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14 September 2007

Dear Ian

REVIEW OF NATIONAL GAS OUTAGE CONTINGENCY PLAN ARRANGEMENTS

1. This submission represents Vector's response to the Gas Industry Co's (GIC) review of the National Gas Outage Contingency Plan (NGOCP) arrangements and Statement of Proposal ("the Proposal") issued in August.
2. As previously stated by Vector, we consider that a review of current NGOCP arrangements is a matter of high priority for the gas industry and Vector particularly welcomes the consultative approach that GIC has adopted in preparing their draft Statement of Proposal on this issue.
3. Vector's response to the specific questions raised by GIC is attached as Appendix. A. In addition, we believe there is merit in elaborating further on key issues for Vector when considering the amendment of current NGOCP arrangements. These are discussed in more detail below.

Vector's General Views on Gas Outage Contingency Arrangements

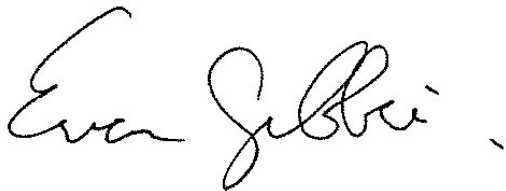
4. Vector is supportive of the GIC's Statement of Proposal. Although we believe some further thought is required on certain aspects of the Proposal prior to a recommendation being made to the Minister, Vector commends the GIC for preparing a substantive document that addresses many of the key issues currently facing industry participants in the effective management of gas contingencies.

5. Vector wishes to emphasise the effectiveness of contingency arrangements being dependent on full co-operation across the industry. It remains Vector's view that, in relation to this particular workstream, this will best be achieved through a mandatory solution in the form of Outage and Contingency Management Regulations (OCMRs) and supported by Compliance Regulations.
6. We consider it appropriate for the proposed OCMRs to be specifically targeted at prescribing the high level principles and responsibilities of industry participants. We agree much of the detail to be included as part of the Outage and Contingency Management Plans (OCMPs) should be excluded from the OCMRs, as this will allow industry participants to better manage and respond to the needs of the industry should future amendments to either the OCMRs and/or OCMPs be required.
7. Vector is pleased to observe that the Statement of Proposal to amend outage and contingency arrangements is limited to regional and national events. Vector believes this to be a prudent and effective approach as contingency and emergency events that occur on distribution systems have very different requirements.
8. Vector also agrees in principle that it is well placed to fulfill the role of Gas Contingency Operator (GCO) under the arrangements being proposed by GIC. However, further detailed discussion needs to be undertaken around the specific role, responsibilities and liabilities of the GCO. This will enable Vector to determine whether it is prepared to consider undertaking this role in future.
9. When developing the OCMPs, Vector considers that it would be preferable for there to be consistency between the OCMPs of both Transmission Network Owners (TNOs). It appears to Vector that the development of OCMPs will necessitate a high degree of duplication across many areas between the respective TNOs, namely Vector Transmission and Maui Pipeline Limited. Vector therefore recommends simultaneous consultation by TNOs where reasonably practicable, prior to formalising their contingency plans, and that both the GCO and GIC are cognisant of this when approving the OCMPs.
10. Vector has existing processes and procedures contained in an Emergency Response Plan (ERP). This document contains references to the existing NGOCP on the basis that an emergency may require the invocation of the NGOCP or vice versa. The ERP is mainly concerned with coordinating safety, resources and communications when assets sustain physical damage. Under transmission system legislation and standards, there is a requirement for the pipeline owner and operator to have an ERP. Vector considers there may be a requirement for reference to this to be made under future TNO OCMP requirements. It may also be preferable to include parties such as OSH and Pipeline Certifiers as interested parties and/or stakeholders in the development of any future OCMPs. In short, Vector would observe that the OCMPs must align and be consistent with a TNO's ERP.

11. Vector looks forward to working with GIC in a collaborative manner on this workstream over the coming weeks, particularly in the area of defining the specific role of the Gas Contingency Operator (GCO) and in resolving remaining issues involving Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) requirements.

