



20/7

30 August 2006

Mr I Dempster
Gas Industry Company
P O Box 10-464
WELLINGTON

Dear Ian

REVIEW OF GAS EMERGENCY ARRANGEMENTS

Thank you for the opportunity to comment on the above I am responding on behalf of the Commercial Division of Wanganui Gas (WGL) and would firstly apologise for the late response.

I enclose a copy of your Appendix A with the answers to the questions raised by the Gas Industry Company (GIC) in the paper. I would however like to take this opportunity to comment in support of our submission that this is in relation to the objectives of the Emergency Plan.

As discussed at the workshop WGL is concerned that there does not appear to be a fundamental objective specified as to what the GIC want to achieve as a result of the Emergency Plan review. At the workshop there was some discussion as to this objective being the maintenance of residential and small business gas supplies thus keeping the local distribution networks pressurised. Whilst WGL as an energy retailer would clearly support such an objective there may be others who have different priorities. Regardless of what the final objective is WGL does not believe that the industry can design a robust and effective Emergency Plan until the final objective of such a plan is defined.

Again thank you for the opportunity to comment on these matters. I would be happy to discuss any of the issues raised in our submission with you and can be contacted on e-mail at jim.raybould@wanganuigas.co.nz or by phone on DDI 06 349 0126.

Yours sincerely

Jim Raybould
Commercial Manager

Enc

WANGANUI GAS LTD.

179 St. Hill Street, P.O. Box 32, Wanganui, New Zealand
Telephone: (06) 349 0909 (All Departments and After Hours) Fax (06) 349 0138 (Corporate and Commercial)
Email: enquiries@wanganuigas.co.nz

Appendix A: Recommended Format for Comments

To assist the Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for comments has been prepared. This is drawn from the questions posed throughout the body of this Discussion Paper.

Respondents are also free to include other material in their responses.

Questions	Comments
Q1 Do you agree that mechanisms to implement arrangements for emergency or contingency situations must be mandatory? If not, please explain.	Yes.
Q2 Do you agree Gas Industry Co has identified the most likely alternatives for mechanisms to implement arrangements for emergency or contingency situations? If not, please provide details of any other likely alternative mechanisms.	Yes. However WGL believe that the Gas Industry Company should examine the contractual route suggested at the workshop along with both Rules and Regulations
Q3 Do you agree with Gas Industry Co's analysis of a Pan-Industry Agreement as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.	Yes
Q4 Do you agree with Gas Industry Co's analysis of rules or regulations as a mechanism to implement arrangements for emergency or contingency situations? If not, please explain.	Yes
Q5 Do you believe the gas emergency arrangements are most appropriately implemented by rules or regulations recommended to the Minister if Energy? If not, please explain...	Assuming that the contracts option was not appropriate WGL would prefer Rules to Regulations, Rules providing the more flexible option.

Questions	Comments
<p>Q6 Do you agree with Gas Industry Co's analysis of the framework design for emergency management arrangements? If not, please explain.</p>	<p>Yes but it would be helpful to have an overall objective. At this point the NGOCP only takes the emergency situation to stabilisation and then contracts take over. Given that the GIC has stated that they are required by the Minister to take into account "social issues" the GIC may have to consider the maintenance of residential supplies as one possible objective of the Emergency Plan.</p> <p>Regardless of what the final objective or objectives are of the Plan it does seem pointless to have processes in place that do not result in a achieving a final objective(s).</p>
<p>Q7 Are there any other principles you believe should be included? If so, please provide details of those additional principles.</p>	<p>See above regarding ultimate objectives.</p>
<p>Q8 Do you agree with Gas Industry Co's approach? If not, please explain.</p>	<p>Yes</p>
<p>Q9 Do you agree that the gas emergency arrangements should be progressed now, rather than waiting for completion of the wholesale market review? If not, please explain.</p>	<p>Yes</p>
<p>Q10 Do you agree that the current definition of "Gas Contingency" should be amended? If not, please provide reasons.</p>	<p>Yes</p>

