happy to agree that the GIC publishes this letter and the attachment. Contact is also happy to further explain the points made in the attachment if that would assist the GIC.

Yours sincerely

A handwritten signature in cursive script that reads "Alex Love".

Alex Love
Contact Energy Limited

Contact response to questions contained in Gas Industry Company Limited's Discussion Paper "Review of Gas Emergency Arrangements, July 2006"

Questions	Comments
Q1 Do you agree that mechanisms to implement arrangements for emergency or contingency situations must be mandatory? If not, please explain.	Yes. Arrangements must be mandatory to ensure there are no free riders (as at present) and to ensure there is proper payment for gas taken.

Questions	Comments
<p>Q2 Do you agree Gas Industry Co has identified the most likely alternatives for mechanisms to implement arrangements for emergency or contingency situations? If not, please provide details of any other likely alternative mechanisms.</p>	<p>Contact agrees that the GIC has identified the likely alternatives. However, we think that the GIC has too quickly dismissed the option of securing mandatory compliance with emergency requirements through gas transmission services agreements and interconnection agreements. That approach offers more flexibility and adaptability than the rules and regulations approach. It also avoids the bureaucracy and costs associated with rules and regulations and possible duplication of supporting infrastructure. Paragraph 4.12 of the Discussion Paper overstates the complexities of compliance through TSAs and interconnection agreements. The MPOC, for example, includes many of the provisions required for effective emergency arrangements including governance arrangements.</p> <p>Transmission contractual arrangements provide a means of capturing emergency arrangements because all gas has to flow through the transmission system and because transmission arrangements have to deal with allocation and compensation issues. Both the MPOC and Vector TSAs include provisions that recognise emergency arrangements and both the MPOC and Vector arrangements include compensation provisions for loss of entitlement. Clearly the emergency arrangements require development to provide certain outcomes but it would seem possible to recognise these and give them contractual status through the MPOC and Vector transmission arrangements.</p> <p>OATIS provided under both the MPOC and Vector TSA provides a suitable communications infrastructure.</p> <p>It seems necessary that there is a close linkage between balancing arrangements set out in agreements such as the MPOC and emergency arrangements otherwise there will be an incentive to create an emergency in order to avoid compensation payable when there is not an emergency.</p> <p>It is Contact's understanding that most pipeline regimes include emergency arrangements.</p> <p>Contact agrees that if after a reasonable time the industry shows it cannot make appropriate arrangements (or the arrangements cannot provide sufficient certainty to users in all circumstances) then arrangements should be imposed through rules and/or regulations. An efficient process would be required to develop the arrangements to avoid protracted industry debate. As an example of such a process, an independent expert under GIC instruction could develop the arrangements with industry given a limited time to make submissions on the proposed arrangements. In the event the process did not succeed the arrangements developed through the process could form the basis of rules or regulations.</p>
<p>Q3 Do you agree with Gas Industry Co's analysis of a Pan-Industry Agreement as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.</p>	<p>Contact agrees that there are problems associated with a pan industry approach, if such arrangements are not a requirement of transmission services agreements and interconnection agreements. The problems are particularly related to how new parties comply with such arrangements. Also it would be difficult to ensure that all parties who may be affected are parties to those arrangements.</p>

Questions	Comments
<p>Q4 Do you agree with Gas Industry Co's analysis of rules or regulations as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.</p>	<p>The analysis of rules and regulations overlooks the disadvantages of that approach such as rules and regulations are:</p> <ul style="list-style-type: none"> • costly to develop; • require costly supporting operational infrastructure; • difficult to amend and develop; and • less responsive to operational needs. <p>Those disadvantages should be considered in evaluating the rules and regulations approach, against the alternative of enforcement through transmission services agreements and interconnection agreements.</p>
<p>Q5 Do you believe the gas emergency arrangements are most appropriately implemented by rules or regulations recommended to the Minister of Energy? If not, please explain.</p>	<p>Implementation through rules and regulations is not obviously the best approach for the reasons indicated above. Further consideration should be given to implementation through TSAs and interconnection agreements.</p> <p>If it becomes clear that either rules or regulations are required then regulations are likely to be more appropriate for imposing gas emergency arrangements than rules because of the financial implications of the arrangements.</p>

