

Submission

Statement of proposal for amending the Critical Contingency Management Regulations

Summary

Fonterra welcomes the opportunity to provide feedback on the Statement of Proposal for amending the Critical Contingency Management Regulations paper.

Fonterra is a co-operative owned by around 10,000 New Zealand farmers, and as such we take a long-term view of both our industry and our country. We are New Zealand's largest co-operative with 30 manufacturing sites spread across New Zealand with more than 10,000 staff working for the Co-operative in regional New Zealand.

Natural gas is a critical energy source for 18 of our North Island manufacturing sites. Processing our farmers' milk within 12-hours of collection is vital to avoid the significant environmental damage from disposing milk on farm. The significant environmental and economic damage that results from an outage remains long after the gas has been restored.

As our 18 sites are located from Whangārei in the north down to Pahiatua in the south, we are the only major gas user that is exposed to the greatest risk of a gas outage with each kilometre of pipeline to get to our sites.

We have installed diesel fuel back-up at four of our sites to assist with mitigating some of the gas outage risk from various regional scenarios. This investment has been made based upon a range of factors, including how much could be utilised without jeopardising New Zealand's diesel stocks.

Fonterra considers that greater prioritisation of gas supply needs to be given to the dairy industry, especially during the peak milk months (September to December), to minimise both environmental and economic damage that would occur from a sustained gas outage. Furthermore, priority to dairy processing should ensure that in a critical outage event, a safe and environmentally secure shut down with the ability to complete critical processing could occur.

Fonterra is considering whether or not to apply again for critical processing designation to allow all of our manufacturing plants that use gas to shut down in an orderly manner, followed by a rapid restart when permitted. A key consideration for this application is if the cost of following the critical designation process delivers a workable benefit, and how likely it would be to be enacted in various outage scenarios. We look forward to engaging with the Gas Industry Company (GIC) on this further.

As a member of the Major Gas Users' Group (MGUG), please refer to their submission where we have not provided comments.

If there is any further information that you would like from Fonterra regarding this submission, please do not hesitate to contact Tony Oosten, Energy manager.

Responses to proposals

Question	Comment
1. Do you agree with our view that, in relation to the proposed amendments, there are no other reasonably practicable options for achieving the regulatory objective other than an amendment to the CCM Regulations? If not, why not?	The current Gas Act and GPS in setting the CCM regulations does not direct the CCO to consider the environmental impact when managing a CCM event. Thankfully in the October 2011 CCM event the environmental impact of on farm milk disposal was recognised by the CCO. We would like to see that consideration of environmental impact is included in the decision process for gas allocation during an event within curtailed bands as deemed appropriate by the CCO.
2. Do you agree with rewording regulation 71 to remove 71(3)(a) as described above?	Fonterra notes that with the potential exit of the Tiwai smelter, it is likely that the number of electricity generation plants will decrease. This strengthens the case for removing regulation 71(3)(a) as the electricity spot market price will have less connection to gas pricing and electricity pricing will reflect the value of hydro.
3. Do you agree with adding a floor price to the calculation of the contingency price? Do you agree with the proposed calculation method, using VWAP for the 7 days prior to and including the critical contingency day?	No additional comment.
4. Are there other pricing benchmarks that should be used in setting the critical contingency price?	No additional comment.
5. Do you agree with replacing the criminal penalties with civil pecuniary penalties for non-industry participants as described above? If not, why not?	No additional comment.
6. Do you agree that the distinction between large consumers that have alternative fuel capability and those that do not should be removed from the curtailment bands? Why or why not?	No additional comment.
7. Do you agree with reserving band 2 for large consumers who are electricity generators who export electricity to the grid? If not, what alternative way would you suggest for defining bands 1 and 2?	<p>Fonterra believes that the Te Rapa co-generation should be differentiated further in band 2 or moved to band 3, as this will recognise the generation of electricity is secondary to the generation of steam for milk processing and effectively there are two levels of gas consumption at Te Rapa. For the majority of the year the Te Rapa cogeneration plant is predominately operating to supply steam and electricity to meet the dairy plant requirements.</p> <p>If this cannot be differentiated further, then we agree with the view to put all electricity generators into band 2 so that the CCO has the flexibility via a rules based/ flow chart system which could easily be designed that is effective, economically efficient, and transparent to manage the allocation of gas in band 2.</p>
8. Do you agree that the lower threshold of the curtailment band for the largest consumers should be changed to	No additional comment.

