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Dear Ian

Gas Contingency Arrangements – Statement of Proposal

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide comments to the Gas Industry Company on its statement of proposal 'Gas Outage and Contingency Management Arrangements' dated August 2007. Genesis Energy has reviewed the statement of proposal and attended Gas Industry Company presentations on 23 August and 29 May.

Genesis Energy's Position

Genesis Energy believes that the Gas Industry Company has made good progress on detailed design of arrangements for replacing the national gas outage contingency plan (NGOCP). However, Genesis Energy is concerned that this 'bottom-up' design work has not been complemented by the type of 'top-down' analysis appropriate to policy design. As a consequence, Genesis Energy believes that the proposal continues to have 'loose ends' that would make proceeding with implementation problematic.

In this letter, Genesis Energy focuses on the detailed design of the Gas Industry Company's proposal. Specific consultation questions are covered in an appendix. In a further appendix, Genesis Energy offers what it hopes will be seen as constructive criticism on the policy design process.

Contingency Gas Pricing

In Genesis Energy's view, the major unresolved principle in the proposal is the method of contingency gas pricing. Genesis Energy does not believe that sufficient analysis has been carried out to support the adoption of ex-post fair price determination. The Farrier Swier paper provides an excellent starting point for thinking about price mechanisms, however Genesis Energy believes that further analysis may be required.

In particular, further analysis could:

1. Examine pricing in the New Zealand context; and
2. Consider dynamic efficiency effects.

The New Zealand gas market is characterised by its small size and limited number of significant players relative to many overseas markets. On the face of it, this could make the New Zealand market more amenable to a sector-based ex-ante contingency gas price schedule.

Ex-ante pricing could also deliver stronger incentives for participants to invest in supply resilience (such as fuel switching capability, storage, or contractual arrangements for alternative supply). This could ultimately result in enhanced dynamic efficiency across the sector.

The above points form part of a *prima facie* argument for ex-ante pricing. However, Genesis Energy believes that such arguments for each type of pricing could be taken considerably further to provide a basis for informed decision-making. At this stage, there does not seem to be sufficient analysis to develop an informed view on the optimal pricing approach for contingency gas in New Zealand.

Linkages

The likely effect of linkages between contingency policy and other strands of the Gas Industry Company work programme is unclear.

It would be useful for the Gas Industry Company to provide an indication of where and how the proposal could link into other work on the wholesale market, transmission access, compliance framework, and reconciliation. It would also be useful to examine sequencing and dependencies.

Outage and Contingency Management Plan (OCMP) Development Process

Assuming that regulating the development of an OCMP is ultimately accepted as a suitable approach, Genesis Energy does not believe that the proposed process for developing OCMPs will be efficient or effective. In particular, Genesis Energy does not believe that it should be necessary or desirable for the transmission system operator (TSO) to own the design process.

Genesis Energy would prefer the Gas Industry Company to 'hold the pen' for drafting of the OCMPs. This would not need to preclude full and effective use of industry expertise and experience. It would however place control of the drafting in the hands of an impartial party and would remove the need for a potentially cumbersome approval process.

Genesis Energy is concerned that leaving control of the OCMP design process in the hands of the TSO may leave intact one of the fundamental flaws of the current system.

For example, a key area for potential conflict of interest would be determining the threshold at which the gas contingency operator declares a contingency¹. The threshold needs to be set in a way that balances competing interests around contractual supply arrangements, controlled (graceful) plant closure, and supply system integrity. Genesis Energy does not believe that the TSO is sufficiently indifferent to balance these interests objectively.

Instrument-Focused Options

The statement of proposal does not clearly enough distinguish the policy options that could have been considered. Instead, the focus appears to be on the narrower question of how the policy options would be put in place (for example, as regulations, rules, or as a multi-lateral agreement).

At a high level, it appears that the proposal actually includes a combination of the following two policy interventions:

1. Contingency gas pricing; and
2. Contingency powers².

Rather than framing the options in these terms, the statement of proposal frames the reasonably practicable options as a choice between different means of implementing near-identical policy.

