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Ian Dempster
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11 February 2008

Dear Ian

**GAS OUTAGE AND CONTINGENCY MANAGEMENT ARRANGEMENTS –
SUPPLEMENTARY CONSULTATION PAPER**

1. This submission represents Vector's response to the Gas Industry Co's ("GIC") Supplementary Consultation Paper on Gas Outage and Contingency Management Arrangements (the "Updated Proposal") issued in December 2007 and should be considered in co-ordination with our previous submissions to GIC on this issue¹. Vector's response to the questions raised by GIC is attached as Appendix. A.
2. Vector remains supportive of the work undertaken by GIC in relation to reviewing current outage and contingency arrangements and is pleased to observe this remains a priority for GIC. We welcome the consultative approach adopted by GIC on developing this work stream and believe this enhances GIC's objective of preparing a lucid and fit for purpose proposal that enhances industry outcomes.
3. Thank you for considering this response. If you have any queries, or require further information on any aspect of this submission, please feel free to contact me in the first instance at ewan.gebbie@vector.co.nz or on 04 462 8657.

Kind regards

Ewan Gebbie

Group Manager Regulatory Performance

¹ "Review of National Gas Outage Contingency Plan Arrangements" 14 September 2007 & "Submission on Review of Gas Emergency Arrangements" 25 August 2006.

Appendix A: Recommended Format for Submissions

To assist the Gas Industry Co in the orderly and efficient consideration of stakeholders' responses on switching and registry cost allocation, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Statement of Proposal. Respondents are also free to include other material on switching and registry cost allocation in their responses.

Submission prepared by: **Vector Limited – Ewan Gebbie, Group Manager Regulatory Performance** (company name and contact)

QUESTION	COMMENT
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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>Yes. Vector hopes the OCMPs can be agreed without the need to revert to this provision.</p> <p>The possibility of this being achieved is important to recognise as, whilst the TSOs will be required to consult on their OCMPs, this may not result in a consensus of opinion amongst industry participants. We recognise a fall back position along these lines may be required to ensure the desired outcomes are not compromised by individual parties.</p> <p>Vector believes such a provision may not only apply to instances where a deadlock may be reached between the TSO and GIC. In our view, there is probability of this occurring where there is disagreement between shippers and retailers and GIC at various stages of agreeing the OCMPs (for instance, when consulting on the appropriate guidelines for formulating the OCMPs).</p> <p>As asset owners and operators of the transmission systems, Vector would expect GIC to consult with TSOs where this may occur in order to reach an optimum solution to a specific issue. This will better enable GIC to fully understand why TSOs consider aspects of their OCMPs as being critical to achieving the desired outcomes.</p> <p>Vector considers it important for GIC to recognise all stages of approving the OCMPs have the potential for creating deadlock on specific issues. It will be essential for GIC to maintain a firm hand in ensuring company specific commercial drivers are not allowed to compromise either the purpose of the regulations or the safety and integrity of the transmission system as a whole.</p>

QUESTION	COMMENT
<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 line pack thresholds is preferred?</p>	<p>Vector maintains it is desirable for pressure and line pack levels to be prescribed in the OCMPs as opposed to the Regulations. It will be important for any thresholds to be part of the OCMPs as this will enable them to evolve in response to system and behavioural changes over time.</p> <p>Vector considers inclusion of the thresholds within regulations will lead to a degree of inflexibility in responding to required changes, the process for which is likely to become complex and cumbersome in the event that a change to regulations is required. In Vector's view this may compromise participant's ability to effectively respond to industry changes in an effective manner.</p> <p>Vector has also previously submitted² thresholds should not be limited to pressure and line pack criteria. As it currently stands, the regulations do not sufficiently allow the CCO to take the necessary action to safeguard supplies and the integrity of transmission system for events other than a reduction in line pack and/or pressure levels. Vector considers this to be a major omission that must be remedied before a recommendation to the Minister can be made. Consistent with our previous submission, we maintain the draft regulations should be amended to this effect.</p> <p>Vector believes this can be achieved in one of two ways, either:</p> <ol style="list-style-type: none"> 1. Our preferred solution would be to insert an additional regulation as 44(c) as follows: "Any other situation where the GCO must act to maintain the safe operation of the gas transmission system"

² Vector's submission to GIC's Statement of Proposal "Gas Outage and Contingency Management Arrangements" 14 September 2007; response to Q9