Thank you for considering this response. If you have any queries, or require further information, please feel free to contact me in the first instance at ewan.gebbie@vector.co.nz or on 04 462 8657.

Kind regards

A handwritten signature in black ink that reads "Ewan Gebbie". The signature is written in a cursive style with a small flourish at the end.

Ewan Gebbie

Group Manager Regulatory Performance

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
<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>Vector agrees that the four problem areas identified by GIC are key and need to be addressed by any new outage and contingency management arrangements.</p> <p>Vector wishes to emphasise that the effectiveness of the proposed arrangements will be dependent upon the full participation and co-operation of all industry participants. The Statement of Proposal offers more certainty in rectifying current deficiencies and it is likely a mandatory solution will be required to achieve this outcome.</p>
<p>Q2: Are there other key problems with the current arrangements which also need to be addressed?</p>	<p>Instances of Maui over pressurisation have proven to be an issue for industry participants. Vector has been required to undertake preventative action to safeguard the integrity of transmission networks due to this problem.</p> <p>We consider a review of current MPOC arrangements may be appropriate to address this issue. However, in our opinion this should not be a function of any revised NGOCP arrangements. Vector suggests GIC should consider undertaking such a review as a separate item under its current pipeline workstream.</p>

<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>Vector maintains its earlier view that any new contingency arrangements should be promulgated under regulations and/or rules. This is particularly relevant as actions will be required to be performed that may circumvent existing contractual obligations of industry participants. It would appear that a more fully prescribed regime, inclusive of detailed arrangements for contingencies, appears to be the only reasonable alternative for the purposes of establishing a counterfactual.</p>
<p>Q4: Do you agree with the proposed regulatory objective?</p>	<p>Vector considers that the primary purpose of the Statement of Proposal should be to facilitate more efficient and effective management of gas contingency events. It is obvious to Vector that any such arrangements will not seek to compromise the long-term security of supply of gas transmission networks and that statements to this effect are therefore superfluous.</p> <p>Vector suggests that the regulatory objective be amended to read as follows:</p> <p><i>“arrangements are in place to ensure effective handling of a national or regional gas contingency”</i></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>Vector agrees that the benefits outlined in the Statement of Proposal appear to be materially higher than the counterfactual.</p> <p>Given the size of the New Zealand gas sector, Vector supports a proposal that will provide greater simplicity and certainty of industry practices in the event of a contingency whilst minimising transaction costs and improving operational effectiveness for all industry participants.</p>

Q6: Do you agree that the proposal has the potential to address the key problems identified with the current arrangements?

Yes. Vector commends GIC in their approach to preparing the Statement of Proposal. Vector believes the desired outcome will be dependent upon further consultation to establish the finer detail of the proposed arrangements. This will need to include further discussion on the detail of the GCO's role under the terms of the GCO service provider agreement.

Vector notes that the Statement of Proposal as it currently stands does not fully align with the requirements of the MPOC and VTC (please also refer to Vector's response to Q15). It is important to recognise that any outage and contingency recommendations should seek to provide commercial certainty for industry participants at all times. For example, it is not clear to Vector when the provisions of the MPOC and the VTC would cease in the event of a contingency under the proposed arrangements (or when normal contractual relationships would resume following a contingency).

Vector suggests an industry workshop, convened by GIC, that applies the current proposals to an actual or probable contingency event would be useful in ensuring that there is an appropriate balance between the OCMRs and the detail of future OCMPs. This would identify solutions to possible gaps in the current proposals and Vector would be willing to support GIC with this initiative.

Vector believes that one of the strengths of the current NGOCP arrangements is the Phase 1 notification process. This facilitates advanced notification to industry participants of a possible contingency, allowing preventative action to be taken (for instance, preparation to shed load). Vector would welcome the retention of a similar process under the proposed arrangements as this could assist in preventing the instigation of a contingency. Whilst certain industry arrangements already cater for this (such as MPOC), Vector would encourage that the development of the OCMPs should also accommodate a Phase 1 notification process.

Q7: Do you agree with the proposed definition of a Gas Contingency? If not, what would you propose?