Questions	Comments
<p>Q6 Do you agree with Gas Industry Co's analysis of the framework design for emergency management arrangements? If not, please explain.</p>	<p>Gas markets have changed considerably since the existing emergency arrangements were developed. The original arrangements were developed when markets were dominated by the highly flexible Maui supply and government effectively owned all major plants using that gas. Controllable gas usage proportional to total gas usage was greater because Methanex used more gas. Thermal generation had greater diversity because the ability to switch between coal and gas at Huntly power station was proportionally more significant. Linepack was lower compared to gas usage.</p> <p>Maui supply is becoming less dominant, new gas supplies are very inflexible and more diverse, line pack is much higher in proportion to fuel usage, gas fired electricity is a higher proportion of total electricity generation and ownership of large plant is spread more widely. All of these changes mean the principles of the existing emergency arrangements are no longer appropriate.</p> <p>The discussion paper identifies that voluntary arrangements without reconciliation of gas ownership are not appropriate. We also question whether stabilising (gas inflows equal gas outflows) once pipeline pressure reaches a fixed limit is appropriate. For example there is good justification for reducing gas required for thermal generation early to minimum load but allowing that to run longer. A more dynamic response through commercial arrangements may led to better outcomes than rigid adherence to procedures set by a system operator who sees none of the market issues. The existing arrangements are not based on an understanding of the types of gas requirements and the size of controllable and uncontrollable loads. The existing arrangements are unclear as to producers' obligations to provide additional gas in the event of an emergency. The existing arrangements fit uncomfortably with MPOC arrangements.</p> <p>The framework should include objectives for emergency management rather than building on existing systems and processes. We agree that emergency arrangements must recognise arrangements such as the MPOC and the communication infrastructure established to support the MPOC and Vector arrangements.</p> <p>In determining rights to gas in an emergency three rights should be defined:</p> <ul style="list-style-type: none"> • rights to approved nominations after exercise of rights to amend approved nominations; • rights to sufficient gas to shut down plant without risk of plant damage or threatening safety; • rights to gas above those requirements.
<p>Q7 Are there any other principles you believe should be included? If so, please provide details of those additional principles.</p>	<p>See response to question 6.</p>
<p>Q8 Do you agree with Gas Industry Co's approach? If not, please explain.</p>	<p>Because the NGOCP was developed in a different environment and to serve a different purpose much of it is no longer appropriate and therefore a more fundamental build of emergency arrangements rather than adapting the NGOCP is required.</p>

Questions	Comments
<p>Q9 Do you agree that the gas emergency arrangements should be progressed now, rather than waiting for completion of the wholesale market review? If not, please explain.</p>	<p>Contact agrees that effective emergency arrangements should be established as soon as possible. We see no need to wait for the wholesale market review. The MPOC has established prices for gas taken in excess of entitlement. There should be clear principles stated as to why another valuation procedure is required. The emergency arrangements must mesh with MPOC and Vector arrangements otherwise disputes will arise as to which procedures apply. We note that the MPOC arrangements focus on delivering and taking gas in accordance with approved nominations. That is the antithesis of the NGOCF arrangements.</p>
<p>Q10 Do you agree that the current definition of "Gas Contingency" should be amended? If not, please provide reasons.</p>	<p>We agree that the definition of contingency event requires further consideration. Planned events should not be contingency events. A contingency event seems to be a situation where there is real risk that pipeline line pack will be reduced to a level that threatens continued supply of pipeline services within a defined time period during which it would be difficult to avert the reduction in line pack without reducing gas usage or increasing other gas supply. A contingency event may also arise when non-specification gas enters the pipeline with risk of plant damage or increased safety hazard. Over pressurisation of a pipeline may create a contingency. In some of these situations line pack would not be at risk.</p> <p>A contingency event does not necessarily arise when stable operations (gas flows equal gas outflows) are not being maintained. Because of the large volume of line pack available the pipeline can continue to operate for a considerable period of time while gas flows are not equal to outflows.</p> <p>Inevitably exercise of significant judgement is required to decide whether or not to initiate emergency arrangements. The definition of gas contingency requires further consideration.</p>
<p>Q11 If you agree that the definition should be amended: (a) do you agree that an 'effects-based' decision is most appropriate? (b) do you have any suggestion as to a basic operational minimum level to underpin the definition? (c) what, if any, degree of discretion should there be to determine that a Gas Contingency has occurred? (d) how would you define "Gas Contingency"?</p>	<p>See response to question 10.</p>
<p>Q12 Do you consider there should be a separate definition for regional and national contingencies, or some other split? If yes, please indicate how and why (including draft definitions)</p>	<p>We are not convinced that separate definitions are required for regional and national contingencies. Separate definitions are only required if there are different responses to regional and national contingencies. In principle the responses are the same.</p> <p>We note that emergencies can arise on distribution networks. Should those emergencies be covered by the proposed emergency arrangements?</p>

