



11 Chews Lane  
PO Box 10568  
The Terrace  
Wellington 6143  
New Zealand

Genesis Power Limited  
trading as Genesis Energy

Fax: 04 495 6363

28 June 2012

Tim Herbert  
Gas Industry Company  
95 Customhouse Quay  
WELLINGTON

Dear Tim

## Need for further review of the curtailment of electricity generation and the role of retailers

---

Genesis Power Limited, trading as Genesis Energy, welcomes the opportunity to provide a submission to the Gas Industry Company on the consultation paper "Review of Gas Critical Contingency Management Post Maui Pipeline Outage" dated June 2012 ("the paper").

We support most of the recommendations in the paper, however, we consider there is a need for further review of:

- the issues faced by electricity generators during critical contingencies; and,
- the role of retailers in approving designations for curtailment.

We expand on these points below and provide our responses to the consultation questions in Appendix A.

### **Need for further review into issues faced by electricity generators**

The paper places a significant focus on the curtailment of small to medium gas consumers during a contingency event. While this is an important issue, as noted "the biggest gains are to be made by curtailing electricity generation (often 70-80% of supply)." This supports the need to ensure that the CCO co-ordinates this curtailment in a structured, orderly and efficient way.

We consider the events that occurred during the Maui outage highlighted a number of areas that should be reviewed to improve the efficiency of the curtailment process. Specifically:

- the way the CCO issues instructions to electricity generators to curtail consumption during a contingency and the timeliness and effectiveness of these communications;
- the role of electricity generators' obligations under the electricity market regulations, and the implications of these obligations on what may be "reasonably practicable" for effective curtailment; and,
- the manner in which contingency events are co-ordinated to account for security of electricity supply and to ensure the electricity market System Operator and Security Co-ordinator are adequately informed of contingency events in the gas market.

#### **Retailers should not be responsible for recommending Minimal Load Consumers (MLC) and Essential Service Provider (ESP) designations**

We support the proposal for an independent body to approve consumer applications for MLC and ESP designations. However, while retailers can add value by co-ordinating and assisting consumers with the application process, we do not consider they are the appropriate body to make the decision itself.

As demonstrated by the Maui outage, the order in which gas is curtailed and restored to consumers is an issue of wider public and national significance. It follows that any decision of whether or not a consumer is an MLC or ESP should reflect this wider public interest. We do not consider that retailers are the appropriate body to make this decision. In our view, retailers are likely to come under pressure from customers to uphold the existing designations and are likely to face negative consequences from making a decision that, although reflecting the public policy interest of the gas market, may not necessarily reflect the best interest of the individual consumer.

We consider that the proposed process whereby an independent body approves retailer recommendations introduces unnecessary duplication into the process. To be an effective reviewer of retailer decisions this independent body will need to repeat the assessment process. This is clearly inefficient. We suggest the most efficient way to resolve concerns with the designation approval process is to place the decision directly with the independent body. A single layer of decision making is more procedurally efficient and will ensure that designations are granted consistently across all consumers.

We suggest that the GIC is the most appropriate body for assessing and making these public policy decisions. The GIC is already well equipped to make decisions

that reflect this wider public interest, and to consider the type of information necessary for this assessment. The GIC as decision maker also has the added benefit of ensuring that retailers can rely upon MLC or ESP designations granted to customers who have switched from other retailers.

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

Yours sincerely



Lizzie Wesley-Smith

Regulatory Advisor

## Appendix A: Responses to Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you agree that consumers with back-up supplies should continue to be curtailed before those without back-up supplies or do you consider that the possible loss of investment efficiency outweighs the possible short-run costs of from inefficient curtailment?</p>	<p>We agree with maintaining this distinction, however, we question its practical effect during major contingency events. We note that during the Maui outage 1a and 1b consumer bands were curtailed at the same time.</p>
<p>Q2: Do you consider that small (&lt;2TJ pa) “critical care” consumers should be eligible for ESP status and only required to curtail as a “last resort”?</p>	<p>Yes. We agree that all critical care consumers should have the same priority irrespective of their annual consumption.</p>
<p>Q3: What is the best mechanism for achieving this outcome?</p>	<p>We consider that removing the 2TJ threshold (Option A) is the most effective way to ensure that, where appropriate, consumers obtain critical care status.</p> <p>We do not agree that the additional “overhead costs” of this option would be significant. While “there are 13,600 consumers within this band” it is unlikely that many of these consumers would need to apply. We think the costs associated with having to monitor compliance with a “self-select” option (Option C) are likely to be more significant.</p> <p>We do not support Option B. While it provides the simplest mechanism for ensuring these consumers receive priority supply, it removes the distinction between small consumers that rely on gas for critical care and those who do not. This distinction is an essential one and should be maintained.</p>