Vector generally agrees with the proposed definition of a gas contingency. However, we believe that greater emphasis needs to be placed on maintaining safe operations for the purposes of maintaining and securing a supply of gas to consumers. Vector therefore proposes that the following be considered as an alternative:

“When there is a need to intervene across normal commercial arrangements to ensure the safe operation of the gas supply system”

Regarding the definitions contained within the draft OCMRs, Vector observes that a comprehensive set of standard definitions for use across the gas industry can already be found under established codes such as the MPOC and the VTC. In Vector’s opinion, it would be beneficial to ensure that the definitions and, where possible, interpretations contained in the OCMRs are consistent with existing industry codes. For instance, the MPOC specifies a “Contingency Event” whereas the OCMRs provide for a “Gas Contingency”. Vector assumes that this is because a gas contingency is considered part of a contingency event and the two are not the same. Clarification from GIC on this point would be appreciated.

Vector considers that the definition of a contingency event does not appear to be consistently applied throughout the Statement of Proposal. The OCMRs imply that a contingency event only occurs at low pipeline pressure. However, the Statement of Proposal and the purpose of the regulations could be considered much broader than this, potentially including anything that threatens the safety of the gas transmission system (please also refer to our response to Q9).

A more minor point is that part of the document refers to ‘gas outage’ when this is not a defined term. Vector accepts that the precise purpose of a definition may vary between industry codes but it would nevertheless be useful to achieve consistency across definitions where possible.

Q8: Do you agree with the list of responsibilities given to the GCO?

Vector agrees with the list of responsibilities assigned to the GCO. However, we are not entirely sure what is meant by the term 'performance' when compiling post incident reports following a contingency? Further clarification on this point would be useful.

The GCO should also be tasked with obtaining specific information from TNOs required to effectively manage a contingency such as linepack and pressure data. Vector considers that this is not sufficiently covered under the proposed OCMRs at present.

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?

Yes. Vector considers that the primary purpose of the GCO will be to maintain the safety of gas networks. This will require the GCO to make decisions as specific conditions of a contingency unfold. It may not be possible to foresee all eventualities and therefore the flexibility for the GCO to take decisions based upon their technical expertise will be important.

Vector observes that further clarification of the term “...*is imminent*” (as stated in regulation 44(2) of the draft OCMRs) would be useful. We would suggest that this be replaced with “...*will be reached*” to remove uncertainty on this point.

Vector also believes that there is a requirement to extend the definition of a gas contingency to cover circumstances other than minimum pressure and/or minimum linepack levels. For example, the GCO may need to declare a contingency where there is a loss of odourisation on the system, an injection of non-specification gas and/or a terrorist attack. To address this, Vector considers that a further regulation be added under regulation 24(1) of the OCMRs. We suggest this should read as follows:

“(c) Any other situation where the GCO must act to maintain the safe operation of the gas transmission system”

Vector has assumed from the Statement of Proposal that the GCO will maintain discretion as to how load will be curtailed in the event of a contingency, provided that this does not breach any provisions contained within the OCMRs and OCMPs. Clarification from GIC on this point would be appreciated.

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?

Vector agrees that the defined roles of TNOs and the GCO appear to be prudent given their respective responsibilities under the new arrangements.

Vector considers that the GCO is best placed to approve the OCMPs without the need for additional third party involvement (which may increase industry costs). However, Vector understands that some industry participants may require independent verification of the OCMPs as a means of providing added certainty that the OCMPs will be fit for purpose in the event of a contingency. Whilst not our preference, Vector has no issue with this aspect of the Statement of Proposal although we would note that any expert appointed by the GIC should be suitably qualified and independent.

The Statement of Proposal also assumes that the GCO will have access to pressure and linepack data via the TNOs. Vector would suggest that the OCMRs may need to elaborate further on the data flows required between the GCO and TNOs. This should also adequately ensure suitable data is available to the GCO in the event that the GCO does not also perform the role of a TNO.