yearly consumption? Why or why not?	
9. Do you agree with the proposed 4,000 TJ per year threshold? Is there a different threshold you consider would work better?	No additional comment.
10. Do you agree with an annual threshold and a daily consumption threshold for a curtailment band of gas thermal generation plant?	No additional comment.
11. Do you agree with the proposal to create curtailment band 3A as described above? Do you agree with an annual consumption threshold of 300 TJ? Why or why not?	Fonterra also suggests consideration is given that one of the three new sub bands of band 3 be the last off and is specifically for dairy plants thereby reflecting the perishable nature of the raw milk versus the environmental impact from disposal. The creation of a dairy sub band 3 would bring together gas users that have a very distinct usage profile which is counter cyclical to the electricity and residential winter high profiles. There is effectively only three months in the year when all milk processing capacity is fully committed, and any processing outage would result in environmental impact. Also, to make special consideration for the Contact Te Rapa plant as a cogeneration plant specifically for steam generation required for the processing of milk like the rest of our sites in band 3.
12. Do you have any other comments about the proposed changes to the curtailment bands?	The CCO has some discretion within each band for both curtailment of users, as well as how gas use to a band is restored. How gas is restored to bands can be as equally important to how gas is curtailed to achieve the goals of the CCM specifically around minimisation of economic and environmental impacts.
13. Do you agree that guidance is required on assigning consumers to curtailment bands? Do you agree with the concept of an average over the previous three years for the annual threshold volumes?	No additional comment.
14. Do you agree with using three years to determine whether thermal generators use at least 15 TJ per day from time to time?	No additional comment.
15. Do you agree with amending the definition of "consumer installation" to include a gas installation with multiple points of connection to a distribution system or transmission system? Why or why not?	The situation of multiple ICPs needs to be considered on a case by case basis. As noted by MGUG our Whareroa site has multiple ICP's some are associated with the cogeneration plant which is supplied by a private pipeline where the other ICP is for direct process use of gas. To this end if ICP's are going to be combined then discussion with the impact parties must occur and a process to challenge the decision developed.
16. Do you agree that gas wholesalers should be responsible for issuing critical contingency notices to their retailers and for receiving and forwarding compliance updates to the transmission system owner? If not, can you suggest an alternative way	No additional comment.

to ensure that non-shipper retailers and their consumers receive critical contingency directions and provide compliance updates?	
17. Do you agree with this assessment and proposals? Why or why not?	No additional comment.
18. Do you agree with the changes to the curtailment order as outlined in Table 4? Why or why not?	<p>No, Fonterra will be considering whether or not to apply again for critical processing designation to allow our plants to shut down in an orderly manner that allows for rapid restart.</p> <p>It is therefore predicated that the cost of following the critical designation process for 18 sites actually delivers a workable benefit, the risk of being told to not follow the agreed ramp down negates the value of the critical processing designation. History has shown that the CCO will typically curtail more bands than what ultimately is required to stabilise the system, this strengthens the case not to curtail critical processing designated sites before they have completed their ramp down. If a user with a critical processing designation cannot use the ramp down in an event it negates the value in obtaining a critical processing designation.</p>
19. Do you agree with the proposed changes regarding information provided to the CCO? Why or why not?	As per the CCM regulations section 38 (1A)(b)(ii) the transmission system operator has to provide to the CCO real time data which they have down to the welded point level and therefore real time modelling that takes in to account the 0 to 3 bands gas usage and the volume of lost production or transmission thereby providing guidance in real time to the appropriate level of curtailment. The TSO currently has significant real time gas usage information as shown on OATIS by welded point.
20. With respect to CCMPs, do you agree with the proposed changes to contact detail requirements as outlined above?	No additional comment.
21. Do you agree with the proposed CCMP amendment procedures outlined above? Why or why not?	No additional comment.
22. Do you agree with allowing a go-live date for a proposed amended CCMP?	No additional comment.
23. Do you agree with deleting the requirement in r74 that refers to the DR Rules? If not, why not?	No additional comment.
24. Do you agree with the proposal for retailers to provide their retailer curtailment plans to the industry body on an annual basis? Why or why not? Would 1 March be an appropriate submission deadline?	No additional comment.
25. Do you agree that incorporating retailer curtailment plans into the annual exercise would be an effective way to ensure their effectiveness and currency? If not, why not?	No additional comment.
26. Do you have other suggestions for ways to improve retailer curtailment plans?	No additional comment.

27. Do you agree that retailers should be required to participate in annual test exercises? If not, why not?	No additional comment.
28. Do you agree that the scope of the communications plan should include communications that occur in monitoring the system prior to a critical contingency and in declaring a critical contingency?	No additional comment.
29. Do you agree with the proposed changes for critical care and essential services designations? Why or why not?	No additional comment.
30. Do you agree with the proposed changes to the critical contingency threshold limits detailed in Schedule 1? Why or why not?	No additional comment.
31. Do you agree with this amendment to the definition of retailer?	No additional comment.
32. Do you agree with the proposal to amend regulation 48 to allow for short-term transient breaches of a pressure threshold?	No additional comment.
33. Do you agree with the proposal to allow for planned outages not triggering a critical contingency?	No additional comment.
34. Do you agree with the proposal to amend regulation 54A to include unexpected interruptions to asset operation? Do you have alternate suggestions for how the obligation should be worded?	No additional comment.
35. Do you agree that retailers and large consumers should be required to use the specified compliance reporting template?	No additional comment.
36. Do you agree with this proposal?	No additional comment.
37. Do you agree with these proposed amendments? Why or why not?	No additional comment.
38. Do you agree with these update amendments? Are there any that you feel are not warranted or should be changed? Are there other updates that should be included?	No additional comment.
39. Do you agree with the proposed minor amendments? Are there any you feel should be added or amended?	No additional comment.

ENDS