QUESTION	COMMENT
<p>Q4: Would you support a “self-select” ESP mechanism for small (&lt;2TJ) consumers if it was possible to modify the compliance arrangements and enforce compliance more readily?</p>	<p>As above, we prefer Option A. We consider the costs and complexities with monitoring a “self-select” option after the event could be significant. This option also does not support the need for transparent, consistent and certain criteria.</p>
<p>Q5: Given that employers have clear obligations to maintain safe work-places, do you agree that Regulation 47 should be clarified to ensure that its application is restricted to exceptional circumstances?</p>	<p>The need for and rationale for this change is not fully explained in the paper. Our own view is that the current wording in Regulation 47 already sets the threshold very high. However, we agree that the word “safety” could be replaced with more specific wording. If there are issues with the application of Regulation 47, then examples should be provided (actual or potential).</p>
<p>Q6 Do you agree that the reference to the NCDEMP Order should be replaced with more specific criteria?</p>	<p>We support the need for more specific criteria to ensure a more effective curtailment.</p>
<p>Q7: What categories do you consider should be eligible for ESP designation, and how would you rank these in order of importance</p>	<p>We agree with the categories identified for ESP designation and the suggested ranking in the paper. In particular, we strongly support ensuring that critical care services have the highest priority.</p>
<p>Q8: Where consumers are designated as ESPs what level of gas supply should be allowed during a critical contingency?</p>	<p>We consider that there could be practical issues with requiring consumers to be limited to a pre-determined “essential” level of supply. What is “essential” for a given consumer during a contingency event will depend on seasonal variations and the demand for goods and services at that time. There needs to be flexibility to account for this.</p>
<p>Q9: What sequence of curtailing gas supplies during a critical</p>	<p>As per our response to Q7, we agree with the order of ranking that is</p>

QUESTION	COMMENT
contingency do you consider to be appropriate and why?	proposed in the paper.
Q10: What information should potential ESPs be required to provide in support of an application?	Consistent with the points we raise in our cover letter, we consider the type of information required should reflect who is charged with making the decision or recommendation on the application. We do not consider it should be the retailer's role to assess information relating to how prepared a consumer is for an emergency including whether a consumer reasonably ought to have back-up supply arrangements for coping with loss of supply. While this information is relevant we consider an independent body acting in the interests of the industry as a whole is better placed to assess this information. If this role is left with the retailer it could lead to consumers switching if the retailer does not give them the answer they want.
Q11: Do you agree that potential ESPs should be required to demonstrate that they have considered back-up supply arrangements?	Yes. However, as per our response to Q10, we do not consider that it should be the retailer's role to assess this information.
Q12: Do you agree that the flexibility to approve ESP and MLC designations during a contingency should be retained but limited to exceptional circumstances?	Yes. But we also agree that it is more important that the arrangements encourage retailers and consumers to prepare in advance.
Q13: What information should potential MLCs be required to provide in support of an application?	Refer to response to Q10.

QUESTION	COMMENT
Q14: Do you agree that potential MLCs should be required to demonstrate that they have considered back-up supply arrangements	Refer to response to Q11.
Q15: What is the most appropriate mechanism for curtailing gas demand from small customers (<2TJ pa) during a critical contingency – curtailment directions, a public appeal for savings, or both?	We support retaining the existing arrangements whereby band 6 customers are required to curtail demand. This should occur prior to a public appeal for savings.
Q16: Do you agree the “one-off” obligation in r39 should be replaced by an on-going obligation for retailers to notify consumers and work with them on contingency plans?	The “one-off” obligation in Regulation 39 relates to information the retailer must provide to the CCO on the number and types of consumers at each gas gate. It does not appear to relate to the obligation on retailers to notify consumers on contingency options.
Q17: Do you agree that the regulations need to be amended to clarify that each consumer installation (ICP) should be separately identified and allocated to a curtailment band?	Yes.
Q18: Who should maintain the “load shedding category” in the registry: distributors or retailers?	From a process perspective we consider that it makes more sense for retailers to maintain this record.
Q19: Is an independent audit of the “load shedding category” registry field necessary at this point or is it feasible to rely on improved processes to enhance accuracy? Should this registry field be audited at regular	As retailers we consider ourselves obliged to ensure the accuracy of this field in terms of the customer load characteristics. If the purpose of the audit is for wider considerations to be taken into account, then an independent audit would be necessary.