The statement of proposal does not fully set out and compare what other options, or combination of options, were (or could have been) considered, analysed, and discarded in the process of settling on the preferred interventions. Instead, the information presented focuses predominantly on the detailed design of the proposal.

Cost Benefit Analysis

A consequence of framing the options as varying only in terms of delivery mechanism is that the cost benefit analysis can not provide meaningful

¹ Draft Outage and Contingency Management Regulations, clauses 24 and 44.

² At a finer level of detail, the preferred method of gas pricing is ex-post fair price determination. It is less clear how the form of contingency powers could be characterised and distinguished from other possible options, except to say that the approach involves a service provider directing demand curtailment in accordance with a pre-determined schedule.

comparison. As all of the options are essentially identical in their intended effect, the cost benefit analysis can only meaningfully use implementation costs to distinguish between the options. Similarly, without an underlying analysis of policy options the cost benefit analysis can only provide a superficial assessment of benefits for each option against the counterfactual of no further intervention (that is, the status quo)³.

To illustrate the above point, it could have been more instructive for a cost benefit analysis to compare the pricing mechanisms identified in the Farrier Swier report⁴ against a counterfactual of gas swaps (that is, no price). Applying cost benefit analysis to pricing options could provide a meaningful contribution to understanding their relative merits⁵.

Level of Prescription

Genesis Energy also considers that the proposed regulations may err on the side of over-prescription. As a matter of principle, it is often desirable to target regulations at a performance or outcomes level rather than overly prescribing the means of achieving the performance or outcome. This approach avoids unnecessarily limiting the scope for innovative implementation approaches.

A possible example of over prescription is in the approach to planning curtailment. The regulations give the Gas Industry Company three years to complete a study to determine appropriate curtailment bands. This approach locks in a band-based approach to curtailment. It may be preferable for the regulations to provide scope for alternative approaches to managing line pack and pressure levels. For example, if the regulations referred simply to a 'curtailment plan', then this would provide scope for a non-bands approach to planning and implementing contingency curtailment (without preventing a bands-based approach being continued if it proves to be the best approach).

A further possible example is the prescription that an OCMP must include either a pressure threshold or a line pack threshold⁶. This appears to preclude alternative approaches to determining the onset of a contingency.

³ In this case, a counterfactual of 'no further intervention' or 'status quo' was eliminated as an unviable proposition, leaving the benefit cost analysis as a simple comparison of two materially similar options against each other.

⁴ Farrier Swier Consulting and Johnson Winter & Slattery, *Emergency Management and Gas Outages: Economic Issues*, prepared for the Gas Industry Company, March 2006.

⁵ The Farrier Swier paper provides the seeds of a good analytical framework for thinking about policy options and selection criteria; however the paper is constrained by its terms of reference to the construction of variations within the policy of contingency gas pricing.

⁶ Draft Outage and Contingency Management Regulations, clause 24(1).

Principles before Regulations

Finally, Genesis Energy believes that combining consultation on draft regulations with consultation on substantive policy issues is not an ideal approach.

As there appear to be many significant issues of principle yet to be resolved, Genesis Energy does not believe that the regulations are ready for review at this stage. As such, Genesis Energy does not offer any detailed comment on the draft regulations and looks forward to reviewing the draft regulations at a more appropriate time.

Summary

Gas Industry Company has undoubtedly made considerable progress with the design of replacement gas contingency arrangements. Much of this detailed design is of high quality and Genesis Energy congratulates the Gas Industry Company on it.

Notwithstanding the above, Genesis Energy recommends that the Gas Industry Company should not proceed with the proposal at this stage. There are too many outstanding questions around the high-level policy approach, as well as unresolved issues around the design of the proposal itself.

Rather than push on with the proposal, Genesis Energy recommends that the Gas Industry Company should step back and revisit the high-level policy design. With the high-level policy settled, the Gas Industry Company could then more constructively engage in detailed policy design and then implementation.

In the meantime, Genesis Energy recommends that the Gas Industry Company should continue its work with the sector on immediate issues around the NGOCP.

