



28 May 2008

Ian Dempster
Gas Industry Company
Level 9, State Insurance Tower
1 Willis Street
WELLINGTON

E-mail: submissions@gasindustry.co.nz

The Genesis Energy Building
Level 1
93 The Terrace
PO Box 10568
The Terrace
Wellington
New Zealand
Genesis Power Limited
trading as Genesis Energy
Telephone: 04-495-6357
Fax: 04-495-6363

Dear Ian

Critical Contingency Arrangements – May 2008 Short-Form Consultation

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to submit on the Gas Industry Company's consultation paper 'Gas Critical Contingency Management Arrangements – Short-form Consultation Paper' dated May 2008.

The consultation paper reflects that the Gas Industry Company has made good progress in refining many aspects of the proposed arrangements. Genesis Energy remains uneasy as to whether the regime as a whole is really a pragmatic approach, given the size and stage of development of the New Zealand gas market. Genesis Energy remains of the view that there could be a net gain by moving to a simpler approach as discussed in our previous submission on this topic.

As the Gas Industry Company has clearly committed to the broad design parameters for the proposed arrangements, Genesis Energy has focused on the changes to the regulations (as summarised in Table 2 of the consultation paper) and implementation arrangements. However, Genesis Energy suggests that the Gas Industry Company needs to give consideration now to ongoing monitoring and future review of the arrangements. Genesis Energy suggests that this needs to extend beyond the review of the curtailment bands to include review of whether the approach to determining contingency prices and quantities is producing desirable outcomes.

Genesis Energy is conscious that the Gas Industry Company has opted for a sole source procurement process for the critical contingency operator service provider. The case for sole source procurement is compelling given that the role is so closely linked to the system operator role that Vector already carries out for the two existing transmission pipelines. Genesis Energy expects the Gas Industry Company to use the negotiation process to ensure that the service provider contract delivers value for money. Genesis Energy also expects that where the service provider contract covers any of Vector's existing activities, shippers should expect to see a corresponding reduction in fees for transmission services.

Responses to the specific consultation questions are attached as Appendix One. Comments on the draft regulations are attached as Appendix Two.

If you would like to discuss any of these matters further, please contact me on 04 495 6357.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J Carnegie', written in a cursive style.

John A Carnegie
Regulatory Affairs Manager
Genesis Energy

Appendix One – Responses to specific consultation questions

| QUESTION | COMMENT |
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| <p>Q1: Are the proposed threshold limits (or the ranges for those limits) set at an appropriate level?</p> | <p>Genesis Energy supports the time-based approach to defining the thresholds, as well as the approach of setting bands in regulations and actual values in the management plans.</p> <p>The proposed threshold ranges appear reasonable.</p> |
| <p>Q2: Do you consider the definitions of positive and negative contingency imbalances are appropriate?</p> | <p>Genesis Energy has some qualms about the transmission system owner being paid for linepack depletion.</p> <p>There is also considerable work underway under other fora on the issue of balancing. The current MPOC terms do not permit the TSO to profit or lose from balancing activities. This clause of the contingency regulations could become a barrier to any future changes to balancing arrangements.</p> <p>If the Gas Industry Company is concerned that public law considerations dictate the inclusion of this material in delegated legislation, then Genesis Energy suggests that it could be appropriate to shift material on imbalance methodologies (and contingency pricing) into rules, while retaining the higher-level, less technical, and ultimately more important framework material in regulations. The contingency imbalance rules could be drafted with the assistance of the contingency management implementation group (CMIG).</p> |
| <p>Q3: Do you agree that a process for correcting material errors in contingency imbalances is desirable?</p> | <p>Yes.</p> |
| <p>Q4: What is your view of the proposed two-stage process for setting the critical contingency price?</p> | <p>Genesis Energy welcomes the inclusion of an 'opportunity for comment' as part of the price-setting process. Whether the proposed timeframe for comment (five business days) is sufficient will depend on how well the price-setting methodology is developed and socialised prior to the first critical contingency event.</p> |

