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28 May 2008

Mr I Dempster
Gas Industry Company
PO Box 10-464
Wellington

Dear Ian

**GAS CRITICAL CONTINGENCY MANAGEMENT ARRANGEMENTS –
SHORT-FORM CONSULTATION PAPER (MAY 2008)**

Thank you for the opportunity to comment on the May 2008 short form consultation paper. I am responding on behalf of Energy Direct NZ (EDNZ) the retail division of Wanganui Gas Limited (WGL).

EDNZ has some concerns relating to the curtailment schedule and critical contingency price.

Under the proposed regulations the Critical Contingency Operator would have the right to curtail in a different order to the specified curtailment bands.¹ An example was given that if there were concerns about the stability of electricity transmission system then this would be appropriate. EDNZ's preference is for the bands to be reviewed, and additional bands and/or further description added if necessary, rather than allowing discretion within the bands. If it is considered essential to maintain some gas-fired electricity generation, a decision should be made on whether some electricity generation should be reclassified as an essential service.

EDNZ would prefer to see the curtailment schedule organised so that all industrial consumers with alternative fuel capabilities are shed before those without alternatives. Currently industrial and commercial consumers with alternative fuel capacity over 10 TJ are shed after consumers over 15 TJ supplied directly from the transmission system without alternative fuel capability.

¹ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) Schedule 2, 3 (2), p.58

EDNZ also has concerns relating to how the critical contingency price is set. We do not agree that the critical contingency price should be based upon the electricity wholesale price during the contingency event. Natural Gas has many applications apart from electricity generation and we believe that it is inappropriate to solely, or even largely base the critical contingency price on the electricity wholesale price. The critical contingency price could be based on any of a range of commodity prices where natural gas is used in production.

The objective of the current National Gas Outage Contingency Plan (NGOCP) is to provide “a basis for operation in a predictable and orderly manner throughout a period of significant loss of gas supplies nationally or to a region. The purpose of the Plan is to identify the information and actions to prepare for and respond to the social and emergency situation so that the risks can be effectively managed. The Plan links with other contingency arrangements so that the economic impact is minimised and alternative supplies are utilised appropriately until the gas supply is restored.”² EDNZ believes that it would be appropriate to take these objectives into consideration when setting the critical contingency price, along with the objective of the Draft Gas Governance (Critical Contingency Management) Regulations 2008, which is “to achieve the effective handling of critical gas outages and other security of supply contingencies without compromising the long-term security of supply.”³

EDNZ assumes that maintaining gas supply to small and residential consumers is an objective of the contingency arrangements as these consumers are not subject to the curtailment arrangements. Basing the critical contingency price upon the wholesale electricity price exposes gas retailers who supply this section of the market but are not electricity generators to extreme risk, and the economic impact of the contingency arrangements will not be minimised.

EDNZ believes that it would be appropriate to set a cap for the critical contingency price, particularly if the electricity wholesale price is to be a significant factor in setting it. Even with a cap it would still be possible to achieve the critical contingency prices objectives of:

- Avoiding shippers instructing their suppliers to reduce supply when their consumers have been curtailed;
- Signalling that gas supply is scarce and valuable during a contingency event; and
- Providing incentives to make alternative arrangements to minimise financial repercussions of a critical contingency.⁴

Thank you for the opportunity to comment on this consultation paper. If you would like to discuss our comments further please contact me by email at tara.gannon@energydirectnz.co.nz or by phone on DDI 06 349 2055. Alternatively you

² National Gas Contingency Outage Plan (Version 2.3 – 1 December 2005) 1.2.1, p.11

³ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 3, p.5

⁴ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 63, p.45

can contact our Chief Executive, Trevor Goodwin, by email at trevor.goodwin@wanganuigas.co.nz or by phone on 06 349 0120.

