

31 August 2012

Ian Wilson
The Gas Industry Company
Level 8, The Todd Building
95 Customhouse Quay
Wellington 6143

Dear Ian,

Re: Submission to Gas Governance Issues in Quality: Investigation Update

1. This following submission is made on behalf of the Major Gas Users Group (MGUG):
 - a. Fonterra Cooperative Ltd
 - b. Carter Holt Harvey Ltd
 - c. New Zealand Steel Ltd
 - d. Refining New Zealand Ltd
 - e. Ballance Agri-Nutrients Ltd
2. 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.

General comments

3. The MGUG's comments are based on the evidence and discussion within the Investigation Update. The investigation process for this report suggests that it was done by questionnaire with clarifications to responses sought by telephone. The report doesn't clarify how the responses were verified and the inherent assumption is that the responses could be taken as accurate at face value.
4. The reason for making this statement is that a particular concern of the MGUG from the initial consultation was the apparent lack of auditing by the Transmission Systems Operator (TSO) on interconnected parties' adherence to obligations under their Interconnection Agreement (ICA) and any agreed variation to these. The MGUG viewed this lack of Quality Assurance by the TSO as an unacceptable practice for a party acting under Reasonable and Prudent Operator (RPO) obligations. The current investigation update casts no further light on this matter and in fact the investigation method seems to reinforce the view that the TSO has limited idea on what the control, monitoring, and reporting practices of the interconnected parties are despite placing extensive and enforceable obligations on those parties.
5. Our overall concern remains that the TSO sees its role in relation to assuring gas quality in its system as largely passive other than monitoring parameters in its own pipeline required for billing purposes (Wobbe Index, relative density, CO2 and N2). The assumption that the RPO obligations of interconnected parties do not require the TSO to

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verify control, monitor, and report appear to the MGUG to be neither reasonable nor prudent practice by the TSO.

6. This avoidance is in marked contrast to other jurisdictions. Appendix B of the original issues paper "Gas Governance Issues in Quality: Issues Paper" (7 September 2010) provided a number of international comparisons including Denmark and Australia. In both these markets, selected because of the close characteristics to the New Zealand market, the TSO is responsible for gas quality in its system. We fail to see why this responsibility is avoided in New Zealand particularly in relation to difficulties downstream parties face in their ability to hold anyone to account for potential damage created by delivery of non-specification gas.
7. Our view is that the TSO provides a service to deliver gas to a prescribed physical and chemical quality. This responsibility needs to be matched with a clear accountability for damage caused by non-specification gas delivered by the TSO.

Yours sincerely

A handwritten signature in black ink, appearing to read "J. Hale". The signature is fluid and cursive, with a large initial "J" and a stylized "Hale".

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

Response to specific questions

QUESTION	COMMENT
Question 1: As far as you are aware, are the requirements and current practices for controlling gas quality described accurately? If not, please explain why not.	The requirements and current practices as described reflect our understanding.
Question 2: As far as you are aware, are the requirements and current practices for monitoring gas quality described accurately? If not, please explain why not.	We assume that the monitoring requirements and practices are accurately reflected in table 3.
Question 3: As far as you are aware, are the requirements and current practices for reporting gas quality described accurately? If not, please explain why not.	The requirements and current practices as described reflect our understanding.
Question 4: Do you have any comments on the discussion in relation to the control of gas quality?	We remain concerned that the TSO may not necessarily verify adherence to ICA or MPOC requirements. We base this observation on the lack of information on Greymouth Petroleum Limited (GPL's) Kaimiro, Turangi, and Kowhai sites. In absence of a response from GPL the TSO should have been able to confirm that those sites adhere to requirements and practices.

<p>Question 5: Do you have any comments on the discussion in relation to the monitoring of gas quality?</p>	<p>We would note two points in relation to the discussion on monitoring:</p> <ol style="list-style-type: none"> 1. The responses on practices were collected by questionnaire and the responses may not have been verified against evidence – i.e. audit. Although we do not wish to cast aspersions on the veracity of the responses it simply reinforces our concern that the TSO does not seem to take any responsibility for QA on the transmission system and that it may simply rely on counterparties to the ICA to comply without reinforcing the obligations with prudent oversight. 2. We also note the significant variation in adherence to monitoring of various parameters where these are either not measured or measured less frequently than prescribed by either the MPOC or Vector ICA. Although there may be an agreed variation to the ICA we are concerned that the investigation could only conclude that reduced level of monitoring “have <i>no doubt</i> been agreed between the TSOs and interconnected parties¹.” Where monitoring is less than the minimum there should at least have been evidence that this was indeed accepted by the TSO.
<p>Question 6: Do you have any comments on the discussion in relation to the reporting of gas quality?</p>	<p>We note the report’s comments in relation to lack of reporting on parameters other than those necessary to bill the customer and reinforce our concerns expressed in response to question 5. We also note and share the report’s concern about the lack of protocols and audits on reporting of non-specification gas.</p>
<p>Question 7: Do you think we have correctly identified the opportunities for improvement?</p>	<p>The MGUG agrees with the need to improve transparency to stakeholders on compliance with the Safety Regulations, excursions from specification, and agreements on reduced monitoring.</p> <p>The area of improvement that hasn’t been addressed is the ownership and accountability that the TSO should have for quality assurance on the transmission system. It is not acceptable in the view of the MGUG that a TSO which places obligations on interconnected parties to deliver gas to a certain minimum quality standard and provides an implicit assurance to shippers that that it will ensure that any contract it enters with an interconnected party requires the gas to meet the quality standard (s12.1 of the VTC), does not exercise its own rights to inspection for ensuring compliance on a regular basis or take any responsibility for delivery of non-specification gas.</p>

¹ S5.3, p30

Question 8: Do you agree with our recommendations in relation to gas quality?

The MGUG supports the four recommendations.

In addition the MGUG recommends that Vector develops and implements its own audit procedures for ensuring compliance with ICAs including monitoring and reporting, and that its policies, procedures and audit results in relation to these are made publicly available under OATIS publications.