| QUESTION | COMMENT |
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| <p>Q5: Do you consider the definition of regional critical contingency is sufficiently unambiguous?</p> | <p>Genesis Energy suggests that this definition remains a little ambiguous. Refer to Appendix Two.</p> |
| <p>Q6: Do you agree with the appeal process for the designation of consumers as minimal load consumers and essential service providers?</p> | <p>Insofar as it goes, however Genesis Energy considers that the process needs to be extended beyond customer-appeal to include retailer appeal as well.</p> <p>As described in our previous submission, customers have an incentive to have their sites designated as minimal load, essential service, or non-dual fuel. Concurrently, retailers could also try to differentiate themselves by offering their customers a favourable designation.</p> <p>The proposed appeal process is in a sense 'asymmetric' in that it will in practice only turn back or confirm decisions <i>not</i> to designate, but won't deal with decisions <i>to</i> designate.</p> <p>Genesis Energy accepts that there may be an information problem in trying to provide an appeal process for inappropriate favourable designations, as neither of the directly involved parties would seek appeal and third parties would have limited awareness that the designation has been made. At a minimum, Genesis Energy suggests that there should be an opportunity for appeal during the customer switching process.</p> |
| <p>Q7: Are there any other changes to the proposed Regulations that you wish to comment on?</p> | <p>Refer Appendix Two for further comments on the draft regulations.</p> |
| <p>Q8: Are there any other areas related to implementation that should be included within the terms of reference of CMIG?</p> | <p>CMIG could assist the Gas Industry Company to design an appropriate monitoring and review framework for the information, pricing, and curtailment interventions.</p> |

Appendix Two – Comments on the Draft Regulations

| REGULATION | COMMENT |
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| <p>3 Purpose</p> <p>The purpose of these regulations is to achieve the effective handling of critical gas outages and other security of supply contingencies without compromising long-term security of supply.</p> | <p>This is the only remaining use of the word 'outages' within the regulations and Genesis Energy suggests it should be removed. Suggested alternative wording is:</p> <p style="padding-left: 40px;">“The purpose of these regulations is to ensure that arrangements are in place to effectively and efficiently manage interruptions to the supply or transmission of gas, while not compromising long-term security of gas supply.”</p> <p>Genesis Energy also suggests that the last part of the purpose description is likely to be ambiguous to users of the regulations. In effect, it seems to just hang there without being reinforced by any of the subsequent regulations.</p> <p>However, thinking about what could be meant, the most obvious conclusion is that the critical contingency arrangements shouldn't dampen investment incentives. The most obvious way in which the arrangements could dampen investment (in any part of the supply chain) would be to elevate regulatory uncertainty. In other words, the arrangements should provide for a relatively stable and predictable outcome.</p> <p>Genesis Energy has some concerns that the price uncertainty of ex-post expert determination may be contrary to this purpose, as may uncertainty around how contingency volumes are determined and allocated.</p> |
| <p>4 Outline</p> <p>These regulations provide for—</p> <ul style="list-style-type: none"> (a) the appointment of a critical contingency operator and funding arrangements in relation to the regulations; and (b) the development of critical contingency management plans; and (c) processes for managing a critical contingency; and (d) processes for determining gas imbalances resulting from a critical | <p>Genesis Energy suggests that an additional item is required relating to invoicing and settlement of imbalance payments.</p> |