Questions	Comments
<p>Q11 If you agree that the definition should be amended:</p> <p>(a) do you agree that an 'effects-based' decision is most appropriate?</p> <p>(b) do you have any suggestion as to a basic operational minimum level to underpin the definition?</p> <p>(c) what, if any, degree of discretion should there be to determine that a Gas Contingency has occurred?</p> <p>(d) how would you define "Gas Contingency"?</p>	<p>(a)Yes</p> <p>(b) No</p> <p>(c) There has to be some discretion as decisions are and will be based on the best information available at any given time but it is possible that the information is not the most accurate.</p> <p>(d) A loss of gas supply that could have a negative impact on the integrity of the transmission and distribution pipeline networks.</p>
<p>Q12 Do you consider there should be a separate definition for regional and national contingencies, or some other split? If yes, please indicate how and why (including draft definitions)</p>	<p>Yes I believe that it is helpful in having these separate definitions which are essentially gas or transportation contingencies. There are different causes and outcomes for the two</p>
<p>Q13 Do you agree that the current definition of "Transmission System" should be amended? If not, please provide reasons. If yes, please provide a draft definition.</p>	<p>Yes</p>
<p>Q14 Do you agree that the current definition of "NGC Transmission" should be replaced with a more generic definition of "System Operator" (or similar) as proposed? If not, please provide reasons.</p>	<p>Yes but it may be beneficial to identify the current operator at any given time.</p>
<p>Q15 Do you agree with the scope of the proposed obligations to be imposed upon industry participants? If not, please provide reasons.</p>	<p>Yes</p>

Questions	Comments
Q16 What, if any, other carve-outs to the proposed obligations of industry participants do you believe are necessary?	None at this time
Q17 Do you agree with the proposed approach to the liability of industry participants? If not, please provide reasons.	Yes
Q18 Is Gas Industry Co's belief that the proposed gas emergency arrangements will not require significant additional processes and systems to be developed correct? If not, please explain.	<p>With regards to process there is probably not that much more work to be done with the exception of the introduction of the Emergency Operator and clearly defining his/her powers.</p> <p>However again going back to the ultimate objectives, the current NGOCP proposes that contractual arrangements will prevail after the stabilisation period. My reading of the GIC's paper is that you do not see this as being the case but other than suggested principal in 9.8 you do not state what the Plan proposes to achieve.</p>
Q19 Do you agree that any gas emergency arrangements should be consistent with the processes set out in the MPOC in respect of contingency and emergency situations? If not, please indicate your preferred approach and reasons.	WGL believe that the two arrangements should be consistent with one another however it may be that both documents require amendment to meet the final requirements of an Industry Emergency Plan.
Q20 Do you have a preference for the point at which MPOC is superseded by the gas emergency arrangements (e.g. when Phase 2 commences under NGOCP?)	Phase Two does seem the appropriate where the NGOCP should take precedence.

Questions	Comments
<p>Q21 Do you consider the Emergency Operator should automatically be the technical/system operator of the transmission system or an independent person? Please provide reasons for your views.</p>	<p>Yes. Vector gas control is in our opinion the most obvious and logical choice of Emergency Operator due to their on going knowledge and skills associated with the management of both the Maui and their own transmission systems.</p> <p>However whilst the Emergency Operator must have some discretion in their handling of an emergency situation they must also be bound by specific protocols and boundaries.</p>
<p>Q22 Do you believe the CCT should be maintained or that the Emergency Operator, or other person, should undertake that role? Please explain your reasons.</p>	<p>WGL would support the retention of the CCT in one form or another. We believe that whilst the Emergency Operator will have the expertise to manage and understand the technical impact of an emergency the other parts of the industry need to have an input into the communications process. The other parties within the industry will know what the impact of the emergency will have on their particular part of the industry from gas production through all the way through to customers.</p>
<p>Q23 If you wish to retain the CCT, do you believe its current make-up is appropriate?</p>	<p>Essentially yes for the above reasons, but that does not mean that we cannot review and possibly rationalise the CCT.</p>
<p>Q24 What other changes, if any, would you make to the CCT role? Please explain your reasons.</p>	<p>None at this point in time.</p>
<p>Q25 Do you agree with the scope of the proposed powers to be given to the Emergency Operator? If not, please provide reasons.</p>	<p>Yes</p>
<p>Q26 Do you agree with the proposed approach to the liability of the Emergency Operator? If not, please provide reasons.</p>	<p>Yes</p>