When assessing the planning role for TNOs, Vector also notes that shippers have not been assigned any roles or responsibilities under 9.24 of the Statement of Proposal. Clearly they will need to be actively involved and assigned roles in the event of a contingency, especially as shippers may be different from retailers. Although this does not materially detract from the overall suitability of the proposed arrangements, Vector suggests that this be clarified by GIC in any subsequent round of consultation and prior to a formal recommendation being made to the Minister.

It would also be useful for GIC to clarify the level of consultation expected by the GCO and TNOs with other industry participants when formulating and approving the OCMPs.

Q11: Do you agree that the existing NGOCP curtailment bands should be updated: a) To distinguish large consumers supplied from the transmission system that have an alternative fuel capability, from those that do not have an alternative fuel capability? b) To combine the existing NGOCP bands B, C and D into a single band? c) To establish the category of minimal load consumer?

Vector agrees it would be appropriate for future arrangements to allow for curtailment bands to be updated. In our opinion, this would improve the ability of the GCO and industry participants generally to make informed decisions in the event of a contingency. However, some important caveats need to be considered in this regard:

1. That any confidentiality issues around the supply of such data be considered, as this may be of concern for some shippers and retailers;
2. Vector consider it unnecessary for retailers to supply information for customers with annual consumption of <2TJ per annum. Vector believes that this may become unnecessarily burdensome for retailers and the GCO to manage these information flows. Vector suggests that a more appropriate 'lower' threshold would be 10TJ per annum and that this provision should also apply to the process for designating a customer as an essential service provider (regulation 41(3)(b)). We also suggest that this will facilitate the removal of category 6 customer information under the revised curtailment bands.
3. Where the emergency contact details of consumers change, there may be practical issues for retailers to update these within 5 business days of notification. Vector suggests that this timeframe be extended to 10 business days.

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?

Yes. However, Vector would suggest that retailers may encounter some real and practical issues in seeking the required information from customers. It is possible that some customers will attempt to be categorised as a minimal load consumer (and/or an essential service provider) and retailers may be incorrectly persuaded into accepting such applications. Vector suggests that this emphasises the need for adequate audit and review, by an independent party, of how applications have been processed when categorising customers.

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?

Vector maintains that it would be preferable for there to be powers under the OCMRs that enable the GCO to instruct producers to increase output in the event of a contingency. Whilst Vector understands GIC may have already explored this issue, it would be useful for GIC to elaborate on why they consider it is not appropriate for regulations to direct producers to maximise supply from their assets in the event of a contingency?

Vector agrees that the proposals for establishing a contingency cash-out price will need to incentivise upstream production during a contingency. However, it is difficult for Vector to conclude whether the current proposal will provide sufficient incentives for commercial arrangements to maximise upstream production during a contingency, as this will ultimately depend upon the actions of numerous industry participants.

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?

Vector agrees the proposed methodology for setting a contingency price appears to be appropriate. We would, however, note the comments below in answering this question more fully.

It is likely that rankings 1 & 2 will not be available for some time following a contingency, increasing the chances that the contingency price will be determined by the corresponding wholesale electricity price. The electricity price prior to a contingency may well be high given that those with the ability to influence this price will have timely information that an event may be imminent (possibly resulting in an artificially high price). Vector suggests that further thought and discussion around this issue would be beneficial. Our preference would be to amend 65(1)(c) to extend the time frame to a period of 10 to 20 days prior to a contingency with the purpose of diluting the potential for gaming by those in the industry.

Vector suggests that industry participants should be actively involved in the appointment of the independent expert with responsibility for determining the contingency price. Vector believes that if there is a clear and transparent formula for determining cash-out quantities, it should be relatively simple to appoint an expert to perform this role.

Vector would propose that it may be more efficient for GIC to appoint an industry expert at the beginning of each gas year as opposed to running this process on a 'per contingency' basis. However, if this is not considered desirable, then we would suggest GIC should have responsibility for notifying industry participants that nominations for an industry expert are invited following a contingency. Similarly, and following the appointment of an industry expert, Vector believes that GIC should have a mandatory requirement to notify industry participants of their decision to appoint an industry expert. The reasons for making this decision should also be published by GIC. We suggest that regulations 62 and 63(2) be amended accordingly.