| REGULATION | COMMENT |
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| contingency and setting a price to apply to those gas imbalances. | |
| <p>5 Interpretation</p> <p>consumer—</p> <p>(a) means any person who is supplied, or applies to be supplied, with gas (other than a domestic consumer); but</p> <p>(b) does not include a transmission system owner or any gas distributor or retailer, except to the extent that the transmission system owner, the distributor, or retailer is supplied, or applies to be supplied, with gas for its own consumption and not for the purposes of resupply to any other person</p> | <p>The Gas Act 1992 defines a domestic consumer as ‘any person who purchases gas in respect of any dwellinghouse’. However, there are other definitions based on volume or pressure such as the 250 GJ per year definition in the reconciliation code.</p> <p>Retailers will need to be able to generate a list of their customers who consumer less than 2 TJ per annum but are not ‘domestic consumers’. It will be important to ensure that the registry supports this functionality and that the data in the registry is consistent with respect to classifying consumers as ‘domestic’ (which in practice would mean they are not assigned to any curtailment band).</p> |
| <p>gas gate means the point of connection between—</p> <p>(a) a transmission systems and a distributions system; or</p> <p>(b) a transmission system and a consumer installation; or</p> <p>(c) 2 distribution systems</p> | <p>Genesis Energy suggests that item (c) should be deleted from this definition. The definition implies that the regulations would apply to embedded gas network connections. Genesis Energy believes that this is not necessary and that the regulations would not need to explicitly deal with such connections in any event.</p> |
| <p>interconnected party means any person who has an interconnection agreement with a transmission system owner to take gas from, or inject gas into, an interconnection point on the transmission system</p> | <p>Genesis Energy suggests that this definition should be altered as follows.</p> <p>interconnected party means any person who has an interconnection agreement with a transmission system owner to take gas from, or inject gas into, an interconnection point on the <u>a</u> transmission system.</p> |
| <p>retailer means any person who supplies gas to another person or other persons through the transmission systems, or through a distribution systems that is connected to the transmission systems, for any purpose other than for resupply by the other person or persons</p> | <p>This definition doesn’t capture consumers such as Huntly Power Station or Methanex that don’t purchase gas via retailers (that is, the consumer buys direct from a producer).</p> <p>This is particularly pertinent to regulations 38 – 43 (where retailers are the conduit for information from consumers) and regulations 51 – 54 (where retailers are the conduit for curtailment instructions).</p> |

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| <p>transmission system means the system—</p> <p>(a) comprising those high pressure transmission pipelines from the point where gas leaves a gas processing facility to an interconnected point for distribution or, where the gas does not enter a distribution, to a consumer</p> <p>(b) as depicted in the map published by the industry body in accordance with regulation 10</p> | <p>Part (a) of this definition would capture private (non-shared) pipelines running from processing plants to transmission pipelines. Genesis Energy suggests that this part of the definition should be altered (or deleted) so that such pipelines are not covered.</p> <p>Genesis Energy is also somewhat surprised that consultation with MED officials and PCO has not lead to concerns about the ‘published map’ mechanism in regulation 10 for determining (and altering) the coverage of the regulations. This mechanism seems to subject pipeline owners and investors to considerable regulatory uncertainty, as any ‘high pressure transmission pipeline’ may be placed within the jurisdiction of the regulations with limited checks and balances.</p> <p>An alternative approach would be to explicitly set out (perhaps in a schedule to the regulations, and perhaps using a map) that the regulations apply to the existing Maui and Vector transmission pipelines. This would mean that the regulations could not be extended to cover new pipelines with going through an appropriate process (as set out in Part 4A of the Gas Act 1992). This would also be consistent with the process needed to set the threshold ranges for any new transmission pipelines.</p> |
| <p>25 Content of critical contingency management plan</p> <p>(1) A proposed critical contingency management plan must be consistent with these regulations and must provide for the following:</p> <p>...</p> <p>(e) a communications plan, describing the communications that the transmission system owner must initiate by notice to other transmission system owners, operators of gas distribution systems, retailers, large consumers, and any other person it considers</p> | <p>Genesis Energy suggests that “shippers” and “interconnected parties” should be added to the list of parties in regulation 25(e).</p> <p>Genesis Energy also suggests that the management plan should provide for up-to-date information to be published online on the status (in pressure terms and ‘time cushion’ terms) of each of the threshold monitoring points listed in Schedule 1.</p> <p>Such real-time (or near-real time) information would enable participants to take early action to avert critical contingencies, or to ensure that they are prepared to respond should a critical contingency develop.</p> |

