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Dear Sir

Gas Critical Contingency Management Arrangements

Introduction

1. Mighty River Power welcomes the opportunity to comment on the Gas Industry Co's (GIC's) Gas Critical Contingency Management Arrangements – Short Form Consultation Paper, May 2008.
2. No part of our submission is confidential and we are happy for it to be made publicly available.

Mighty River Power's views

3. Mighty River Power is generally supportive of the CMP.
4. Mighty River Power believes that the Contingency Management Plan (CMP) has two serious omissions. First, the CMP does not include or involve the distribution network companies. It allows for transmission operations and the Critical Contingency Operator (CCO) to instruct retailers on what to do with regards to their customers on the networks and relies upon the contractual arrangements between retailers and network companies being aligned with the CMP. Therefore, whilst it is unlikely to happen in practice, the possibility exists that the retailer may be instructed to do one thing by the CCO and something different by the network company. Mighty River Power **recommends** that the CMP include both network operators and all customers.
5. The other omission is the definition of "Customers" in the CMP specifically excludes residential customers in the load shedding arrangements. Whilst the requirement to turn off the gas supplies to residential customers is very much a last resort it has happened on a network by network basis. Had the transmission pipeline at the Pohangina Bridge near Ashhurst broken, in February 2004, which could have happened to the wipe out of a bridge the pipeline was attached to due to flooding, then it would probably have resulted in the disconnection of residential customers throughout the Hawke's Bay. The CMP is incomplete if it does not include arrangements for all parties involved in the delivery of gas to customers and to all customers. As it is proposed the CMP is reliant on third party agreements between networks and retailers and also between retailers and customers. Mighty River Power **recommends** that the CMP be amended to make specific mention of residential customers and what could happen if they are affected.
6. A significant change from the existing National Gas Outage Contingency Plan (NGOCP) is the number of phases involved in the CMP. The NGOCP included a Post Stabilisation phase where it was envisaged that, assuming the contingency was not a pipeline breach then once the pipeline was stabilised then if a company had gas then they were allowed to recommence supplying gas to their customers. Under the

CMP the CCO retains control of the available gas and this is made available to customers at his or her discretion for as long as the contingency lasts. Mighty River Power **recommends** that the GIC consider including in the CMP a mechanism to either bypass or request gas from the CCO.

7. The CMP envisages using an Independent Expert to set the Critical Contingency Price. Finding a truly independent person may be quite difficult given the relatively small size of the Gas Industry in New Zealand. In addition, the setting of the Critical Contingency Price is of some concern given that as the CMP is written we would be expected to continue to supply our customers, who are almost all residential, potentially at a gas price we would not know about until a month after the event. The Price is to be set based on the wholesale electricity market price and under Regulation 67(2)(c)(ii) “the economic cost of the loss of gas supply to those consumers who had their gas supply curtailed”. The interesting aspect of this is that the Price will include the economic loss that individual customers incur and the Regulations also allows such customers to find out what the Contingency Price was set at but at no point includes the right for these customers to be compensated for their lost gas. Mighty River Power **recommends** that the GIC include in the CMP some mechanism for end-users to be compensated for foregone gas from the Critical Contingency Cash Pool that the GIC will administer.
8. The proposed regulations retain the provision for the Independent Expert to take into account the prices in the wholesale market for electricity during a critical contingency. While this is only one of many factors that can be taken into account we are concerned that electricity prices are included given their level is dependent on what is happening in the gas market in terms of gas supply so electricity prices will increase in the event of a gas contingency, possibly by a significant amount. Mighty River Power **recommends** that the inclusion of wholesale electricity prices be qualified to acknowledge the dependency between gas prices and wholesale electricity prices, the final price should not in every case be based on these. We support the change made to the proposed regulations to provide for a two stage process whereby the Independent Expert sets a preliminary price and then affected parties get to make a submission. After taking into account feedback received the Independent Expert then issues critical contingency prices.

Responses to the Gas Industry Co’s questions

9. Our comments on the specific questions asked in the Consultation Paper are detailed below.

Question	Comment
Q1 Are the proposed threshold limits (or the ranges for those limits) set at an appropriate level?	Yes.
Q2 Do you consider the definitions of positive and negative contingency imbalances are appropriate? If not, please explain why.	Yes. It is however a complex way of saying that those who use someone else’s gas has to pay for it at penalty rates.
Q3 Do you agree that a process for correcting material errors in contingency imbalances is desirable?	Yes. However materiality and its definition may vary from company to company and perhaps this should be a defined term.
Q4 What is your view of the proposed two-stage process for setting the critical contingency price?	It is likely that the two stage process will result in the most obvious conflict of opinions based on whether the company is being paid out or paying out. Of more concern is the basis for setting the price. In the absence of a wholesale market it is unlikely that any

Question	Comment
	price setting mechanism will find universal approval.
Q5 Do you consider the definition of regional critical contingency is sufficiently unambiguous? If not, how do you think it should be improved?	Yes.
Q6 Do you agree with the appeal process for the designation of consumers as minimal load consumers and essential service providers?	No. the whole process is too light handed and the definitions are not nearly specific enough. It is recommended that following retailers approval of a Minimum Load or Essential Service Customer's application that these be authorised by the GIC and that a Retailers Minimum Load and Essential Services customers should be audited as a standard rather than if the Transmission operator suspects that the figures are materially incorrect. The GIC should however review any appeals for customers whose applications are declined by their retailers.
Q7 Are there any other changes to the proposed regulations that you wish to comment on?	No given the limited scope of the paper.
Q8 Are there any other areas related to implementation that should be included within the terms of reference of CMIG?	Good communications throughout an emergency are essential both internally and within the industry and externally to our customers. It is noted that the CMIG will be addressing the Communications Plan and this needs to include both an internal and external communication plan.

Concluding remarks

10. If you have any queries regarding this submission please contact Sharron Came, Regulatory Strategist on 04 4604231 sharron.came@mightyriver.co.nz or Duncan Jared, Mighty River Power's Gas Portfolio Manager on 09 308 8290 or Duncan.jared@mightyriver.co.nz

Yours faithfully

Sharron Came, Regulatory Strategist