QUESTION	COMMENT
intervals to promote accuracy?	
Q20: Who should approve MLC and ESP designations and what should the role of retailers be in this process?	Refer to our cover letter.
Q21: If you agree that an independent body should provide final approval, how should that body be constituted?	We consider the GIC would be the appropriate body for this role.
Q22: Do you agree that retailers should be required to prepare a “Gas Retailer Curtailment Plan” and have it approved?	Yes. We already have a curtailment plan in place that we are currently reviewing against the events of the Maui outage.
Q23: What degree of detail should be included in a “Gas Retailer Curtailment Plan”?	We agree with the level of detail recommended in the paper.
Q24: Who should approve a “Gas Retailer Curtailment Plan”?	This function should be performed by the same body responsible for approving ESP and MLC designations. We consider the GIC would be the appropriate body for this role.
Q25: What is the best means for the CCO to access consumer seasonal or daily consumption data to facilitate analysis and planning during a contingency?	The allocation agent should be the main source of data for all TOU gas consumption. Mass market and SME consumer information would need to be extracted from historical data within retailer’s billing systems.
Q26: Do you agree it would be useful to clarify within the Regulations that the CCO may call for public restraint and gas savings in an affected region, following consultation with Gas Industry Co, if band 6 consumers in that region are directed to curtail gas	<p>Yes. However, as noted in our response to Q15, a public appeal for savings should occur after curtailment of band 6 consumers.</p> <p>We would also want to receive notification prior to the call being made so that we could manage</p>



QUESTION	COMMENT
consumption?	communications with our customers.
Q27: Do you agree the Regulations should clarify who is responsible for coordinating communications during a critical contingency, and who should appoint a media spokesperson?	We support the appointment of a central spokesperson, but would reserve the right to manage direct communications with our customers. We would want to be notified prior to public announcements being made that may affect these communications with our customers. We agree the CCO is the best placed body to make this appointment
Q28: Who is best-placed to assume the media communication and spokesperson role?	We agree that the CCO is best placed to assume this role.
Q29: What additional powers does the CCO need during a contingency to acquire important information from TSOs and other asset owners?	We consider that powers for the CCO to acquire important information are already provided for in the Regulations. Regulation 50(1)(a) provides the CCO with the authority to “issue directions to transmission system owners that, having regard to the nature of the critical contingency, are necessary to achieve the purpose of these regulations”
Q30: What additional provisions are required in the CCO Service Provider Agreement to clarify and enhance its role during a critical contingency? (Note that the service provider agreement is available on the GIC website.)	No comment.

QUESTION	COMMENT
Q31: What processes should be established around the preparation and delivery of the CCO Performance Report?	No comment.
Q32: Do you agree that the CCO should have powers to reconfigure networks during a critical contingency where this could assist in minimising overall costs?	Yes, the most recent Maui contingency has demonstrated the benefits this can have in reducing the effects of the event.
Q33: Do you agree that there is a lack of clarity around the purpose for and distinction between national and regional contingencies, and if you agree, how do you think this is best clarified?	No. If there was any lack of clarity then the past two events (Maui and Pohokura) should have cleared this up.
Q34: Do you agree that contingency imbalance calculations and contingency prices only apply to national contingencies (i.e. gas supply shortages) and not to regional contingencies (i.e. gas transport shortages)?	Yes.
Q35: If you consider that contingency imbalance calculations and contingency prices should also apply to regional contingencies, how would that work?	Under contingency arrangements it would be beneficial to have a single balancing pool, (currently there is a separate Maui pool and Vector pool). This would incentivise and make it easier for producers and shippers to mitigate the event. Under the current arrangements if an event occurred on the Maui system producers injecting gas into the Vector transmission system may find it too late in the day to

QUESTION	COMMENT
	nominate additional gas under the Maui nominations cycle, thus preventing gas flowing to assist reducing the effects of the event.
Q36: Do you agree that it would be helpful to have an early declaration as to whether a critical contingency is regional or national?	It is important to know as soon as possible if the event is a supply issue (critical contingency) or a pipeline constraint (regional). This ensures that industry participants can take the appropriate action as soon as possible.
Q37: Who is best-placed to determine whether a critical contingency is regional or national?	The CCO is in the best position to determine this.
Q38: Do you agree that stronger enforcement provisions are necessary to cover breaches by non-industry participant consumers?	Yes we agree that stronger enforcement provisions are necessary because of the discord between the definition of an “industry participant” in the Gas Act 1992 (“the Act”) and the definition of this term in the Regulations. We agree that that Act would need to be changed to enforce penalties against small consumers.
Q39: Do you have any suggestions about possible mechanisms to improve consumer compliance with curtailment directions?	Retailers could include terms and conditions in their customer contracts to enable them to collect penalties against consumers.