



20 February 2008

Ian Dempster  
Gas Industry Co  
PO Box 10 646  
Wellington

Dear Ian,

### **Submission re Gas Outage and Consultation Management Arrangements**

Please find attached a submission from Nova Gas Ltd (**Nova**) regarding the Gas Industry Company's (**GIC's**) Supplementary Consultation Paper regarding Gas Outage and Contingency Management Arrangements.

To summarise Novas views:

#### **1. Setting Linepack thresholds**

Nova agrees that pipeline owners are more likely to be in a position to understand real operational limits on their respective pipelines however there is a natural tendency for monopoly service providers/owners to take a conservative, low-risk approach to managing contingency outages resulting in higher linepack thresholds and more contingency events. This behaviour is already observable with MDL and its operation of the Maui pipeline and management of linepack.

Accordingly Nova prefers a process with checks and balances to establish appropriate linepack thresholds necessary to triggering of contingency measures. It's suggested that transmission service consumers should have the opportunity to should contribute in determining the thresholds and participate in what is ultimately a commercial/operational appraisal; or

#### **2. Level of discretion**

Nova believes that contingency arrangements should limit discretion and be prescriptive in relation to the actual process of curtailing customers and restoring customers when the contingent event circumstances have ended.

Nova supports a strict ordering of curtailments and adherence to the ordering. Transparent curtailment processes are required to ensure that parties comply with instruction given. Use of discretion by a pipeline operator will undermine confidence in the process and will:

- (i) raise concerns the pipeline owners potential conflict of interest; and
- (ii) increase the risk that consumers ignore curtailment orders. The curtailment process will rely heavily on the willingness of consumers to

comply with the instructions of then CCO during an actual event and there is not likely to be sufficient time for the CCO to attend to enforcement measures.

### **3. Price**

Overall Nova is comfortable that the price is set at a sufficient level for the allocation of scarce resources for highest value use is appropriate and consistent with a competitive market place environment.

### **4. Determination of quantities**

Nova advocates more work being completed on sub-day calculations. Specifically there needs to be a robust cost / benefit analysis into the work involved in calculating at an hourly level versus the value generated and hence analysis of whether an on-a-day approximation will suffice.

Please contact me if you would like to discuss our submission.

Regards

Charles Teichert  
Nova Gas

## Nova Gas submission on the Gas Outage & Consultation Management Arrangements February 2008

QUESTION	COMMENT
<p>Q1: Do you consider the proposed deadlock breaker provision (which can only be exercised after a period of 6 months) is an appropriate mechanism to ensure the application of the regulations is not frustrated by any delay in getting the first OCMPs in place?</p>	<p>Nova agrees that a deadlock breaking provision should be regulated with the regulator having the ability to impose solutions where there is disagreement.</p>
<p>Q2: What is your view of Gas Industry Co setting the line pack and pressure thresholds as part of recommending the regulations? Do you agree that the approach set out in 5.18 and 5.19 for the setting of the minimum pressure and linepack thresholds is preferred?</p>	<p>Nova agrees that pipeline owners are more likely to be in a position to understand real operational limits on their respective pipelines.</p> <p>Nova would caution, however, that there is a natural tendency for monopoly service providers/ owners to take a conservative, low-risk approach to managing contingency outages resulting in higher linepack thresholds and more contingency events. This behaviour is already observable with MDL and its operation of the Maui pipeline and management of linepack.</p> <p>Accordingly Nova would support process with sufficient checks and balances to ensure appropriate thresholds for triggering contingency measures are set.</p>
<p>Q3: Do you consider it essential for the CCO, through retailers, to be able to require domestic consumers to comply with curtailment directions or is Gas Industry Co's proposal to the exclude domestic consumers adequate for the effective operation of the outage and contingency arrangements?</p>	<p>Nova acknowledges that the requirement to curtail domestic consumers should only eventuate in extreme emergencies, however, if the arrangements are to be effective in managing a pipeline outage (as opposed to lack of supply capacity) then the CCO will need the ability to curtail domestic customers.</p>