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| <p>necessary before and during a critical contingency, the reciprocal communications, and time frames within which those communications are to take place; and</p> <p>...</p> | |
| <p>42 Designation of consumers as essential service providers</p> <p>(1) The purpose of this regulation is to identify consumers who are essential service providers.</p> <p>...</p> <p>(3) A retailer must approve a consumer's application to be an essential service provider if both of the following criteria are met:</p> <p>(a) the consumer provides services that are considered necessary to further the emergency response objectives set out in clause 59(4) of the National Civil Defence Emergency Management Plan Order 2005; and</p> <p>(b) the consumer can demonstrate that its annual gas consumption was greater than 2 terajoules in any 12-month period within the 2 years before the consumer's application.</p> | <p>Regulation 42(3)(b) could be problematic for new essential service installations. Genesis Energy suggests that flexibility should be explicitly provided to allow a new installation to qualify as 'minimal load' on the basis of projected consumption.</p> <p>(b) the consumer can demonstrate that its annual gas consumption was greater than 2 terajoules in any 12-month period within the 2 years before the consumer's application, <u>or a material change at the relevant site means that consumption is reasonably likely to exceed 2 terajoules per annum in future.</u></p> |
| <p>43 Designation of customers as minimal load consumers</p> <p>(1) The purpose of this regulation is to identify consumers who...</p> | <p>For consistency (and completeness) 'customers' should be replaced with 'consumers'.</p> |
| <p>(5) A retailer must approve a consumer's application to be a minimal load consumer if all of the</p> | <p>Regulation 43(5)(c) could be problematic for new installations. Genesis Energy suggests that flexibility should be explicitly provided to allow a new installation to qualify as 'minimal</p> |

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| <p>following criteria are met:</p> <ul style="list-style-type: none"> (a) the consumer would have no alternative arrangements that are economically feasible if gas supply was curtailed; and (b) the consumer is operating a major item of capital plant and that plant would sustain serious damage, or significant environmental damage would likely be caused, if gas supply was curtailed; and (c) the consumer installation has annual gas consumption of greater than 10 terajoules in any 12-month period. | <p>load' on the basis of projected consumption.</p> <p>(c) the consumer installation has, <u>or can reasonably be projected to have</u>, annual gas consumption of greater than 10 terajoules in any 12-month period.</p> |
| <p>45 Critical contingency operator must determine critical contingency</p> <p>(1) The critical contingency operator must make a determination that there is a critical contingency if—</p> <ul style="list-style-type: none"> (a) either— <ul style="list-style-type: none"> (i) the critical contingency operator considers that a breach has occurred of 1 of more of the thresholds that are specified in a critical contingency management plan under regulation 25(1)(a); or (ii) the critical contingency operator has a reasonable expectation that a breach of 1 or more of those thresholds is imminent; and (b) the critical contingency operator considers that the determination is necessary to achieve the purpose of these regulations. | <p>Genesis Energy considers that regulations 45(1)(a)(ii) and 45(1)(b) are unnecessary and detract from the workability of the regulations and should be deleted.</p> <p>45(1)(b) in particular requires the critical contingency operator to exercise judgement that would be very difficult in an operational setting. This regulation also gives the operator considerable discretion (together with considerable exposure to risk).</p> <p>Critical contingency operator must determine critical contingency</p> <p>(1) The critical contingency operator must make a determination that there is a critical contingency if—</p> <p>(a) either—</p> <p>(i) the critical contingency operator considers that a breach has occurred of 1 of more of the thresholds that are specified in a critical contingency management plan under regulation 25(1)(a).</p> |
| <p>(2) When determining whether</p> | <p>As per the comment above, Genesis Energy</p> |

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| <p>a breach of a threshold has occurred or is imminent, the critical contingency operator must assume that any occurring reduction in pressure in the relevant part of the transmission system will continue at a constant rate, unless the critical contingency operator has reasonable grounds for considering, based on the best available information, that a non-constant rate of reduction will provide a significantly more accurate basis for its determination.</p> | <p>does not believe that the operator should be left with the discretion to decide that breach of a threshold is 'imminent'.</p> <p>(2) When determining whether a breach of a threshold has occurred or is imminent, the critical contingency operator must assume that any occurring reduction in pressure in the relevant part of the transmission system will continue at a constant rate, unless the critical contingency operator has reasonable grounds for considering, based on the best available information, that a non-constant rate of reduction will provide a significantly more accurate basis for its determination.</p> |
| <p>46 Process for declaration</p> <p>...</p> <p>(2) ... give urgent notice to all affected transmission system owners—</p> <p>(a) advising them that a critical contingency has been declared; and</p> <p>(b) detailing the pipeline areas affected; and...</p> | <p>For consistency of terminology, Genesis Energy suggests that regulation 46(2)(b) should be rewritten as follows:</p> <p>(b) detailing the pipeline areas of the transmission system that are <u>affected</u>; and</p> |
| <p>47 Authority of critical contingency operator</p> <p>(1) If the critical contingency operator declares a critical contingency, the critical contingency operator must issue directions to transmission system owners that, having regard to the nature of the critical contingency, are—</p> <p>(a) necessary to achieve the purpose of these regulations; and</p> <p>(b) consistent with the relevant critical contingency management plans and the communications plan.</p> <p>(2) To avoid doubt, subclause (1) does not prevent the critical contingency</p> | <p>Genesis Energy suggests that regulation 47(2) should be deleted in its entirety. This clause appears to broaden the scope for doubt, rather than 'avoid doubt'.</p> <p>Genesis Energy also suggests that regulation 47(1)(a) should also be deleted as it would be unrealistic to expect the operator to be able to test directions against the purpose of the Act in an operational setting.</p> <p>Authority of critical contingency operator</p> <p>(1) If the critical contingency operator declares a critical contingency, the critical contingency operator must issue directions to transmission system owners that, having regard to the nature of the critical contingency, are—</p> <p>(a) necessary to achieve the purpose of these regulations; and</p> <p>(b) consistent with the relevant critical</p> |