Questions	Comments
<p>Q13 Do you agree that the current definition of "Transmission System" should be amended? If not, please provide reasons. If yes, please provide a draft definition.</p>	<p>We think the definition of transmission system should include all pipelines that need to be managed if an event related to that pipeline can give rise to an emergency. It is not clear to Contact why an emergency cannot arise on a low-pressure distribution pipeline and why such events should be differently covered by emergency arrangements.</p>
<p>Q14 Do you agree that the current definition of "NGC Transmission" should be replaced with a more generic definition of "System Operator" (or similar) as proposed? If not, please provide reasons.</p>	<p>We agree that the term "NGC Transmission" should be changed to the operator of the transmission system.</p>
<p>Q15 Do you agree with the scope of the proposed obligations to be imposed upon industry participants? If not, please provide reasons.</p>	<p>We think the carve-out from the obligations should include situations where compliance with any direction would result in damage to plant.</p> <p>Industry participants should also be required to promptly pay any charges arising from the emergency arrangements.</p> <p>Otherwise Contact agrees with the scope of the obligations set out in paragraph 7.1.</p>
<p>Q16 What, if any, other carve-outs to the proposed obligations of industry participants do you believe are necessary?</p>	<p>As indicated in the response to question 15 the carve-out from the obligations should cover situations where compliance with any direction would result in damage to plant.</p>
<p>Q17 Do you agree with the proposed approach to the liability of industry participants? If not, please provide reasons.</p>	<p>Each industry participant should have additional liability in the event the participant does not promptly pay all charges arising from the emergency event.</p>
<p>Q18 Is Gas Industry Co's belief that the proposed gas emergency arrangements will not require significant additional processes and systems to be developed correct? If not, please explain.</p>	<p>The need for additional processes and systems will not be clear until the detail of the obligations and liabilities under the arrangements are developed. It seems highly likely additional processes and systems will be required for a number of reasons including:</p> <ul style="list-style-type: none"> • the NGOCP was developed several years ago; • communication technology has developed substantially over recent years; • the industry has agreed a protocol for the exchange of electronic information; • the MPOC has been implemented and OATIS has been developed; • the proposed emergency arrangements will be mandatory and therefore will require new monitoring and policing arrangements; • the proposed arrangements will generate fees and charges; and • the detail of the obligations and liabilities is still to be developed.