Yours sincerely

Tara Gannon

Tara Gannon
Energy Trading Supervisor

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Submission on the Gas Critical Contingency Management Arrangements – Short-form Consultation Paper (May 2008)

QUESTION	COMMENT
<p>Q1: Are the proposed threshold limits (or the ranges for those limits) set at an appropriate level?</p>	<p>The thresholds appear to be reasonable and would allow us time to contact consumers to arrange curtailment. As in some cases shut down could take some time we believe a lower limit of at least 3 hours would be appropriate.</p> <p>EDNZ has consumers on gates that have not been listed in Schedule 1 Critical Contingency Threshold Limits. We would like to see a critical contingency called for these gates earlier than when a "breach of minimum operating pressure is imminent." We understand that thresholds for these gates will be included in the individual Critical Contingency Management Plans (CCMPs).</p>
<p>Q2: Do you consider the definitions of positive and negative contingency imbalances are appropriate? If not, please explain why.</p>	<p>Yes.</p> <p>There is a typo in the definition of negative contingency imbalance: in the last line of (2)(a)(ii), "(iii)" appears and should be deleted as it appears again on the next line.</p>
<p>Q3: Do you agree that a process for correcting material errors in contingency imbalances is desirable?</p>	<p>Yes, EDNZ agrees that there does need to be a process to correct material errors in contingency imbalances. EDNZ believes that "material imbalance" should be defined, preferably as a percentage of the total allocation for the period affected.</p> <p>The proposed new allocation and reconciliation arrangements allow wash ups until 12 months after the period to be allocated. EDNZ suggests that the period for correcting material errors should be consistent with the new allocation and reconciliation process.</p>
<p>Q4: What is your view of the proposed two stage process for setting the critical contingency price?</p>	<p>EDNZ agrees that the chance to offer feedback on an initial contingency price is an improvement to the price setting process.</p> <p>EDNZ does have concerns relating to how the critical contingency price is set. We do not agree that the critical contingency price should be based upon prices in the electricity wholesale market if gas-fired electricity generation plant has been curtailed, or wholesale electricity prices and the economic cost of lost gas supply for curtailed consumers if gas-fired electricity generation is unaffected⁵. Natural Gas has many applications apart from electricity generation and we believe that it is inappropriate to solely, or even largely base the critical contingency price on the electricity wholesale price. The critical contingency price could be based on any of a range of commodity prices where natural gas is used in production.</p>

⁵ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 67 (2), p.47

QUESTION	COMMENT
<p>Q5: Do you consider the definition of regional critical contingency is sufficiently unambiguous? If not, how do think it should be improved?</p>	<p>EDNZ believes that it would be appropriate to set a cap for the critical contingency price, particularly if the electricity wholesale price is to be a significant factor in setting it. Even with a cap it would still be possible to achieve the critical contingency prices objectives of:</p> <ul style="list-style-type: none"> • Avoiding shippers instructing their suppliers to reduce supply when their consumers have been curtailed • Signal that gas supply is scarce and valuable during a contingency event; and • Provide incentives to make alternative arrangements to minimise financial repercussions of a critical contingency.⁶ <p>EDNZ assumes that maintaining gas supply to small and residential consumers is an objective of the contingency arrangements as these consumers are not subject to the curtailment arrangements. Basing the critical contingency price upon the wholesale electricity price exposes gas retailers who supply this section of the market but are not electricity generators to extreme risk.</p> <p>If there was a cap, we would still be exposed to risk which we would attempt to manage, but the risk would not be so great that it would be preferable for us to disconnect all our residential consumers in a contingency event rather than risk paying a critical contingency price based upon the electricity wholesale market.</p> <p>There is a typo in 67(1)(2)(b) it refers to subclause (3)(a) which does not exist.</p> <p>There may be some cases where a contingency event may not meet the definition of a regional contingency but is not sufficiently large to justify a national critical contingency and the associated contingency imbalance provisions. For example, if the pipeline was affected at Foxton, then the Wellington, Kapiti and Horowhenua regions would be affected but this may not have significant impact on other regions.</p> <p>It would be beneficial to make the definition more specific: either detailing points on the transmission map; or listing the points which if affected on their own would lead to a critical contingency event.</p>

