



**Submission to the Gas Industry Company
on the Gas Critical Contingency
Management Arrangements Short-form
Consultation Paper: May 2008**

From

Contact Energy Limited

28 May 2008

Introduction

Contact Energy Limited (“**Contact**”) welcomes the opportunity to comment on the Gas Industry Co’s (“**GIC**”) Gas Critical Contingency Management Arrangements Short-form Consultation Paper.

Contact generally supports the Gas Governance (Critical Contingency Management) Regulations 2008 (“**Regulations**”) that cover critical contingency events, if the GIC articulates a robust plan for addressing the arrangements in the pre-critical contingency period. We note that introducing these regulations will impact on arrangements in this pre-critical period and that co-ordination between the gas and electricity industries is important in this period.

Contact considers that gas storage should not be treated differently to gas provided by gas producers. A difference is created in the regulations as they stand.

This submission also contains our answers to the specific questions contained in the Short-form Consultation Paper. For any questions related to this submission, please contact:

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Pre-critical Contingency Arrangements

Contact is concerned that the introduction of the Regulations relies on normal commercial incentives under the Maui Pipeline Operating Code (“**MPOC**”) and Vector Transmission Code (“**VTC**”) to replace the phase 1 and early phase 2 arrangements under the National Gas Outage Contingency Plan (“**NGOCP**”).

As they stand, Contact believes the current normal commercial incentives under the MPOC and VTC are unsatisfactory to rely on to ensure security of supply in non-critical contingency situations. Contact believes that a process needs to be articulated for advancing the balancing arrangements, for example, and to outline what action the GIC would need to take if the industry cannot reach agreement on these arrangements. Without adequate arrangements in place to handle day-to-day market operations such as balancing, it is difficult to determine whether the arrangements for critical contingency management are appropriate.

Contact acknowledges that the GIC is currently reviewing the balancing arrangements, but believes that it should not be done in isolation of the critical contingency arrangements. In order for the NGOCP to be properly and fully replaced, both the balancing and critical contingency management arrangements need to be consistent and co-ordinated.

Gas Storage

Contact believes that gas storage should *not* be treated any differently under the Regulations to gas provided by gas producers. Under both the Regulations and section 43D(1) of the Gas Act 1992, the definition of a gas producer “*means a person who supplies gas that is transmitted on gas transmission or distribution pipelines.*” Clearly gas storage falls under this definition. To avoid doubt, Contact suggests that the definition of gas producer in the Regulations is amended to include gas storage.

Contact initially identified this issue in its submission to the Draft Government Policy Statement on Gas Governance in December 2007, and subsequently explicit references to gas storage facilities were removed.

Contact is concerned about the Critical Contingency Operator's ("**CCO**") obligation to "*maximise all available opportunities to increase upstream gas production and draw on gas storage...*" under regulation 50(1)(c). In Contact's view this regulation sets a very high standard for the CCO, and in order for it to maximise all available opportunities it must proactively carry out initiatives that gas producers or gas storage users may find difficult to resist, even if it may not be in their best commercial interests. Contact therefore seeks clarification as to what specifically the CCO's obligations under regulation 50(1)(c) are, particularly in relation to gas storage. Those obligations should then be reflected in the Service Provider Agreement for Critical Contingency Operator ("**SPACCO**").

Contact may enter into arrangements, including providing a form of insurance to parties to cover their positions before and/or during a critical contingency. A benefit of these types of storage arrangements is they can act to prevent the onset of a critical contingency. This supports Contact's identified need to have satisfactory co-ordination and compatible pre-critical contingency balancing arrangements in place.

Critical Contingency Price

As the GIC recognises, it is important that there is as much certainty as possible around the prices that are likely in a critical contingency. This is important to provide the right incentives to parties who may be able to invest in capacity that can then be made available during contingencies. In order to achieve this Contact recommends that the GIC carries out further quantitative analysis of likely critical contingency prices, using the pricing mechanisms proposed. This should include consideration of electricity market issues, such as the treatment of infeasible prices. Contact does not expect this to resolve

all issues in advance of an actual contingency, but rather to help inform participants about the likely decisions of the Industry Expert.

Critical Contingency Management Plan

Contact generally supports the processes to prepare, consult on and approve the critical contingency management plans (“**plans**”) as specified in regulations 26, 28, 29 and 30.

However, Contact believes that there is a need for greater transparency in the processes to ensure that industry participants are kept informed of developments in the plans. Industry participants are given an opportunity to submit on the plans that are *initially* proposed by the transmission system owners (“**TSOs**”), but several subsequent amendments could be made (as the plans are assessed by the industry expert, for example) that industry participants are left unaware of until the plans are gazetted. It seems unreasonable for industry participants to have such limited knowledge of the development of plans which could have a significant bearing on them in contingency events.

Contact suggests that any amendments to the proposed plans are published on the GIC’s website.

Determining and Resolving Contingency Imbalances

Contact believes that there is a need for consistency across all affected pipelines as to what period is used to calculate contingency imbalances. It is impractical in terms of the matching of costs if one TSO calculates contingency imbalances on a part-day basis and another TSO calculates it on a whole-day basis. Contact suggests that the Regulations are amended to ensure that there is consistency across all affected pipelines when determining contingency imbalances.