Questions	Comments
<p>Q19 Do you agree that any gas emergency arrangements should be consistent with the processes set out in the MPOC in respect of contingency and emergency situations? If not, please indicate your preferred approach and reasons.</p>	<p>We agree that gas emergency arrangements must be consistent with the MPOC although we note that the MPOC can be changed to achieve consistency.</p>
<p>Q20 Do you have a preference for the point at which MPOC is superseded by the gas emergency arrangements (e.g. when Phase 2 commences under NGOCP?)</p>	<p>We are not convinced that the MPOC should be suspended in an emergency situation although the existing MPOC requires further development to address emergencies. We note that the existing MPOC always drives welded parties to deliver and take gas in accordance with approved nominations and that additional arrangements would be required if a different approach was required after declaration of a gas emergency. In our submission on the GIC Gas Transmission Access Issues Review Consultation Paper we indicated that shipper should have full opportunity to renominate gas requirements in the event of a constraint. That would allow suppliers to then make additional gas available to those without gas which would help avoid gas emergencies.</p>
<p>Q21 Do you consider the Emergency Operator should automatically be the technical/system operator of the transmission system or an independent person? Please provide reasons for your views.</p>	<p>Contact considers that the Emergency Operator should be the pipeline operator and must act in accordance with fixed procedures. The small industry cannot afford to pay for a separate Emergency Operator. In addition separating the Emergency Operator and the pipeline operator is likely to generate disputes about the boundaries of responsibility and liability for actions. We assume none of this will arise if the pipeline operator is the Emergency Operator.</p>
<p>Q22 Do you believe the CCT should be maintained or that the Emergency Operator, or other person, should undertake that role? Please explain your reasons.</p>	<p>Contact doubts the value of the CCT because contractual obligations mean each individual industry participant will want to communicate with its own customers. There is value in the industry providing a consistent message. Allowing the Emergency Operator to publicly release factual information may provide that consistency. Effective emergency arrangements will require exchange of information. Provision of the required information must be mandatory and any confidentiality concerns will need to be overridden.</p>
<p>Q23 If you wish to retain the CCT, do you believe its current make-up is appropriate?</p>	<p>That should be considered when the detail of the emergency arrangements are developed and there is a clearer understanding of what role a CCT could perform and the resources it would require to perform that role. It should be noted that the role and composition of the existing CCT were voluntarily developed and therefore subject to considerable compromise.</p>
<p>Q24 What other changes, if any, would you make to the CCT role? Please explain your reasons.</p>	<p>See response to question 23.</p>
<p>Q25 Do you agree with the scope of the proposed powers to be given to the Emergency Operator? If not, please provide reasons.</p>	<p>The Emergency Operator will need powers to obtain information and to levy charges.</p>

Questions	Comments
<p>Q26 Do you agree with the proposed approach to the liability of the Emergency Operator? If not, please provide reasons.</p>	<p>As indicated above we think the Emergency Operator should be the system operator. The system operator's obligations and liabilities should flow through its contract of employment with MDL and Vector and the contractual arrangements between shippers and welded parties. We note that this raises issues about the terms of employment of the system operator and the ring fencing of the system operator. That will need to be addressed.</p>
<p>Q27 Do you agree that the declaration process under the gas emergency arrangements should be more certain (as proposed)? If not, please indicate your preferred approach and reasons.</p>	<p>We agree that the Emergency Operator must have the power to initiate and exercise the emergency arrangements. It is difficult to see how the arrangements could be mandatory without that power.</p>
<p>Q28 Do you agree that the process for moving between phases is currently clear/definite? If not, please indicate any proposed changes.</p>	<p>Contact considers that division of emergency arrangements into a number of distinct phases unnecessarily limits the scope of potential responses. As indicated in our response to question 6 the early partial shutdown of some plant should preserve linepack and should delay the need for full plant shutdown. To date very little work has been done on assessing gas requirements during emergencies and developing a needs-based approach to emergency management. Completion of such work may identify more appropriate ways to manage emergencies than splitting action into a number of rigidly bounded phases. There should be scope for the Emergency Operator to exercise judgement.</p>
<p>Q29 Do you agree that all industry participants (and other affected entities, such as major plant owners/operators) should be obliged to comply with directions from the Emergency Operator? If not, please provide details of reasons and any other proposed alternatives for providing certainty.</p>	<p>Mandatory emergency arrangements require all industry participants to comply with the directions of the emergency operator. However, there should be scope for industry participants to prevent an emergency. The MPOC arrangements shut-out shippers from adjusting their approved nominations and drive welded parties to maintain gas takes in accordance with scheduled quantities. These arrangements increase the likelihood of emergencies.</p>
<p>Q30 Do you consider there is any merit in a two-stage approach, with stage one allowing for voluntary response and stage two imposing binding instructions? If yes, why?</p>	<p>Early advice of a potential emergency allows increased opportunity to manage gas requirements. However, we see little value in a two-stage approach with the first stage being voluntary. No reliance could be placed on that phase and that would cause the same problems as the existing NGOCP.</p>