⁶ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 63, p.45

QUESTION	COMMENT
<p>Q6: Do you agree with the appeal process for the designation of consumers as minimal load consumers and essential service providers?</p>	<p>Appeal process Yes, the appeal process appears to be reasonable.</p> <p>There is a typo in the wording of 43A(2) it reads "...review the decision by the retailer <u>or</u> approve or decline the application by the consumer..." It should read "...review the decision by the retailer <u>to</u> approve or decline the application by the consumer..."</p> <p>Essential Service Providers To be classified as an essential service provider under the draft regulations the consumer must provide services which further the objectives set out in clause 59(4) of the Civil Defence Emergency Management Plan Order 2005.⁷</p> <p>The Civil Defence Emergency Management Act 2002 does not specifically list essential services, it states:</p> <ul style="list-style-type: none"> "(a) preservation of life; and (b) prevention of escalation of the emergency; and (c) maintenance of law and order; and (d) care of sick, injured, and dependent people (first aid, medical, and evacuation facilities, and welfare); and (e) provision of essential services (lifeline utilities, food, shelter, public information, and media); and (f) preservation of governance (continuity of the machinery of government); and (g) asset protection, including buildings and historic heritage assets (including structures, areas, landscapes, archeological sites, and wahi tapu); and (h) protection of natural and physical resources (to the extent reasonably possible in the circumstances); and (i) preservation of economic activity."⁸ <p>There is some ambiguity within the categories of essential service providers. For instance which consumers should be included under (e) food? EDNZ believes that further guidance on which consumers should be classified as essential service providers would be useful.</p>

⁷ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 42(3)(a), p.34

⁸ National Civil Defence Emergency Management Plan Order 2005 (14 November 2005) 59(4) p.47-8

QUESTION	COMMENT
	<p>The categories in the Civil defence Emergency Management Act are obviously appropriate in the event of a civil defence emergency. We should also consider whether they are all appropriate in an event where only gas is affected.</p> <p>42(3)(b) of the draft regulations does not cover consumers who have not had gas for at least one year prior to their application. EDNZ believes it would be appropriate to include "42(3)(c) the consumer can demonstrate that its annual gas consumption will be greater than 2 terajoules in the 12-month period immediately after the consumer's application."</p> <p>Minimal Load Consumers The definition of minimal load is restricted to serious plant or environmental damage. EDNZ believes that this definition should be expanded to include loss of product. Some of our consumers would require a minimal load to finish processing product that they already have in process.</p> <p>Schedule 2 Curtailment Arrangements Under the proposed regulations the Critical Contingency Operator would have the right to curtail in a different order to the specified curtailment bands to further the objectives set out in the curtailment arrangements.⁹ An example was given that if there were concerns about the stability of electricity transmission system then this would be appropriate.</p> <p>EDNZ believes it would be better to review the bands closely, or if necessary add additional bands and/or further description and follow the prescribed order. It is important for consumers to feel that load shedding arrangements are fair, and everyone in a consumer group is being treated in the same way. There were many issues with consumers switching back on their gas supplies during the Pirongia outage due to perceived unfairness.</p> <p>If it is considered essential to maintain some gas-fired electricity generation, this should be reviewed and a decision made on whether some electricity generation should be reclassified as an essential service.</p> <p>EDNZ would prefer to see the curtailment schedule organised so that all industrial consumers with alternative fuel capabilities are shed before those without alternatives. Currently industrial and commercial consumers with alternative fuel capacity over 10 TJ</p>
<p>Q7 Are there any other changes to the proposed Regulations that you wish to comment on?</p>	

⁹ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) Schedule 2, 3 (2), p.58

QUESTION	COMMENT
	<p>are shed after consumers over 15 TJ supplied directly from the transmission system without alternative fuel capability.</p> <p>15 Development Fee¹⁰ and 16 How and when development fee must be paid¹¹ As stated in EDNZ's submission of 7 February 2008 we would prefer all development and ongoing fees to be incorporated into the Gas Industry Company levy. This will allow us to pass the charges on to our retail consumers as a separate and identifiable fee.</p> <p>It would be worthwhile to complete a thorough proofread of the regulations, a number of minor typos were noticed during our review.</p>
<p>Q8 Are there any other areas related to implementation that should be included within the terms of reference of CMIG?</p>	<p>No.</p>

¹⁰ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 15, p.14

¹¹ Gas Governance (Critical Contingency Management) Regulations 2008 (Draft 14 May 2008) 16, p.14