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| <p>operator issuing directions in relation to matters outside the scope of a critical contingency management plan if the critical contingency operator considers those directions are necessary to—</p> <p>(a) achieve the purpose of these regulations; and</p> <p>(b) mitigate the severity of the critical contingency.</p> | <p>contingency management plans and the communications plan.</p> <p>(2) To avoid doubt, subclause (1) does not prevent the critical contingency operator...</p> <p>As written above, the regulation does not appear to override any other authority the operator may have to issue instruction; rather the regulation seems to compel the operator to implement the relevant plans.</p> |
| <p>50 Role of critical contingency operator during critical contingency</p> <p>(1) For the duration of a critical contingency, the critical contingency operator must—</p> <p>(a) monitor the pressure (including linepack levels) in the section or sections of the transmission system affected; and</p> <p>(b) receive and consider communications from the transmission system owners and any other persons identified in the information guide; and</p> <p>...</p> | <p>Genesis Energy suggests that receipt of communications from transmission system owners should be as set out in the communications plan.</p> <p>(b) receive and consider communications from the transmission system owners <u>in accordance with the communications plan</u> and any other persons identified in the information guide; and...</p> |
| <p>(2) To avoid doubt, the critical contingency operator may direct curtailment of only a subset of load within a curtailment band, if it is satisfied that direction would further the objectives set out in Schedule 2, including—</p> <p>(a) subsets of voltage support load; and</p> <p>(b) subsets of electricity system stability; and</p> <p>(c) subsets of geographical load.</p> | <p>Genesis Energy suggests that 50(2)(a) and (b) should be deleted, as the operator would not have any basis on which to make decisions on how to optimise the electricity system.</p> <p>Also, the regulation as drafted requires the operator to make on-the-fly judgements as to how a relatively high-level set of objectives should be operationalised. Genesis Energy considers this to be an unrealistic expectation.</p> <p>(2) To avoid doubt, the critical contingency operator may direct curtailment of only a <u>geographically-defined</u> subset of load within a curtailment band, if it is satisfied</p> |

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| | <p>that direction would further the objectives set out in Schedule 2, including—</p> <p>(a) subsets of voltage support load; and</p> <p>(b) subsets of electricity system stability; and</p> <p>(c) subsets of geographical load.</p> |
| <p>52 Retailers must follow directions</p> <p>(1) Retailers must, as soon as is reasonably practicable, comply with the directions of a transmission system owner given under these regulations during a critical contingency.</p> <p>(2) Retailers must provide a transmission system owner with regular updates of—</p> <p>(a) the retailer’s compliance with the directions of the transmission system owner; and</p> <p>(b) consumers’ compliance with the retailer’s directions issued in accordance with the directions of the transmission system owner.</p> | <p>Genesis Energy notes that there will be practical constraints on the ability of retailers to give effect to regulation 52(2)(b) – especially with respect to non-telemetry TOU sites.</p> |
| <p>53 Retailers to instruct consumers</p> <p>...</p> <p>(2) The urgent notice...must include statements...</p> <p>(b) that the critical contingency operator has issued a direction for the curtailment band that the notified customers falls within; and...</p> | <p>Genesis Energy suggests that ‘consumers’ should be used for consistency.</p> <p>(b) that the critical contingency operator has issued a direction for the curtailment band that the notified customers <u>consumer</u> falls within; and...</p> |
| <p>61 Performance report</p> <p>(1) No later than 15 business days after making a determination to terminate a critical contingency under regulation 56, or as otherwise agreed between</p> | <p>Genesis Energy considers that a 15 business day period is a very short timeframe in which to form a complete view on whether the regulations should be altered. Genesis Energy suggests that the Gas Industry Company shouldn’t rely on this operationally-focussed performance review as</p> |