Questions	Comments
<p>Q31 Should the Emergency Operator be required to maintain a detailed load shedding plan? If so, should all (relevant) industry participants be required to provide detailed supply, demand and load shedding information to the Emergency Operator?</p>	<p>The Emergency Operator will have no means of knowing what action is necessary to manage the emergency if there is no information on load shedding. All pipeline shippers should be required to provide information on how they will manage their gas supply and demand in the event of an emergency. This should include:</p> <ul style="list-style-type: none"> • information on load shedding; • information on access to gas supplies; • information on uncontrollable gas demands such as residential and small commercial users with loads less than a fixed amount; • information on demand for essential use; • a formal request of relief from prorata adjustment in the event of emergency curtailment and the magnitude of the required relief; • an undertaking that when an emergency curtailment occurs the shipper will exercise rights to alternative gas supplies and curtail interruptible demand to the extent possible.
<p>Q32 Do you agree with the proposed obligations in relation to alternative gas suppliers? If not, please provide reasons.</p>	<p>Provision of alternative gas supplies, in most situations, is just as effective in addressing loss of gas supply as demand curtailment. Alternative gas supply could be arranged through shipper contracts or through contracts between the emergency operator and gas suppliers. Such arrangements would be similar to balancing arrangements. Perhaps welded parties should be required to provide information on the maximum rate of gas supply available at each receipt point. The obligation of welded parties/producers to provide alternative gas supplies and who holds the rights to that gas would require clear definition. Under the MPOC approved nominations defines those rights but there would be no approved nominations for alternative gas supplies unless there was a relaxation of the rights to nominate supply of balancing gas.</p>
<p>Q33 Do you agree that a back up/reserve market is not merited? If not, please provide reasons.</p>	<p>In essence the backup market would be little different from the balancing gas arrangements. That requires information about gas quantities that can be supplied through demand reduction or increased supply and the price of that gas.</p> <p>Vector has undertaken to run a tender process to obtain supplies of balancing gas. The Balancing Agent under the MPOC should also be required to use a transparent process to obtain balancing gas supplies.</p> <p>Clarification of how obligations to provide gas in emergencies relate to obligations under other contracts will be required.</p>
<p>Q34 Do you agree that the Emergency Operator should have the ability to direct the supply of non-specification gas? If not, please provide reasons.</p>	<p>The Emergency Operator should not be able to direct the supply of non-specification gas. Supply of non-specification gas is likely to create risks that the Emergency Operator could not assess.</p>

Questions	Comments
Q35 Do you agree with the factors that an Emergency Operator must have regard to in making any such direction? If not, please provide reasons.	It would not be reasonable to expect the Emergency Operator to assess these risks.
Q36 Are there any other factors the Emergency Operator should have regard to in making any such direction? If so, please detail those additional factors.	The "risk associated with non-specification gas" covers everything.
Q37 Do you agree with the proposed approach to restoration? If not, please provide reasons.	The Emergency Operator should manage restoration of gas supplies.
Q38 Do you have a view on guidelines for establishing a restoration table? Please specify.	<p>The following kinds of information are likely to be required:</p> <ul style="list-style-type: none"> • maximum and minimum rates of gas usage for plant start-up; • maximum and minimum gas production rates for gas supplies during restart and stop of production.
Q39 Do you agree that a post-contingency formal reconciliation process is appropriate? If not, please provide reasons.	<p>A post-emergency formal reconciliation process is required to determine:</p> <ul style="list-style-type: none"> • who supplied gas during the emergency; • who took gas during the emergency; • who failed to comply with any emergency undertakings; • who failed to comply with the Emergency Operator's instructions; and • fees and charges payable related to the emergency.
Q40 Do you have any comments on the proposed groups of types of communications and related obligations? Are there any other communications protocols/information flows which you consider should be taken into account as part of this review?	The proposed categorisation of information seems unnecessary and would complicate communication processes. To ensure all industry participants are treated fairly and openly information related to emergencies should not be confidential.