Regulation 69(3)(d) states that if there is evidence that a consumer did not comply with curtailment instructions, the quantities consumed of the relevant interconnected party, retailer or shipper must be adjusted when calculating its contingency imbalances. The contingency imbalances, when calculated for each party, will reflect non-compliance by consumers and leave those parties exposed to the critical contingency price, which would serve as a penalty. It is therefore unnecessary to adjust consumed quantities for non-compliance. In addition, the Regulations are unclear on how quantities consumed would be adjusted to reflect non-compliance. Contact seeks clarification on this matter.

Errors in Allocated Contingency Balances

Contact believes that the notification of errors in the calculation or allocation of a contingency imbalance should be consistent with the interim and final allocations as defined under the Gas (Downstream Reconciliation) Rules 2008. It is unreasonable for the industry body to not consider errors notified later than 6 months after the termination of the relevant critical contingency, given that final allocations would not have been carried out. Contact recommends that regulation 73A(2)(6) is deleted from the Regulations and that the issue is addressed in the plans.

Regulation 73A(2) refers to the industry body considering the materiality of differences between original contingency balances and corrected contingency imbalances after accounting for errors. However, the Regulations do not provide an indication as to what the industry body will consider to be material.

Contact suggests that the Regulations are amended to identify the criteria that will be used to determine the materiality of differences between the original and corrected contingency balances, and specify whether materiality will be quantified in terms of quantities or dollars.

Conclusion

Contact supports the GIC's proposed arrangements but believes that further work is required to:

- ensure that normal commercial incentives are effective at handling day to day market operations which would therefore as far as possible avoid the market entering a critical contingency situation;
- ensure that the critical contingency price produces an appropriate signal to the industry during a critical contingency;
- ensure consistency in the calculation of contingency imbalances between affected pipelines and other relevant regulations;
- ensure that gas storage is appropriately defined and dealt with in the Regulations.

Contact is happy to further explain the points made in this submission if it would assist the GIC.

Contact's Answers to Questions asked by the Consultation Paper

Question	Comment
Q1: Are the proposed threshold limits (or the ranges for those limits) set at an appropriate level?	No comment.
Q2: Do you consider the definitions of positive and negative contingency imbalances are appropriate? If not, please explain why.	<p>The definitions of negative and positive contingency imbalances should apply for gas producers and owners/operators/users of gas storage facilities given that these parties may not be interconnected parties or shippers as defined in the Regulations.</p> <p>The definition of a negative contingency imbalance for a shipper under regulation 69 (2) (a) (iii) states that the calculation would be carried out for the period of a critical contingency. However, the definitions of negative contingency imbalances for interconnected parties under regulations 69 (2) (a) (i) and 69 (2) (a) (ii) do not state that the calculation is to be carried out for the period of a critical contingency. The calculations for interconnected parties and shippers need to be consistent for the matching of costs.</p> <p>The same applies under the definitions of positive contingency imbalances under regulations 69 (2) (b) (i) to (iii).</p>
Q3: Do you agree that a process for correcting material errors in contingency imbalances is desirable?	See comments in the main body of the submission, under 'Errors in Allocated Contingency Imbalances'.
Q4: What is your view of the proposed two-stage process for setting the critical contingency price?	<p>Although there is opportunity to make submissions on the CCP there is no feedback as to the acceptance or otherwise of such a submission. Contact is concerned that the Industry Expert will make decisions without explanation.</p> <p>However, with a more transparent process for determining the CCP this may not be an issue.</p>
Q5: Do you consider the definition of regional critical contingency is sufficiently unambiguous? If not, how do think it should be improved?	Yes.

Question	Comment
Q6: Do you agree with the appeal process for the designation of consumers as minimal load consumers and essential service providers?	Yes.
Q7: Are there any other changes to the proposed Regulations that you wish to comment on?	See comments in the main body of the submission.
Q8: Are there any other areas related to implementation that should be included within the terms of reference of CMIG?	No comment.
Other Comments	<ul style="list-style-type: none"> • Contact believes that regulation 38(1)(a) is deficient in that the requirement for retailers' to supply their aggregate total annual consumption by gas gate does not differentiate between summer and winter consumption. This regulation should recognise the seasonal nature of gas usage. • Regulation 38 assumes the retailer will have 12 months of consumption information for each of its consumers, however for many consumers, this is not the case. Contact recommends that regulation 38 is amended to allow retailers to estimate a consumer's consumption if 12 months of historical consumption data is unavailable. • Clause 3(2) of Schedule 2 allows the restoration of gas supply to occur in a different order to the reverse of the curtailment order, if the TSO and CCO consider it best to achieve the purpose of the Regulations. Contact suggests that the distribution system owner also be consulted, given that it may require an restoration in a particular order or by geographic area to avoid damage to its distribution system. • Contact suggests that in the definition of "retailer", the phrase "that is connected to the transmission system" is deleted, so that all distribution networks including embedded networks are covered.