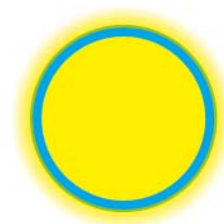


18 October 2010

Ian Wilson  
Gas Industry Co  
PO Box 10-646  
Wellington 6143  
New Zealand

**POWERCO**



Dear Ian,

**Powerco Submission on Gas Governance Issues in Quality: Issues Paper**

1. Powerco welcomes the opportunity to submit on the GIC's consultation document *Gas Governance Issues in Quality: Issues Paper*, published on 7 September 2010. A significant interruption, caused by contaminants, could impact thousands of consumers and cost businesses, distributors and other parties millions. It is vital that there is an effective system in place to prevent this.
2. The number of incidents on Powerco's network caused by contamination since 2004 clearly shows that this issue needs addressing. Powerco supports regulation of continuous monitoring.

*Regulatory objective*

3. Powerco supports the proposed regulatory objective:

To ensure industry arrangements include reasonable terms and conditions regarding gas quality that: allow for the safe, efficient, and reliable delivery of gas; and provide for risks to be properly and efficiently managed by those parties best able to manage such risks.

4. This objective captures key issues, such as safety, efficiency, reliability and the efficient management of risk.

*Contractual Arrangements*

5. Powerco agrees with the GIC's interpretation of transport agreements, contractual agreements and industry codes. Current contractual arrangements (or lack of them) make it very difficult for effected parties to identify causer and subsequently even harder to gain reparation if effected causers cannot be identified. End users currently have little or no means of redress. The cost of pursuing and identifying the causer is prohibitive to all but a few end users.
6. Current arrangements place an unfair burden on gas distributors which we are not compensated for. Distributors have little ability to hold the causer to account.

### *Monitoring arrangements*

7. The current monitoring arrangements fall short of identifying the offending party or providing any preventative measures. Powerco believes continuous monitoring by the TSO or third party is the key to ensuring compliance and identification of the offending party. Where the offending party cannot be identified socialising of costs appears a sensible avenue. This would encourage reputable producers to mitigate risk with better monitoring.
8. Powerco's gas network has been the direct recipient of contaminated gas on at least five occasions since 2004. We consider ourselves fortunate that none of these events has led to supply to a large area network being lost. The ability to identify the offending party has proven futile, as has trying to identify the source of the condensates via testing. This reinforces concerns that if Powerco can not identify the offender or contamination source then retailers or end users are unlikely to be able to or afford to.
9. There is a belief the distributors do have some protection from line pack on their distribution networks. Powerco would like to clarify that at best it has up to an hour of line pack on some networks and less than a ½ hour on other networks. Whilst the time varies based on time of year and time of day, it would be wishful to assume that Powerco would have adequate time to action any credible curtailment plan. This reinforces the need to prevent contaminants and non-specification composition occurring at source.
10. Please see our responses to the GIC's questions below. If you wish to discuss any aspects of this submission in more detail please contact Martyn Dudley on 04 978 0533.

Yours sincerely

Paul Goodeve  
Regulatory and Business Manager

## Responses to the GIC's Questions

Question	Comment
<b>Question 1:</b> Are there any other significant effects of non-specification gas, other than those identified in section 2.3, that Gas Industry Co should consider?	Powerco agrees that the GIC has assessed the main significant effects of all key types and potential causers of non-specification gas.
<b>Question 2:</b> Do you agree with the assessment of types of non-specification gas and potential causer, as set out in Table 3?	Powerco agrees that the GIC has presented all key types and potential causers of non-specification gas.
<b>Question 3:</b> Do you agree with the proposed regulatory objective? If you disagree please explain why and/or provide an alternative.	Powerco supports the regulatory objective proposed by the GIC on page 15. We also agree with the safety and efficiency key aspects outlined on pages 15 and 16.
<b>Question 4:</b> Do you agree we have interpreted the provisions contained within the transmission codes and contracts correctly? Are there additional contracts or provisions that should be considered?	Powerco agrees with the GIC's interpretation of the provisions contained within the transport agreements, contractual agreements and industry codes presented.
<b>Question 5:</b> Are there any aspects of the discussion in section 6.1 that you believe to be inaccurate or misleading? If so, please explain what these are.	Powerco supports the positions stated by the GIC and sees them as fair and accurate representation of the current situation.

Question	Comment
<p><b>Question 6:</b> Do you consider that liability for quality issues is best addressed through contractual arrangements or regulation? Please explain why.</p>	<p>Regulation would guarantee protection to all parties in the supply chain. It would enable TSOs or third parties to enforce continuous monitoring arrangements with producers and apply costs appropriately. TSOs could not be accused by producers of placing barriers to connection to the transmissions systems by additional obligations and costs.</p> <p>Powerco believes continuous monitoring by TSOs or third parties is the key to ensuring compliance to composition requirements and monitoring of contaminants.</p> <p>Cost benefit analysis for such a system maybe argued as a reason against implementing continuous monitoring. However, Powerco believes it is only a matter a time before the gas industry's luck runs out under current monitoring practices and the scenarios mentioned by GIC become a reality. The reputational and credibility loss would be great and the gas industry may never fully recover from the loss. For example, we have considered the impact of the loss of Tawa Gate .</p> <p>A conservative financial estimate of the cost to Powerco of the loss of Tawa Gate would be around \$7.5m for the event and up to \$2.5m ongoing losses due to customers switching away from gas to other fuels.</p> <p>(Note this does not include local business losses, retailer losses, TSO losses, producer losses, ongoing reputation losses to the industry, or local community / government losses in revenue.)</p>
<p><b>Question 7:</b> Do you think the proposed regulatory objective would be better achieved with more prescriptive arrangements for the monitoring of gas composition and contaminants?</p>	<p>Powerco supports prescriptive arrangements for the continuous monitoring of gas composition and contaminants by the TSO's or third parties. These prescriptive arrangements should be in line with international best practices as identified in Appendix B.</p>
<p><b>Question 8:</b> Do you think further work to identify the options for more active gas quality monitoring, and to quantify the costs and benefits of those options, is justified?</p>	<p>Powerco finds the GIC analysis comprehensive and does not think further work is needed. For example, the GIC has already examined two key international comparisons. Powerco prefers proceeding under the current options presented by the GIC.</p>

Question	Comment
<p><b>Question 9:</b> Do you think TSOs should monitor gas quality more actively (for example, by continuously monitoring the water content in the transmission system to manage the risk of hydrate formation)?</p>	<p>Powerco again believes that international best practices should guide New Zealand. It is clear that continuous monitoring by the TSOs or third parties is the method adopted by best practice regimes in other countries.</p> <p>Powerco, to this extent, supports the adoption of the TSO or third parties to continuously monitor gas quality (composition and contaminants).</p> <p>In our view, TSOs or third parties are best placed to set a standardised approach to continuous monitoring and are also best placed to act as gate keepers.</p> <p>For the gas distribution network, hydrates currently present one of the greatest risks and therefore should be continuously monitored along with the composition elements i.e. sulphates and hydrogen, outlined under the Australian regime.</p>
<p><b>Question 10:</b> Currently, the TSOs audit producers' monitoring of gas composition. Do you think this arrangement provides sufficient assurance against the delivery of non-specification gas?</p>	<p>Powerco believes that the current TSO practice offers little assurance against delivery of non-specification gas or contaminants.</p> <p>The GIC is aware of at least five events where Powerco has been an effected party since 2004. This is clear evidence that the current practice does not provide the assurance the industry needs in its supply arrangements.</p> <p>Powerco is aware that GasNet lost the Marton network due to similar issues with the gas quality.</p>