Questions	Comments
<p>Q41 Do you agree with the proposed treatment of review, testing and documentation obligations under the NGOCP? If not, please provide reasons. If so, do you have any specific suggestions for how these should be dealt with?</p>	<p>Mandatory arrangements will require different arrangements to those contained in the NGOCP voluntary arrangements. Mandatory arrangements are likely to require clear definition of responsibility for the emergency arrangements and a formal procedure for changing the arrangements. Contact considers that the preferred approach is that either the GIC, if emergency arrangements are implemented through rules or regulations, or pipeline operators through their commercial operators, if emergency arrangements are implemented through TSAs, should be responsible for emergency arrangements.</p> <p>In either case the GIC should oversee development of those arrangements and should manage the change process under the same procedures as it manages changes to transmission arrangements. It may be appropriate for the GIC to issue guidelines for developing emergency arrangements in order to ensure consistent arrangements across pipelines. We do not see a need for a plethora of industry committees to manage mandatory emergency arrangements.</p>
<p>Q42 Please provide any comments on how best to set line pack limits and to review these over time.</p>	<p>Determination of emergency linepack seems relatively straightforward. Clearly it cannot exceed the volume of gas that, if released from the pipeline, would cause the pressure in the pipeline to fall beneath the minimum operating pressure. That volume will also be determined by the normal operating pressure of the pipeline. As indicated in its submission on the GIC Consultation Paper " Gas Access Transmission Review" Contact believes a more transparent determination of the trade-offs between the cost of increased compression and increased linepack is required.</p>
<p>Q43 Do you have views as to the appropriateness of any particular compliance regime? Please specify.</p>	<p>Contact considers further work is required to determine whether emergency arrangements should be enforced through transmission services agreements and interconnection agreements or through regulations. That determination will become clear when the implementation through transmission services agreements and interconnection agreements has been further tested.</p>

Questions	Comments
<p>Q44 What is your view of WMWG's comment on the Farrier-Swier Consulting recommendations?</p>	<p>Contact agrees that a wholesale market is unlikely to develop in time to provide a mechanism for pricing gas under emergency conditions. To avoid creation of emergencies to gain access to gas valuation of gas under emergency conditions should be consistent with arrangements for valuing gas under pipeline transmission arrangements. Other factors will require consideration such as:</p> <ul style="list-style-type: none"> • the opportunity cost of gas diverted to other uses because of an emergency; • the ability to make arrangements prior to emergencies to provide backup supplies in the event of an emergency; • the incentive necessary to encourage gas users to make arrangements prior to the emergency which minimises draw-down from emergency supply; • the financial impact of the valuation; • whether gas can be returned to replace gas taken under the emergency arrangements; • whether the price is transparent prior to a decision to take gas; and • whether the user used emergency gas supply to gain commercial reward. <p>Under the MPOC if a welded party is unable to off-take its scheduled quantity at its welded point on a day then the welded party may make a claim against the Incentives Pool based at the Daily incentive Price. The Daily Incentives Price is the higher of the Negative Mismatch Price and the gas price based on the electricity spot price for the day less the Positive Mismatch Price. Vector TSAs employ a similar approach.</p>
<p>Q45 Do you agree the ex post fair price determination is a suitable model for developing emergency pricing? If not, please provide a description of your preferred approach to emergency pricing.</p>	<p>Contact considers that the price should be predetermined as it is under the MPOC. Consideration of factors such as those identified in question 44 may mean the price is not the same as under the MPOC. Gas users should understand the financial implications of taking gas from an emergency arrangement when they make the decision to take that gas.</p>
<p>Q46 Do you agree these are a comprehensive set of principles and objectives? If not please provide your augmentable list(s) and reasoning.</p>	<p>The set of principles seems unnecessarily complex. The essential principle should be that if an industry participant loses gas entitlement as a result of another industry participant taking that gas during an emergency then the participant losing gas should receive compensation equal to the value of the lost gas. Failure to follow that principle creates opportunity to gain commercial advantage from an emergency. It is acknowledged that other factors such as those identified in the response to question 44 may require consideration. The party taking the gas should be liable to pay the compensation.</p> <p>Compensation payable to gas producers forced to supply emergency gas may be more difficult to address. Perhaps that could be determined through a tender process similar to the Vector process for balancing gas.</p>