QUESTION	COMMENT
	<p>2. Insert additional provisions under regulation 23(1)(a) that prescribe thresholds for:</p> <ul style="list-style-type: none"> • Injection of non-specification gas into the transmission system(s)³; • Loss of odourisation in the gas transmission systems; • Damage by third parties; • Unplanned emergency remedial/preventative works; • Over-pressurisation of the gas transmission systems; • Any other critical event in addition to the above thresholds that the industry body may determine from time. <p>Vector notes GIC considers events such as a terrorist attack or earthquake are covered under existing national emergency plan provisions.</p> <p>Vector maintains clarification of the term “<i>imminent</i>” (regulation 44(b)) should be replaced with “<i>...will be reached</i>” to remove uncertainty on this point.</p>

³ Vector notes in VENCORP’s “Gas Quality Guidelines – Injection Points v7” November 2001; the “Mitigation” and “Curtailed” limits for each gas parameter are set out based upon continuous excursions for the nominated time or for cumulative times within any 30 minute period.

QUESTION	COMMENT
<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>Vector agrees with GIC's proposal to exclude domestic consumers from any curtailment bands as identified in the Schedule to the regulations.</p> <p>In the event of a regional and/or national contingency, Vector considers the impact domestic consumers will have on overall levels of line pack to be negligible. It therefore seems prudent to exclude this category of customer from any curtailment bands.</p> <p>However, Vector believes it may be useful for GIC clearly define a domestic customer within the general provisions of the regulations as this could be open to interpretation.</p> <p>Should GIC decide to change its Updated Proposal to incorporate domestic consumers into a curtailment band, Vector suggests there will need to be adequate provisions within the regulations to ensure existing retailer and distribution contracts suitably reflect the responsibilities of retailers and distributors in the event of a contingency.</p>
<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>Yes.</p> <p>Vector agrees the proposed curtailment arrangements outlined in 5.33 and specified in the Schedule appear appropriate.</p>
<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>Yes.</p> <p>Vector agrees contingency events can cover sub-day periods and also carry over from one day to the next. Arrangements that reflect this characteristic are therefore more likely to meet the objectives of the proposal.</p> <p>If calculations were undertaken on a daily basis, Vector believes this could potentially result in parties rectifying their positions for taking gas they were not entitled too during a contingency.</p>

QUESTION	COMMENT
<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>Yes.</p> <p>Vector considers this would be useful, providing such guidelines are available prior to the TSOs developing their plans. This would be of particular assistance given the relatively short period of time for consultation awarded to TSOs for the purposes of consulting on such guidelines.</p> <p>Vector assumes that GIC will be drafting such guidelines in co-ordination with TSOs who are currently performing imbalance activities. However, Vector is not clear of the process to be followed where TSOs may disagree with the guidelines and how this may be remedied. Further clarification from GIC on this point would be useful.</p>
<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>Yes.</p> <p>Vector's understanding is that a regional contingency would likely cause all users to have to curtail and no one user should receive gas they were not entitled to.</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>Vector agrees the overarching principle appears to be satisfactory as a basis for the independent expert to apply when determining the contingency price.</p> <p>Vector would suggest GIC considers the possible implications of instances where the contingency price is exceptionally high and may exceed the point of equilibrium where demand exceeds supply.</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.</p> <p>Vector believes the independent expert should have regard to the real value of gas as a general principle.</p> <p>We would also re-iterate our previous comments that the gas sector may be exposed to extreme prices which the electricity market may provide as a result of the system it uses for bid prices.</p>

QUESTION	COMMENT
<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>No.</p> <p>Vector considers GIC should retain responsibility for operation of a critical contingency cash pool as defined in their original statement of proposal. In Vector's view, it would be unacceptable for TSOs to issue invoices to industry participants who in effect do not owe those funds to the TSO. Essentially this leads to a TSO invoicing participants and assuming additional responsibilities for collecting payment on behalf of another industry participant.</p> <p>Vector believes it appropriate for TSOs to calculate imbalance volumes in the event of a contingency. These should then be passed to GIC and/or the industry expert who has responsibility for calculating the contingency price. GIC and/or the industry expert will then be in a position to calculate the amount to be paid, or payable to, individual industry participants.</p> <p>For these reasons, Vector would be reluctant to operate a critical contingency cash pool as identified in the Updated Proposal under any circumstances.</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>Vector agrees this may be a possibility but will largely be dependent upon the detail of the service provider agreement and subsequent discussions around this issue.</p> <p>Vector suggests that the CCO should not be compelled to adopt such an approach especially where this may lead to an inappropriate rate of return or there may be a realistic prospect of default by industry participants. GIC and industry participants in general must remain cognisant that the CCO should not face unfair exposure to costs it will incur through meeting its obligations and performing tasks required of it under the proposed regulations.</p>