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| <p>the critical contingency operator and the industry body, the critical contingency operator must prepare and publish a performance report that—</p> <p>(a) assesses the critical contingency operator's and transmission system owners' compliance with these regulations and the effectiveness of the critical contingency management plan and communications plan; and</p> <p>(b) assesses the extent to which it considers that these regulations, critical contingency management plans, and communications plan achieve the purpose of these regulations; and</p> <p>(c) identifies, where applicable, any amendments to these regulations, critical contingency management plans, and communications plan that it considers would better achieve the purpose of these regulations...</p> <p>(3) If the performance report identifies an amendment to the critical contingency management plan...</p> <p>(4) If the performance report identifies an amendment to the communications plan, the critical contingency operator must amend and publish a revised communications plan in accordance with regulation 35.</p> | <p>sufficient in terms of understanding whether the interventions are achieving the best outcomes.</p> <p>Genesis Energy suggests that the information guide should also be within the scope of the performance report.</p> <p>(a) assesses the critical contingency operator's and transmission system owners' compliance with these regulations and the effectiveness of the critical contingency management plan, <u>information guide</u> and communications plan; and</p> <p>(b) assesses the extent to which it considers that these regulations, critical contingency management plans, <u>information guide</u> and communications plan achieve the purpose of these regulations; and</p> <p>(c) identifies, where applicable, any amendments to these regulations, critical contingency management plans, <u>information guide</u> and communications plan that it considers would better achieve the purpose of these regulations...</p> <p>(3) If the performance report identifies an amendment to the a critical contingency management plan...</p> <p>(4) If the performance report identifies an amendment to the communications plan, the critical contingency operator must amend and publish a revised communications plan in accordance with regulation 35.</p> <p>(5) <u>If the performance report identifies an amendment to the information guide, the critical contingency operator must amend and publish a revised information guide in accordance with regulation 37(4).</u></p> |