I would be happy to engage further with the Gas Industry Company on this submission, please contact me on 04 495 6357.

Yours sincerely



John A Carnegie
Regulatory Affairs Manager
Genesis Energy

Appendix One – Responses to Specific Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you agree the four problems described in this section are key issues needing to be addressed in any new arrangements for outage and contingency management?</p>	<p>These issues are presented as ‘problems with the arrangements’. It would be useful to put these issues into a broader context of supply security. From there, it should be possible to work towards a coherent problem definition.</p> <p>Without this analysis, it is difficult to assess the relative importance of the issues or to understand whether other issues should also be examined.</p> <p>On the face of it, the effect of missing price incentives for contingency gas supply appears to be a significant problem. It is unclear whether addressing this problem would establish incentives that would make regulatory responses to other issues unnecessary.</p> <p>It is also unclear how transmission access arrangements impact on contingency resilience. In particular, the design of open access arrangements is likely to have a bearing on incentives to minimise risk. It could be that arrangements overly weighted towards pipeline protection actually dampen incentives to minimise the risk of contingency events.</p> <p>There appear to be strong linkages between supply security and information and gas nomination processes.</p> <p>Genesis Energy questions the use of ‘post-Maui era’ terminology. It is our understanding that the Maui field is likely to be producing gas until the middle of the next decade. Furthermore through legacy and ROFR contracts, Maui is one field that continues to provide gas buyers with some flexibility.</p>
<p>Q2: Are there other key problems with the current arrangements which also need to be addressed?</p>	<p>The proposal is focussed on issues once there is a contingency. In our view, it is important to consider overall supply security. This extends at a minimum to producer behaviour, nominations processes, balancing arrangements, and price signals.</p> <p>Some of the other issues relating to supply security include:</p> <ul style="list-style-type: none"> • In recent events the opportunity to

QUESTION	COMMENT
	<p>increase gas supply from other sources has been lost due to the perceived reluctance of the producer to confirm the seriousness of the “operational” problem;</p> <ul style="list-style-type: none"> • MPOC needs to provide for a “contingency” nomination process activated within an hour (or less) of a contingency event notification. The confirmation process of MPOC nominations also needs to be streamlined; • There needs to be certainty around the balancing arrangements that each transmission system owner has in place and the quantity of gas available under those arrangements.
<p>Q3: Given the difficulties in assigning penalties for non-compliance under a pan-industry agreement and, therefore, the inability to ensure a high-level of compliance, do you agree that the only reasonably practicable alternative to the proposal is a more fully prescribed regime incorporating the detailed arrangements for contingencies in regulations and/or rules?</p>	<p>No. This conclusion can not be reached from the analysis. There may be other ways of resolving the tensions that have lead to the difficulties mentioned - including other policy interventions.</p> <p>Also, prescribing arrangements may fail to address an underlying supply security problem.</p>
<p>Q4: Do you agree with the proposed regulatory objective?</p>	<p>Without a clear problem definition and subsequent selection of evaluative criteria, it is premature to settle on a regulatory objective.</p> <p>Genesis Energy is particularly concerned that the regulatory objective may not focus sufficiently on preparedness or on linkages with the open access and wholesale market design.</p>
<p>Q5: Do you agree that the net benefits of the proposal are materially higher than the net benefits of the counterfactual?</p>	<p>Genesis Energy does not believe that the cost benefit analysis usefully discriminates between the options. This is primarily a result of the way in which the options have been constructed.</p>
<p>Q6: Do you agree that the proposal has the potential to address the key</p>	<p>The proposal has the potential to address the ‘compensation’ issue, but it is not clear to what extent it would address wider issues</p>