QUESTION	COMMENT
<p>Q4: Do you agree that the proposed curtailment arrangements outlined in 5.33 and as specified in the schedule to the regulations are appropriate?</p>	<p>Nova supports a fixed schedule of curtailments and adherence to the schedule. Nova favours defined rules that set upfront what degree of curtailment occurs and when and where. It is suggested that a more prescriptive / less discretionary approach will both:</p> <ul style="list-style-type: none"> <li>(i) reduce concerns about conflict of interest of vertically integrated pipeline operators</li> <li>(ii) provide certainty and confidence for all parties, and in particular consumers, which will in turn, minimise the risk of non-compliance as parties have the surety that the rules in place are the most effective mechanism to manage a contingency situation. Conversely, a lack of confidence will encourage non compliance with curtailment orders and undermine the ability of the CCO to arrest line pack depletion.</li> </ul>
<p>Q5: Do you agree that defining contingency imbalances on a sub-day period is more likely to fulfil the objectives, and that the feasibility of this should be examined further?</p>	<p>Nova advocates more work being completed on sub-day calculations.</p> <p>Specifically, cost / benefit analysis should be performed regarding the work and costs involved in calculating flows and consumption on an hourly basis versus the value generated and hence analysis of whether daily quantities suffice (i.e. do we really need an hourly system given the probability of occurrence?). Given the low probability of contingency events, the costs of designing and implementing systems and processes to calculate intra day quantities but not be sufficient.</p>
<p>Q6: Do you agree that the Gas Industry Co should develop a set of guidelines to clarify some of the detail and help TSOs prepare plans that are workable and consistent with the regulations for determining imbalances?</p>	<p>Nova supports the GIC's proposed guideline development.</p> <p>Nova considers it appropriate that the GIC sets high level principles on how to determine quantities and approved dead-lock provisions for when parties do not agree, plus validate that any TSO proposed mechanism adequately meets these principles.</p>

QUESTION	COMMENT
<p>Q7: Do you agree that in the case of a regional contingency there is no advantage to putting in place arrangements that would require payments between shippers? If not, please explain your rationale, the way any such payment arrangement would work, and how efficiency would be improved by the requirement for such payments.</p>	<p>Nova does not agree with this assertion.</p> <p>Nova's concern is that, by way of example, under likely curtailment provisions industrials will be curtailed over and above domestic users. Accordingly the situation may arise where retailers supplying only domestic consumers would get all "their" gas, over and above another retailer who was forced to curtail their industrial load. Since Vector Transmission treats most retailers as having an equal priority right to system capacity, Nova suggests it's entirely appropriate for the domestic retailer to provide some recompense to the affected industrial retailers/consumers. It is not right that once class of customer should receive an improved security of supply position at the expense of another class without some form of consideration.</p>
<p>Q8: Do you agree that the independent expert should be required to apply the over-arching principle set out in 5.80 when determining the Contingency Price?</p>	<p>Yes</p>
<p>Q9: Do you agree that the independent expert should be required to have regard to the issues set out in 5.81 when determining the Contingency Price?</p>	<p>Yes. Nova agrees that this is an appropriate high-level principle</p>
<p>Q10: Do you agree that under the proposed arrangements where the TSO calculates the imbalances, that the TSO should operate a critical contingency cash pool?</p>	<p>Yes. Nova agrees that this is a logical mechanism</p> <p>Nova would suggest that the rules need to consider non payment of invoices and timing of cash-flows, as currently it is not clear as to what occurs in instances where there's a funding issue for the cashpool and when a part defaults on a payment.</p>
<p>Q11: Do you agree that the CCO should be asked to spread its up-front costs over the duration of the agreement?</p>	<p>Yes</p>
<p>Q12: Do you accept the proposed approach to spreading the development costs, and that the final outcome will be dependent on Gas Industry Co's balance sheet capability?</p>	<p>Yes.</p> <p>Nova advocates recovering the costs, not via the GIC levy, but directly off applicable transmission operators. Nova notes that these costs would then be recovered through pipeline tariffs, thereby ensuring that only users of Open Access pay for what is fundamentally a function of the Open Access system.</p>

QUESTION	COMMENT
<p>Q13: Do you agree that it is necessary for the Compliance regulations to include an ability to obtain urgent orders where consumers fail to comply with directions to curtail demand? If not, why not?</p>	
<p>Q14: Do you agree that the ability for Gas Industry Co to apply for an interim injunction in the event that a consumer fails to comply with a direction to curtail demand would be the most effective incentive for compliance? If not, do you think the Rulings Panel would provide a sufficient incentive and if so, why?</p>	