QUESTION	COMMENT
<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>It is difficult for Vector to answer this question in detail as we are in no position to determine or comment upon the longer term financial status of GIC or financial guarantees available to it.</p> <p>Given the level of imperfect information in this regard, Vector suggests the development costs should not be spread as identified in the Updated Proposal.</p> <p>Vector understands the Draft Regulations, in effect, also refer to an unfettered right for GIC (as industry body) to pass through costs associated with the arrangements. Vector observes there is no "check" on the costs being incurred. Vector believes parties would expect to see only direct and reasonable costs being passed on. In some instances, Vector suggests checks of this nature need to be included in the Draft Regulations.</p>
<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>Yes.</p> <p>Vector considers this will be important for parties to comply with their obligations under the regulations.</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>	<p>Yes.</p> <p>Vector considers this will be important for parties to comply with their obligations under the regulations. Vector does not believe the Rulings Panel will serve as an appropriate mechanism for achieving this objective. This is because their capabilities are largely reactionary and will not meaningfully assist in achieving the desired actions of industry participants that need to be taken immediately in the event of a contingency.</p> <p>Vector would also expect GIC, the expert adviser and the Rulings Panel to respond favourably to actions taken by the CCO and TSOs to safeguard the integrity of the transmission system where a shipper, retailer or consumer fails to comply with a direction to curtail demand.</p>

QUESTION	COMMENT
<p>Other Comments in relation to the Draft Gas (Outage and Contingency Management) Regulations 2008.</p>	<p>Vector believes the Draft Gas (Outage and Contingency Management) Regulations 2008 (the “Draft Regulations”) require further work before a recommendation can be made to the Minister for his consideration.</p> <p>In Vector’s view, the Draft Regulations contain errors, circular and problematic definitions and omit important content in some areas. Some of the more substantive content is also problematic, with the phraseology having greater or lesser “meaning” depending on whether one is looking at it from the perspective of the operation of the Maui Pipeline or the Vector Transmission System. This is often unclear and left to interpretation.</p> <p>Vector notes that one of the potential issues with the Draft Regulations is the current interplay between the regulations and the various documents which sit under them. Vector empathizes with the difficulty associated with deciding what level of detail to include at the regulation level but believes the right balance is yet to be achieved across some areas of the current Draft Regulations. By way of example, what is included in regulation is the final word on a matter – a contract or a plan cannot vary it and arguably, even add to it (unless the regulation clearly states otherwise).</p> <p>Vector would be willing to engage with GIC on these issues and in providing its specific views on how this can be progressed, if required.</p> <p><u>Appointment of critical contingency operator</u></p> <p>Vector is concerned with regulation 5(6)(b) in that this may not provide sufficient certainty for the CCO to enter into a service provider agreement with GIC. The creation of the CCO will require significant resource and Vector considers it reasonable for GIC to provide assurances to their chosen provider that no investment or assets employed to ensure the effective operation of the regulations could become stranded prior to the proposed five year appointment term.</p> <p>As a potential remedy, Vector suggests that regulation 5(6)(b) should be amended as follows:</p> <p><i>“The industry body may terminate the critical contingency operator service provider agreement between the industry body and such a person if at any time that person ceases to be the system operator for any or all of the transmission system. Any such termination shall be in accordance with the specific termination clauses contained as part of the contingency operator service provider agreement.”</i></p>

QUESTION	COMMENT
	<p><u>Other terms of critical contingency operator service provider agreement</u></p> <p>Vector believes regulation 6(b) requires further clarification. It is not clear to Vector who liability cover relates to or the limitations to what it may or may not cover.</p> <p>While liability between the CCO and the GIC is to be addressed in the service provider agreement, it seems difficult, for example, to see how that agreement can address any liability between the CCO and other parties that may arise.</p> <p>Further clarification by GIC on this point would be useful.</p> <p><u>Review of critical contingency operator performance by the industry body</u></p> <p>Vector considers regulation 11(2) does not add any material importance and should be removed from the regulations.</p> <p><u>General provisions regarding fees</u></p> <p>Vector believes regulation 18 should be expanded to include any ongoing non-payment of fees (i.e. where payment remains outstanding where an additional fee of 10% has already been applied for non-payment).</p> <p><u>Critical contingency operator must determine a critical contingency</u></p> <p>Vector maintains clarification of the term "<i>imminent</i>" (regulation 44(b)) should be replaced with "<i>...will be reached</i>" to remove uncertainty on this point.</p>