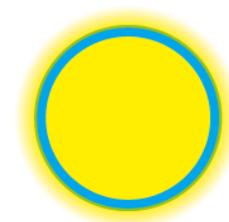


31 August 2012

Ian Dempster
Gas Industry Company
PO Box 10 646
Wellington

[Submitted via Gas Industry Co website]



Dear Ian,

Powerco Submission on Gas Governance Issues in Quality: Investigation Update Paper

Introduction

1. Powerco welcomes the opportunity to submit on the Gas Industry Co's (GIC) consultation document, *Gas Governance Issues in Quality: Investigation Update* (Update Paper), published on 1 August 2012.
2. We support the GIC's continued commitment to this work stream as we strongly believe that having robust and clear arrangements in place to reduce the risk of gas quality related interruptions occurring is of high importance. We are currently concerned that the industry still does not appreciate the real risk that exists of a major outage occurring on the network due to a gas quality issue.
3. This letter summarises Powerco's thoughts on the subject of arrangements for the management of gas quality. Our responses to the consultation questions in the submission template are in Annex A. None of the content of this letter or Annex A are confidential.

Comments on the Update Paper and recommendations

4. Powerco is broadly supportive of the recommendations made by the GIC, and believe that they address the issues identified in the Update Paper, notably around the transparency of monitoring results. However, we feel that the recommendations made do not fully address all the associated issues with gas quality, and as such, we question if the GIC's regulatory objective on gas quality (stated below) will be met.

To ensure industry arrangements provide for gas quality in a manner that facilitates the safe, efficient, and reliable delivery of gas; and provide for risks relating to security of supply to be properly and efficiently managed by those parties best able to manage such risks.

5. Currently, the focus of the gas quality work has fallen on the issues of liability and the ability of retailers to meet their requirements under the Gas (Safety and Measurement) Regulations 2010 (Safety Regulations). While we support the work to address these areas, we question whether any of the proposed improvement opportunities or recommendations in the Update Paper will materially improve the reliability of gas or reduce the risks relating to security of supply. Therefore, we would like to draw attention back to the development of arrangements that will address the real risk of disruptions to the supply of gas to consumers due to non-specification gas.

Retailer Gas Information Exchange Protocol

6. As identified in the Update Paper, the 'Gas Information Exchange Protocol' (the Protocol) being promoted by gas retailers and recommended by the GIC, potentially provides a low cost and industry led opportunity to develop a solution to a number of the gas quality concerns without regulatory intervention. However, while the Protocol is conceptually fine, it has been designed for the specific purpose of assisting retailers meet their obligations in respect of the Safety Regulations. It therefore has information gaps, such as the reporting of contaminants, that need addressing before it could be used as a full solution for addressing all the gas quality issues identified in the GIC's earlier 2010 consultation, Gas Governance Issues in Quality: Issues Paper.
7. Retailer's willingness to review the scope of the Protocol will play a significant factor in deciding the appropriateness of using the Protocol as a solution. If the scope does need addressing it may require the leadership of the GIC as the industry body to facilitate the re-scoping of the Protocol or the investigation into the development of an alternative solution.
8. As proposed in the Update Paper, if the Protocol does not provide a satisfactory outcome for interested parties and alternative agreements can't be agreed between individual parties, we support the GIC recommendation to consider continuing with the proposed initiatives from the 2011 GIC paper entitled Gas Governance Issues in Quality: Issues Paper Analysis of Submissions.

Monitoring of contaminants

9. The Update Paper indicates that gas characteristics and components are closely controlled and monitored from the point production to injecting into the transmission system, and apart from required improvements in reporting transparency and following of regulatory and contractual requirements, no significant further work in this area is required based on current knowledge. However one area that the Update Paper identifies as requiring further work but does not provide clear improvement opportunities or recommendations for is the reporting of gas contaminants.
10. A significant step forward in meeting the gas quality regulatory objective of improving reliability and system security would be to develop arrangements regarding the sharing of gas contaminant reporting beyond the current requirements. We would expect any Protocol or GIC recommended solution to include this, as currently there are no interconnection agreements between transmission system operators (TSO's) and network system operators (NSO's) to leverage off or incentives to voluntarily encourage sharing.

11. The Gas Specification does require all parties in the supply chain to notify others if they suspect that non-specification gas has entered the gas system, but as stated in *Section 5.4 Discussion of findings in relation to reporting* the GIC suspects that not all events are reported to all stakeholders. The result is that Powerco has to make the assumption that no potential gas contaminant issues exist that could cause customer interruptions, when through greater information sharing we could reduce risks by taking preventative steps if and when required.

Conclusion

12. Powerco recognises the work around gas quality is of significant value to the industry and supports the GIC's continued work in this area. Additionally, we support the development of a Protocol and believe that benefits exist from holding a GIC led industry forum to discuss its development.
13. Thank you for the opportunity to make this submission. If the GIC wishes to discuss any aspects of this submission further, please do not hesitate in contacting me on 06 757 3397 or oliver.vincent@powerco.co.nz.