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| <p>67 Determining critical contingency price</p> <p>(1) The industry expert must determine the critical contingency price in dollars per gigajoule.</p> <p>(2) The industry expert must—</p> <p>(a) seek to set the critical contingency price at a level that reflects the price that would be established by an efficient short-term market that allocated scarce gas resources to the highest value uses during the critical contingency; and</p> <p>(b) if a gas-fired electricity generator plant, which is connected to the electricity system, was the marginal plant on the curtailment band curtailed, base his or her determination on the prices in the wholesale market for electricity during the critical contingency except where that would be contrary to subclause (3)(a); and</p> <p>(c) for all other circumstances, take into account the following matters:</p> <p>(i) the prices in the wholesale market for electricity during the critical contingency; and</p> <p>(ii) the economic cost of the loss of gas supply to those consumers who had their gas supply curtailed; and</p> <p>(iii) any other matters that the industry expert considers relevant to achieving subclause (2)(a).</p> | <p>Genesis Energy continues to have reservations about both the workability of this regulation and about the desirability of ex-post expert price determination from a policy perspective.</p> <p>The approach in 67(2)(a) is certainly appropriate from a 'purist' economic point of view. However, Genesis Energy believes that it is over-ambitious from a more pragmatic perspective.</p> <p>Also, Genesis Energy questions whether, given the lack of 'cushion' in New Zealand's transmission systems, it is appropriate for consumers to be making short-run decisions trading off consumption versus non-consumption. Given the limited linepack remaining once a critical contingency threshold is reached and the economic cost of losing (and restoring) domestic gas supplies, there seems little scope for a decision to continue taking gas to be efficiency-enhancing.</p> <p>Genesis Energy is not quite sure how to interpret the statement "if a gas-fired electricity generator plant... was the marginal plant on the curtailment band curtailed...". This could relate to:</p> <ol style="list-style-type: none"> 1. a plant that is the marginal generator on the electricity wholesale market prior to its curtailment by the critical contingency operator. That is, the plant was being dispatched at its offer price; or 2. a plant that was the last plant to be curtailed by the contingency operator. <p>With respect to the first interpretation, Genesis Energy's perception is that gas-fired plant is rarely at the margin and offers from non-thermal plant often only loosely relate to the marginal price of the next tranche of thermal generation.</p> <p>With respect to the second interpretation, the curtailment bands are too crude to be able to determine which plant was the 'marginal' plant curtailed.</p> <p>Regulation 67(1)(c)(ii) would be particularly difficult for any expert to assess if the critical contingency cuts beyond curtailment band 1. Every curtailed consumer would have a different economic cost associated with lost gas supply.</p> |
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| <p>68 Contingency imbalance provisions</p> <p>(1) The objectives of regulations 69 to 75 are to—</p> <p>(a) ensure the gas consumed during a critical contingency and any resulting contingency imbalances are accurately determined and allocated to affected interconnected parties and shippers; and</p> <p>(b) ensure fair, effective, and transparent arrangements are implemented for the determination, allocation and payment of contingency imbalances between affected transmission system owners, interconnected parties, and shippers...</p> | <p>Genesis Energy has some qualms about the transmission system owner being paid for linepack depletion. The current terms of the MPOC do not seem to support this proposition.</p> <p>(a) ensure the gas <u>supplied and</u> consumed during a critical contingency and any resulting contingency imbalances are accurately determined and allocated to affected interconnected parties and shippers; and</p> <p>(b) ensure fair, effective, and transparent arrangements are implemented for the determination, allocation and payment of contingency imbalances between affected <u>parties transmission system owners, interconnected parties, and shippers...</u></p> |
| <p>69 Determining contingency imbalances</p> <p>(1) Within 20 business days of the end of the month in which a critical contingency was terminated, the transmission system owner must determine the contingency imbalances for each interconnected party and shipper affected by the critical contingency over the period of the critical contingency.</p> | <p>For consistency with the changes suggested above, this rule should refer to 'affected parties'. The actual parties would be determined by the imbalance methodology.</p> <p>(1) Within 20 business days of the end of the month in which a critical contingency was terminated, the transmission system owner must determine the contingency imbalances for each <u>interconnected affected party, and shipper affected by the critical contingency over the period of the critical contingency</u></p> |
| <p>(2) A contingency imbalance may be a positive contingency imbalance or a negative contingency imbalance, and, for the purposes of these regulations,—</p> <p>...</p> <p>(c) if aggregate negative contingency imbalances exceed aggregate positive contingency imbalances, the difference must be treated as a positive</p> | <p>Genesis Energy considers that regulation 69(2)(c) should be deleted as it pre-judges the outcome of the contingency management implementation group's (CMIG) work on imbalances (relating to regulation 25(1)(h)).</p> <p>There is also considerable work underway under other Gas Industry Company work steams on the issue of balancing. The current MPOC terms do not permit the TSO to profit or lose from balancing activities. This clause of the contingency regulations could become a barrier to any future changes to balancing arrangements.</p> <p>If the Gas Industry Company is concerned</p> |

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| <p>contingency imbalance that must be allocated to the relevant transmission system owner...</p> | <p>that public law considerations dictate the inclusion of this material in delegated legislation, then Genesis Energy suggests that it could be appropriate to shift material on imbalance methodologies (and contingency pricing) into Rules, while retaining the higher-level, less technical, and ultimately more important framework material in Regulations.</p> |
| <p>(3) When determining a contingency imbalance for each affected interconnected party and shipper affected by the critical contingency, the transmission system owner must...</p> <p>...</p> <p>(c) assume that interconnected parties, retailers, and shippers, and their consumers, have complied with any curtailment directions issued by the critical contingency operator during the critical contingency when determining quantities consumed, unless there is evidence to the contrary; and</p> <p>(d) adjust quantities consumed having regard to any evidence that interconnected parties, retailers, and shippers, or their consumers, did not comply with curtailment instructions; and...</p> | <p>In Genesis Energy's view, this clause illustrates the difficulty of applying a sophisticated and high-stakes pricing intervention to a good with very poor measurability.</p> |
| <p>(f) in respect of changes in linepack across the relevant part or parts of the transmission system affected during a critical contingency, —</p> <p>(i) if the aggregate amount of all negative imbalances over the period of the critical contingency is greater than the aggregate value of all positive imbalances, that difference is treated as a positive</p> | <p>Genesis Energy considers that regulation 69(2)(f) should be deleted as it pre-judges the outcome of the CMIG's work on imbalances.</p> |