QUESTION	COMMENT
<p>problems identified with the current arrangements?</p>	<p>around supply security.</p> <p>It is also far from clear that the proposal is the optimal means of addressing the key problems identified.</p>
<p>Q7: Do you agree with the proposed definition of a Gas Contingency? If not, what would you propose?</p>	<p>Genesis Energy suggests that “secure the operation” should be replaced with “maintain the integrity”.</p>
<p>Q8: Do you agree with the list of responsibilities given to the GCO?</p>	<p>Genesis Energy does not agree with the proposed process for designing OCMPs (refer to the cover letter).</p> <p>Genesis Energy suggests that there should be an additional responsibility for process improvement, particularly following actual contingency events.</p>
<p>Q9: Do you agree that the GCO should be provided with some flexibility to take action that it considers necessary to ensure the effective management of a gas contingency?</p>	<p>This would be consistent with an outcomes- or performance-based approach to regulations. It is unrealistic to expect to be able to anticipate all possible eventualities.</p> <p>However, the level of discretion given to the GCO needs to be balanced by transparency requirements coupled with appropriate accountability mechanisms and remedies.</p> <p>Genesis Energy notes that the obligation to maximise supply (clause 49(1)(c) of the draft regulations) is not appropriate in the case of transmission (as opposed to supply) contingencies.</p>
<p>Q10: Do you agree with the split between the planning role for the TNO and the communications plan role for the GCO? Do you agree that an industry expert should assist the GCO in the process to approve the plans?</p>	<p>Genesis Energy does not agree with the proposed OCMP process for designing OCMPs (refer to the cover letter).</p> <p>Genesis Energy has concerns about the differential treatment of upstream and downstream parties. This treatment is based on jurisdiction concerns, but should be examined further. The supply-side can play a critical role during a contingency. For supply contingencies, the supply side can inject additional gas. For transmission contingencies, supply may need to be curtailed. In either case, demand is only one side of the equation.</p>
<p>Q11: Do you agree that the existing NGOCP curtailment bands should be updated:</p> <p>a) To distinguish large</p>	<p>Genesis Energy believes that further analysis is required in this area. Particularly given the policy overlap of using both a price signal and command-and-control to induce demand</p>

QUESTION	COMMENT
<p>consumers supplied from the transmission system that have an alternative fuel capability, from those that do not have an alternative fuel capability?</p> <p>b) To combine the existing NGOCP bands B, C and D into a single band?</p> <p>c) To establish the category of minimal load consumer?</p>	<p>curtailment.</p> <p>Also, the only consumers in the >15TJ/day band are petrochemical producers and generators. Given the current structure of the market 1a could be limited to petrochemical producers and 1b to electricity generators. Genesis Energy is not aware of any “alternative fuel capability” in either of these sectors (setting aside Huntly power station units 1 to 4 that do not use gas as their primary fuel).</p> <p>An argument for curtailing petrochemical plants first is that they place less value on gas than other industries. Additionally, they cannot operate without both electricity and gas. As such it may not make sense to reduce electricity generation first.</p>
<p>Q12: If you agree with the provision for the category of minimal load consumer, do you consider these arrangements should be designed in such a way as to encourage such consumers to make alternative arrangements wherever practicable, for example by making the classification for a consumer time-limited?</p>	<p>Genesis Energy understands this to be primarily an issue of dynamic efficiency. In theory, a well-designed price signal should promote dynamic efficiency. It is unclear how such a price signal should interact with the command-and-control element of the proposal.</p> <p>Genesis Energy believes that a more robust policy analysis process would provide the framework for addressing such questions.</p>
<p>Q13: Do you agree that the proposed contingency cash-out price will provide incentives for commercial arrangements to be put in place to maximise upstream production during a GC?</p>	<p>This seems likely. However, the uncertainty from using ex-post price determination may mean that there would be no effective price signal until after the first significant ‘priced’ contingency event.</p>
<p>Q14: Do you agree with the proposed criteria for setting the contingency price? Are there any other prices that the expert could usefully reference to determine the contingency price?</p>	<p>Genesis Energy believes that it is impossible to form a clear view on the proposed criteria without first having a clear policy framework.</p> <p>Producers, the petrochemical industry, electricity generators, other industry, and domestic consumers each see significantly different marginal values for gas. This has implications for the role of contingency pricing as an incentive. Also, there is the question of whether pricing is intended to provide ‘compensation’ or an incentive. If it is, then equity and dynamic efficiency</p>