Questions	Comments
<p>Q47 What is your view of the line pack being notionally allocated across shippers in proportion with their nominations? If you disagree, what would be your preferred approach and why?</p>	<p>Contact considers that linepack should be allocated in proportion to nominations but nominations must also reflect gas supply and transmission priorities. For example nominations associated with low priority GSAs should be adjusted before nominations associated with high priority GSAs. In respect of that we note that holders of Maui legacy gas have a prior call on Maui pipeline linepack. Similarly delivery under interruptible TSAs should be curtailed before deliveries under firm TSAs. Gas take linked to gas supply that was not interrupted during the emergency should not be curtailed because there should be no need to change the relevant nominations.</p> <p>This approach assumes that shippers should hold rights to linepack but there are other options which require further consideration. For example each plant or retailer could hold a defined right to linepack. As another option welded parties could hold the right to linepack. These options would allow the rights to linepack to be specified for each user and possibly allow a more planned approach to emergencies.</p>
<p>Q48 In the absence of a transparent, short-term market for gas in New Zealand, what is your view of using an independent expert to set emergency prices ex post?</p>	<p>Contact does not agree with this approach. Such a process would be expensive, inconsistent with MPOC and Vector arrangements and lacks certainty. Contact believes the price should be fixed prior to an emergency in a way similar to how the Daily Incentive Price is fixed under the MPOC.</p>
<p>Q49 If you disagree with the use of an independent expert, what should be used as the basis for determining emergency gas prices and how is this superior?</p>	<p>Refer response to question 48.</p>
<p>Q50 In the event of a pipeline interruption, how do you view the pro rata allocation of line pack among shippers as a means of consistently applying the emergency pricing framework? If you disagree, what alternative arrangement would you suggest and why?</p>	<p>In the event of a pipeline interruption (pipeline failure but not a failure of gas supply) deliveries of gas at all delivery points would be impacted if there were no receipt points downstream of the pipeline failure. In such circumstances the linepack downstream of the breakage should be allocated in proportion to nominations. In addition provision of firm and interruptible rights on the pipeline would need to be observed. If there was a receipt point downstream of the breakage then shippers taking that gas would not be impacted by the breakage.</p>
<p>Q51 Do you agree that for an emergency pricing framework to operate in a low-cost manner it will be essential for the overall emergency plan to be a mandatory arrangement (irrespective of whether that is implemented by rules, regulations or a multilateral contract)?</p>	<p>Contact agrees that the emergency arrangements must be mandatory.</p>
<p>Q52 What is your view of requiring parties to endeavour to settle their positions in the first instance by trading among themselves?</p>	<p>This is unnecessary and would needlessly delay the settlement process. Such arrangements can and should be made prior to an emergency. There would be little incentive to settle voluntarily at anything other than the pre-determined price under the emergency arrangements.</p>

Questions	Comments
Q53 Do you agree that there should be a limit below which parties are not able to enter the emergency-pricing framework?	If the price was predetermined and all participants had a straightforward right to compensation at that price there should be no need to set a de-minimis threshold. Setting such a threshold seems unfair.
Q54 What is your view of the price determination process? Do you agree that using a desktop study is the best approach?	Contact considers that the price should be set prior to the event. That means a desktop study would not be required. See Contact's response to question 48.
Q55 Please provide any other comments on the procedural steps.	Contact believes the methodology to determine the compensation price should be: <ul style="list-style-type: none"> • determined before the event; • as simple as possible; • consistent with MPOC and the equivalent Vector arrangements although not necessarily the same price.
Q56 What is your view of the appropriate body to undertake the role of determining emergency pricing whilst keeping the costs to a minimum?	Contact does not believe a body is required to determine emergency pricing. Gas market participants will be reluctant to have to spend time on justifying the value of gas after an emergency event. On most occasions the costs and revenues will be small as most emergencies are of short duration.