Q15: Do you agree that the proposed scheme to calculate imbalances using existing industry processes is workable? If not, what adjustment would be required?

Vector considers that the proposed methodology to calculate imbalances using existing industry processes is workable. However, Vector is not clear how title tracking will occur under the proposals and/or how imbalances in linepack quantities will be dealt with during a contingency event? Whilst the proposed mechanisms for calculating a contingency price appears appropriate, it is not clear to Vector how volumes of gas will be determined? It may not be appropriate to use OATIS for this purpose given that the information available to the GCO will not be accessible in real time.

Inconsistencies between the MPOC and VTC may also result in issues with any linepack allocation mechanism which may assume that shippers demand and supply positions match. This may not be the case leading into a contingency as, under the MPOC, there is the ability to allocate linepack to shippers in the form of mismatch. This means that a shippers demand and supply positions may not match. This also flows into the VTC which may also have shippers in mismatch. Even if shippers were not in mismatch, and both their supply and demand were curtailed, it is not clear under the proposals that original demand positions are re-established?

Vector believes that GIC may wish to convene an industry workshop that may identify solutions to possible gaps in the current proposals against a probable contingency event. We believe this will be an invaluable exercise in determining any deficiencies with the proposals in their current format and highlight some practical difficulties that may need to be addressed through regulations prior to a recommendation being made to the Minister.

On a minor point, there appears to be a drafting error in regulation 65(1). We believe this should read "...65(1)(a)...65(1)(d)...".

<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-out pool?</p>	<p>Vector concurs with GIC administering the proposed contingency cash-out pool. We are not aware of any other party who could perform this independent role as the GCO must be focused on managing the ‘technical’ aspects of a contingency.</p> <p>Vector agrees that any invoices relating to cash-out payments should be raised on the 20th day of the month following the month in which the invoice was issued.</p>
<p>Q17: Do you agree with the proposed communications process shown in Figure 2?</p>	<p>Yes. Vector agrees with the communications process shown in Fig. 2. We would note that there may be a need for retailers to have a direct line of communication between themselves and large consumers where those consumers are customers of a retailer. This may be due to existing contractual arrangements between these parties that require retailers to notify consumers of a contingency event.</p> <p>Vector’s preference is for the industry to utilise existing resources, where possible, for the purposes of communicating with industry participants in a contingency event. In such cases, it may be preferable to communicate with industry participants via existing systems and software functionality as opposed to investing in new systems to achieve the same outcomes. Whilst Vector is not opposed in principle to the concept of creating an outage and contingency website, it may be preferable for the OCMRs to retain flexibility as to how this may be best achieved (and at least cost to industry participants). The best value solution in addressing this issue may not become obvious until the preparation and implementation of OCMPs occur, and the OCMRs should not limit the scope of technological alternatives that best meet the needs of the industry.</p>

<p>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>	<p>Yes. Vector believes it important that the GCO is able to take appropriate action to maintain the safety of the gas transmission system without fear of litigation following the termination of a contingency. This will require the GCO to make decisions as the specific conditions of a contingency unfold and it may not be possible to mitigate against all eventualities.</p> <p>Vector considers that the limitations on GCO liability proposed by GIC are appropriate and strike an effective balance between the need for the GCO to act responsibly whilst awarding sufficient certainty to other industry participants.</p>
<p>Q19: Do you agree with the proposed approach to allocating the costs associated with administering the outage and contingency management arrangements?</p>	<p>Vector agrees that the approach adopted for the allocation of costs is appropriate. That said, Vector would suggest GIC may find it preferable to include gas producers within this approach. The creation of a GCO will result in greater certainty for all industry participants and it therefore appears reasonable that beneficiaries and potential causers of a contingency should contribute towards the establishment of the new arrangements.</p> <p>It is not clear to Vector whether shippers will be allowed to pass through costs associated with the proposed arrangements and it would be useful if this could be clarified by GIC prior to formulation of the final recommendation to the Minister.</p>