QUESTION	COMMENT
	<p>objectives may conflict.</p> <p>There are also questions of whether price should have a cap and/or a collar. These would have implications for the incentive effect and potentially for equity impacts.</p>
<p>Q15:Do you agree that the proposed scheme to calculate imbalances using existing industry processes is workable? If not, what adjustment would be required?</p>	<p>This is an area where there is a strong linkage with other Gas Industry Company work strands.</p> <p>It appears that balancing has to be based on the industry processes at the time. For example, whilst those processes remain on a daily calculation basis the period of a contingency would need to run from 0000 hours on the day the contingency is declared by the GCO until 2359 on the day the contingency is declared to be over.</p> <p>Any alternative would require hourly volumes to be derived for shippers on the Vector Transmission System. This may be possible by simple division by 24 for the aggregate volume of small customers but is unlikely to be equitable where power station offtakes are concerned. If Vector welded points were to be split (creating virtual welded points for major consumers) then this problem would be reduced as hourly data would be available for a wider market group.</p> <p>The allocation process would also need to provide a means of dealing with revisions to nominations on a day, notified before, after or during the contingency.</p> <p>There are also questions around transfer of title, imbalances across Maui welded parties (change in ROI), Maui shipper mismatch and Vector shipper mismatch.</p> <p>There are numerous other technical issues around the determination and allocation of imbalances.</p>
<p>Q16:Do you agree with the proposal to have the contingency cash-out pool administered by the GIC? What period should be given to parties for payment of invoices issued by the contingency cash-</p>	<p>No comment.</p>

QUESTION	COMMENT
out pool?	
Q17: Do you agree with the proposed communications process shown in Figure 2?	Refer to question 10.
Q18: Given that any exposure under a service provider agreement is likely to be reflected in the price, do you agree that GCO liability under the service provider contract should be limited in the manner proposed?	<p>Genesis Energy believes that further work is required on the principles around service provider liability, and the use of other remedies.</p> <p>The Gas Act provides for service providers to enjoy a level of immunity from tort liability and it would appear reasonable to apply this protection in the case of the proposed gas contingency operator. However, if the operator is provided with immunity, then consideration should be given to other remedies that could be used to 'fill the gap'.</p>
Q19: Do you agree with the proposed approach to allocating the costs associated with administering the outage and contingency management arrangements?	<p>No.</p> <p>In Genesis Energy's view, any development costs should be recovered over a period of time.</p> <p>Genesis Energy believes that it is inefficient to invoice separately from the general levy and that this is not necessary for the sake of transparency. Adequate transparency could be achieved with forecasting, budgeting, and reporting separation.</p>

Appendix Two – Policy Design Process

Genesis Energy acknowledges that the Gas Industry Company faces pressures from the Minister of Energy, from stakeholders, and from its own Board to make rapid progress. In Genesis Energy's view, this pressure needs to be tempered by the need to develop the 'right' policy approach.

In this appendix, Genesis Energy offers some thoughts that may assist the Gas Industry Company as it balances the pressure for real-time responses to the issues of the day against the imperative that policy advice be attuned to longer term interests.

Marrying 'top-down' and 'bottom-up' Approaches

Genesis Energy believes that the Gas Industry Company has an important role to play in working with industry participants on bottom-up approaches to resolving industry issues with the current national gas outage contingency plan (NGOCP). Genesis Energy expects that this work would be ongoing and be of benefit to both the Gas Industry Company and all industry participants.

Policy design on the other hand requires a different approach, an approach that involves stepping back from the immediate issues of the day. Policy design should be top-down – starting from a thorough examination of the problem and working through option construction and selection of evaluation criteria. Policy design should aim to be enduring, and as such needs to function on a longer timescale than immediate issues.

The bottom-up work should help to build the institutional intelligence, technical expertise, and practical understanding that will help inform the policy design process. Meanwhile, the top-down work should establish the principles and set the frame that will shape more detailed work in future. The two work-streams are complementary, but operate on different timescales and require different approaches.