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| <p>contingency imbalance to be allocated to the relevant transmission system owner; and</p> <p>(ii) if the aggregate amount of all negative imbalances...</p> | |
| <p>70 Industry body to hold contingency cash pool</p> <p>The industry body must receive and hold the payments made in accordance with regulation 72 in a secure and separate bank account in trust for the benefit of interconnected parties, transmission system owners, and shippers with positive contingency imbalances.</p> | <p>As per earlier comments, Genesis Energy suggests that the regulations should not pre-judge the inclusion (or exclusion) of transmission system owners as beneficiaries of imbalance payments.</p> <p>The industry body must receive and hold the payments made in accordance with regulation 72 in a secure and separate bank account in trust for the benefit of interconnected parties with a positive contingency imbalance. transmission system owners, and shippers with positive contingency imbalances.</p> |
| <p>73 Positive contingency imbalances</p> <p>(1) On the first business day of the month that is 2 months after the month in which the critical contingency was terminated, the industry body must issue credit notes to interconnected parties and shippers with positive contingency imbalances for the amounts provided in accordance with regulation 71.</p> <p>(2) On the last business day of any month during which the payments required under regulation 72 have been received, the industry body must pay the amount calculated in accordance with the following formula...</p> | <p>The regulations are silent on debt collection measures and recovery of debt collection costs. Parties will be reluctant to supply additional gas during a contingency if there is a risk that they will not receive full payment for their positive imbalance.</p> |
| <p>75 Price and imbalances provisions do not apply to regional critical contingencies</p> <p>(1) In this regulation, a regional critical contingency means a critical contingency where—</p> | <p>Genesis Energy suggests that this definition remains a little ambiguous.</p> <p>(1) In this regulation, a regional critical contingency means a critical contingency where—</p> <p>(a) there is a <u>substantial</u> reduction to, or</p> |

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| <p>(a) there is a reduction to, or loss of, the supply of gas in a part of the transmission system that supplies an individual region of New Zealand; and</p> <p>(b) a region has become wholly or partly isolated from the supply of gas from the transmission system; and</p> <p>(c) the effects of the critical contingency were restricted to only that region.</p> <p>...</p> | <p>total loss of, the supply of gas in to a part of the transmission system that supplies an individual region of New Zealand; and</p> <p>(b) a region that part of the transmission system has become wholly or partly isolated from <u>any other significant sources of gas supply</u>; the supply of gas from the transmission system; and</p> <p>(c) the effects of the critical contingency were restricted to only that region.</p> |
| <p>Schedule 2</p> <p>...</p> <p>2 Curtailment bands</p> <p>Subject to regulation 50(2), during a critical contingency, the defined groups of consumers set out in the table below are to be given equal priority in terms of any curtailment required during a critical contingency...</p> | <p>Genesis Energy recommends that curtailment band 1a and 2 (the dual fuel bands) should be removed.</p> <p>The regulations do not provide any guidance on how consumers should be distinguished as having alternative fuel capability. Genesis Energy suggests that this judgement would be difficult to make in practice. Two particular issues are:</p> <ol style="list-style-type: none"> 1. Is categorisation plant-specific or consumer-specific? For example, most generators will have a portfolio of plant including gas fuelled and non-gas fuelled. 2. Is there a 'reasonableness' threshold? For example, a lot of plant could be 'dual fuelled' if the owner were prepared to invest additional capital. <p>Genesis Energy can not see a benefit to distinguishing alternative fuel capability that would outweigh the operational detriment.</p> |