Yours sincerely,



Oliver Vincent
Regulatory Analyst
Powerco

Annex A

QUESTION	COMMENT
<p>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.</p>	<p>Yes, <i>Section 2.1 Requirement to control gas quality</i> accurately reflects the requirements regarding gas quality by referring to the Safety Regulations and the New Zealand Standard: Specification for reticulated natural gas NZS 5442:2008 (the Gas Specification). As a network system operator, Powerco is not involved in the production of gas but the summary of current gas quality control practices described in <i>Section 2.2</i> of the Update Paper are as we understand them to be.</p>
<p>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.</p>	<p>Yes, the requirements of testing (monitoring) detailed in the Gas Specification have been accurately reflected in <i>Section 3.1 Requirement to monitor gas quality</i>. We do not have a clear enough understanding of current Interconnection Agreements, the Maui Pipeline Operating Code (MPOC) or the Vector Transmission Code (VTC) to be able to make any comments of value regarding these. We are also unable to provide any substantive comments on current practices as we have limited visibility and knowledge of what is and isn't being monitored above what is available on Open Access Transmission Information System (OATIS).</p>
<p>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.</p>	<p>Yes, other than reporting requirements that are provided for in individual contractual arrangements between parties and the Gas Specification requirement to notify others if a supply chain party suspects that non-specification gas has entered the gas system, there are no reporting requirements for gas characteristics and components or contamination. As Powerco has no contractual arrangements with any of the parties that undertake gas quality monitoring or reporting, we only have visibility of gas quality monitoring through OATIS and if we are notified that non-specification gas may have entered the gas system. As compliance with monitoring requirements is not shared with all parties in the gas supply chain we are unable to comment on if parties are meeting all their monitoring or reporting obligations. We are permanently in the uncomfortable position of having to assume that gas entering the distribution system is of correct quality and that upstream parties are sharing information regarding non-specification gas.</p>

<p>Question 4: Do you have any comments on the discussion in relation to the control of gas quality?</p>	<p>We agree with the Update Papers findings as described in <i>Section 5.2 Discussion of findings in relation to control</i>.</p> <p>The Update Paper and previous GIC gas quality work has accurately detailed the control requirements provided in the Safety Regulations around compliance with Gas Specification for gas characteristics, components and contaminants.</p> <p>Due to confidential contractual agreements, potential for various interpretations of clauses in the Gas Specification and a lack of visibility of control and monitoring compliance information, it is not possible for Powerco to comment on whether the Gas Specification provides adequate level of guidance to ensure the required level of gas quality.</p> <p>The Update Paper comments that some arrangements in the physical supply chain are undocumented and uses agreements between Vector’s transmission pipelines and downstream distribution networks as an example. Powerco would like to clarify that while no interconnection arrangements exist between Powerco and Vector specific arrangements do exist, such as agreements on gas pressure at interconnection points. The result of only having a contractual arrangements with retailers and not the transmission pipeline owners significantly contributes to us having to make the assumption that gas flowing from the transmission network to our distribution network is of specification.</p>
<p>Question 5: Do you have any comments on the discussion in relation to the monitoring of gas quality?</p>	<p>No comment</p>

Question 6: Do you have any comments on the discussion in relation to the reporting of gas quality?

The majority of the issues that resulted in the GIC to initiating the gas quality programme of work, are not around the control or monitoring requirements but industry participants believing there is a lack of visibility of gas quality monitoring results and related agreements i.e. excursions and reduced monitoring. As stated in the Update Paper, the complex contractual arrangements and lack of clear regulatory requirements around reporting and compliance has significantly contributed to the development of the current situation. The absence of visibility has led to retailers looking at a solution to provide the assurances they need to meet their own obligations and others parties having a lack of confidence that situations that could potentially create customer interruptions are being communicated.

Currently OATIS is the source of information for parties without contractual agreements with those that conduct the control and monitoring of gas quality, and while OATIS does provide a reasonable degree of information it does not provide the visibility of all the monitoring measures that are of interest.

Powerco is supportive of an industry led solution such as the retailer proposed 'Gas Information Exchange Protocol'. We believe that it could not only address the issue of providing assurances for retailers in regard to their obligations to supply gas compliant with the Gas Specification but also be used as a tool to improve the way the industry shares information in relation to gas quality. The Protocol would need reviewing to address the current gaps around contaminants etc if it is to successfully address all gas related concerns.

Question 7: Do you think we have correctly identified the opportunities for improvement?

The improvements detailed in the Update Paper focuses on reporting, this leads us to make the assumption that the GIC believe the control and monitoring requirements detailed in the Safety Regulations and Gas Specification are adequate and it is the transparency of these that needs addressing. We would agree that addressing the reporting requirements is the current priority and believe it will only be when these are resolved that the industry will be able to decide if the control and monitoring being undertaken is fit for purpose.

Powerco believes that the three improvement opportunities proposed in the Update Paper would have positive impacts for the industry. However, while we see the proposed improvements as being positive it could be argued that they are just addressing issues in the reporting that should already be occurring as the norm rather than requiring a GIC work programme to drive them.

Powerco still has concerns around the processes for the reporting of all non-specification gas quality events but notably those involving contamination. We recognise the GIC has noted this in *Section 6.2 Improving the transparency of excursions from Specification* but due to the potential impact on the entire industry that a contamination related interruption could have, we would like it recognised independently as a priority. As there are no contractual arrangements or regulatory requirements to leverage off, we recognise that limited options exist to address the issue without key industry participants working together. Ideally the current work to develop the Protocol will open discussions resulting in an industry agreed approach that provides the level of assurance and confidence sought.

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

Yes, we agree that the next step should be for parties to engage with retailers regarding the Protocol being developed. We see the development of the Protocol as a cross industry piece of work and an opportunity for the industry to demonstrate that it can operate effectively when required without regulatory intervention. We believe that as long as the requirements of the Protocol or any other proposed agreement between parties regarding the transparency of the management of gas quality are not arduous or impose significant costs, there are no reasons why all supply chain parties would not participate.

If the proposed Protocol is unable to be revisited to address current gaps and concerns previously identified in the gas quality work i.e. reporting of containments, we believe that the GIC should take a lead in the scoping and development of a Protocol meets the industries needs. In the event that parties are unwilling to provide the level of transparency that the industry is seeking we support the investigation of regulatory options as a last resort.

We are happy with the proposal to put all other previous proposed initiatives on hold while the Protocol option is being explored.