From the statement of proposal, it is not apparent that this differentiation has been fully achieved. Fundamentally, Genesis Energy believes that the concerns it has with the proposals could be symptomatic of a bottom-up approach to policy design.

The following quote may help to illustrate the tension between the point of departure and timescale conducive to good policy design, and that which is conducive to bottom-up efforts to resolve the issues of the day:

“...good problem definition takes time, and may appear a frivolous waste of time while it is underway, but the time will, on average, more than be recovered at subsequent stages.”⁷

From Issues to Solutions

Genesis Energy agrees that there is a strong prospect that market arrangements will cease to function in the event of a major contingency and that as such there is a case for some form of intervention. However, Genesis Energy does not believe that the statement of proposal demonstrates that the most appropriate intervention has been determined.

The policy design process appears largely to have moved directly from issues to solutions, missing out a number of intermediate steps. The crucial steps of defining the problem, constructing the policy options, and selecting evaluative criteria do not appear to have been given the attention that they warrant.

Defining the Problem

A good problem definition focuses on causes rather than effects and importantly avoids building in an implicit solution. Arriving at a good problem definition is often an iterative process that is repeated as understanding improves. Successive refinements of the problem definition should hone in on causes, discard effects, and discard solution bias. A well-crafted problem definition provides a sound basis from which to develop policy options and select evaluation criteria.

Genesis Energy suggests that the stated regulatory objective hints at both a problem definition and evaluative criteria. The regulatory objective is as follows:

“that arrangements are in place to achieve effective handling of a national or regional gas contingency without compromising long-term security of supply.”

The first part of the regulatory objective implies both the nature of the problem and the nature of the solution. That is, the problem is ineffective handling of gas contingencies and the solution is to put more effective arrangements in place. The second part of the regulatory objective is phrased as an evaluation criterion around dynamic efficiency.

The first part of the regulatory objective seems to be a natural description of the problem (and the solution) given that the policy design process was kicked-off due to concerns around the operation of the national gas outage contingency plan (NGOCP). However, it is important to examine to what extent issues around the NGOCP are actually the effects of other

⁷ Dr Amanda Wolf (2000) *Building Advice: The Craft of the Policy Professional (Working Paper No. 7)*, State Services Commission, p31.
http://www.ssc.govt.nz/upload/downloadable_files/working_paper_7.pdf

underlying causes. For example, the root cause may be to do with physical reduction of field flexibility, changes in commercial practices, or changes in commercial arrangements or industry structure⁸.

If there are such root causes at play, then there is a very real risk that a solution designed to tackle NGOCP issues will either provide an inefficient solution or will fail altogether. By contrast, if an intervention were able to be designed that targeted the root cause then it may not be necessary to intervene with respect to contingency arrangements at all.

To illustrate the above point, consider the following scenarios.

1. Suppose that the most important root cause is increasing tension between commercial incentives and prudent curtailment behaviour (perhaps brought about by the decline of Maui production, or by changes in the prevailing contractual environment for gas supply). If this were the case, then options might focus on diffusing the tension or on strengthening incentives that will countervail undesirable commercial incentives; or
2. Suppose that the most important root cause is a decline in resilience of the physical systems (perhaps due to reduced field flexibility, increased stress on transmission systems, or changes in demand). If this were the case, then options may focus on improving physical resilience.

Rather than providing a neutral basis from which to construct policy options and select criteria, the regulatory objective incorporates the proposed solution (that is, contingency arrangements)⁹. By adopting this regulatory objective (and not defining the problem), options are limited to varying types of arrangements for handling gas contingencies. It is possible that this is an appropriate solution domain; however the proposal does not provide the necessary analysis to assess whether this is indeed the case.

Constructing Policy Options

Without a well-crafted problem definition, it becomes difficult to comprehensively consider policy options. In the case of the proposed contingency arrangement proposal, the process of constructing policy options appears to have been further restricted by:

1. Narrowing the problem- and solution-domains on the basis of jurisdiction; and
2. Giving undue weight to the GPS.

⁸ The statement of proposal discusses some of these issues, but frames them as 'problems with the current arrangements'. This approach does not amount to an analysis of causality and does not appear to have been used in developing a problem definition.

⁹ As described in the cover letter, this appears to be a symptom of taking a 'bottom-up' approach to policy design.

The Gas Industry Company appears to have summarily dismissed any issues for which it does not have clear jurisdiction. While jurisdiction is a factor that should form part of the analysis, Genesis Energy believes that lack of jurisdiction should not be a prima facie reason for constraining either the problem definition process or the options development process. Premature narrowing of the problem- and solution-domains elevates the risk of misdiagnosis (as well as creating stakeholder buy-in risks).

Genesis Energy suggests that extra-jurisdictional issues should be included in the problem definition process. Similarly, extra-jurisdictional policy options should be examined to see whether, jurisdiction aside, they offer a promising prospect of remedying the identified problems. The outcome of such analysis may be that the preferred option is not within the existing jurisdiction of the regulatory agency. If this were the case, then it would be appropriate for the regulatory agency to refer the issue to an agency that could examine options for extending or allocating jurisdiction¹⁰.

The consequence of not following the above process is that it is difficult to see whether the preferred option is solving the right problem with the right tool, rather than just an apparent problem using the most convenient (or available) tool.

Another factor that appears to have constrained the policy development process is the weight given to the government policy statement (GPS) as a set of deliverables. The statement of proposal refers to the GPS as setting a date for delivery of gas outage and contingency arrangements of December 2005¹¹. From Genesis Energy's reading, the GPS only appears to apply this to items in paragraphs 9, 10 and 11, whereas the only mention of security of supply is in paragraph 5(h). As such, the GPS does not appear to set any deadline for delivery with respect to supply security.

As a more general comment, the weight given to timeframes and pre-defined solutions in the GPS does not appear to be consistent with the framework contemplated under the Gas Act 1992 ("the Act"). The Act only requires the Gas Industry Company to report against the GPS and to have regard to the GPS when making recommendations for regulations¹². The introduction to the statement of proposal on the other hand refers to "the Gas Industry Co's deliverables under...the [GPS]"¹³.

In Genesis Energy's view, it is difficult to see how it could be appropriate (or consistent with the Act) to treat the GPS as setting out deliverables

¹⁰ As the agency responsible for administering the Gas Act 1992, the Ministry of Economic Development would usually be the appropriate agency for gas industry issues.

¹¹ Statement of Proposal, paragraph 7.5.

¹² Gas Act 1992, Section 43ZO.

¹³ Statement of Proposal, paragraph 2.4.

that the Gas Industry Company must implement¹⁴. Adopting such an approach limits the quality of policy analysis able to be undertaken by the Gas Industry Company by constraining problem- and solution-domains.

Genesis Energy recommends that Gas Industry Company should challenge the interpretation of the GPS as a set of deliverables.

Summary

Genesis Energy believes that it is more important to get the policy right, than to deliver to a preconceived timeline. If policy is implemented in haste, then the cost impacts are likely to be widespread and the policy is unlikely to be durable. As such, the time and cost involved in robust policy development must be placed firmly in context by comparison with the consequences of poor policy.

Bearing this in mind, Genesis Energy recommends that it would be appropriate at this stage to revisit the high-level policy – that is, primarily a critical examination of the problem, open-minded construction of alternatives, selection of evaluation criteria and high-level analysis of the alternatives. This process should involve further consultation with stakeholders and should call on both industry experience and policy expertise.

The end result of revisiting the high-level policy could be an entirely new policy direction, or confirmation that emergency pricing plus contingency powers is a sound approach. Even if the result is the latter, a firm analytical framework would have been established for consideration of more technical elements of the policy design. The framework would also provide for a better understanding of linkages to other policy issues.

¹⁴ This is particularly pertinent where implementing deliverables against the GPS would be inconsistent with the statutory objectives in the Act.