Questions	Comments
<p>Q27 Do you agree that the declaration process under the gas emergency arrangements should be more certain (as proposed)? If not, please indicate your preferred approach and reasons.</p>	<p>Yes</p>
<p>Q28 Do you agree that the process for moving between phases is currently clear/definite? If not, please indicate any proposed changes.</p>	<p>Yes</p>
<p>Q29 Do you agree that all industry participants (and other affected entities, such as major plant owners/operators) should be obliged to comply with directions from the Emergency Operator? If not, please provide details of reasons and any other proposed alternatives for providing certainty.</p>	<p>Yes this is essential to the proper management of any emergency.</p>
<p>Q30 Do you consider there is any merit in a two-stage approach, with stage one allowing for voluntary response and stage two imposing binding instructions? If yes, why?</p>	<p>No</p>
<p>Q31 Should the Emergency Operator be required to maintain a detailed load shedding plan? If so, should all (relevant) industry participants be required to provide detailed supply, demand and load shedding information to the Emergency Operator?</p>	<p>Yes. Currently the initial stage of any emergency appears to always call for the initial shedding of load groups A-D. If this is always going to be that case then there does not seem to be any reason to sub divide these customers into four categories. However if the Emergency Controller has the information that would allow him/her to better manage these situation perhaps a limiting the initial load shedding to fewer categories.</p> <p>WGL currently provides this type of information to both Vector transmission and the various networks. We also believe that it is important that the definitions of the various load categories are uniformly applied by all parties and that we as retailers may have to accept some form of monitoring or mandatory setting of these categories is required.</p>

Questions	Comments
Q32 Do you agree with the proposed obligations in relation to alternative gas suppliers? If not, please provide reasons.	Yes
Q33 Do you agree that a back up/reserve market is not merited? If not, please provide reasons.	Yes
Q34 Do you agree that the Emergency Operator should have the ability to direct the supply of non-specification gas? If not, please provide reasons.	Yes but only in exceptional circumstances.
Q35 Do you agree with the factors that an Emergency Operator must have regard to in making any such direction? If not, please provide reasons.	Yes
Q36 Are there any other factors the Emergency Operator should have regard to in making any such direction? If so, please detail those additional factors.	Not that we can think of at this point in time.
Q37 Do you agree with the proposed approach to restoration? If not, please provide reasons.	In general yes
Q38 Do you have a view on guidelines for establishing a restoration table? Please specify.	WGL would want to see what the table looked like prior to commenting. However we note that our network division may have a more technical viewpoint on who and when certain customers are restored.
Q39 Do you agree that a post-contingency formal reconciliation process is appropriate? If not, please provide reasons.	Yes

Questions	Comments
<p>Q40 Do you have any comments on the proposed groups of types of communications and related obligations? Are there any other communications protocols/information flows which you consider should be taken into account as part of this review?</p>	<p>In general we agree but would seek clarification on when confidentiality would be broken and why.</p>
<p>Q41 Do you agree with the proposed treatment of review, testing and documentation obligations under the NGOCP? If not, please provide reasons. If so, do you have any specific suggestions for how these should be dealt with?</p>	<p>Yes</p>
<p>Q42 Please provide any comments on how best to set line pack limits and to review these over time.</p>	<p>No comment. WGL retail believes that it is for the asset owners to set these or to agree these with relevant industry experts.</p>
<p>Q43 Do you have views as to the appropriateness of any particular compliance regime? Please specify.</p>	<p>Not at this time. We reserve judgement on the GIC's switching proposals but would again remind the GIC or the relatively small size of the Gas Industry and cost are ultimately all borne by our customers.</p>
<p>Q44 What is your view of WMWG's comment on the Farrier-Swier Consulting recommendations?</p>	<p>We agree</p>
<p>Q45 Do you agree the ex post fair price determination is a suitable model for developing emergency pricing? If not, please provide a description of your preferred approach to emergency pricing.</p>	<p>No</p>
<p>Q46 Do you agree these are a comprehensive set of principles and objectives? If not please provide your augmentable list(s) and reasoning.</p>	<p>Yes however WGL would like to see actual defined principal adopted by the Plan rather simply a series of suggested principals as described in 9.8 of the paper.</p>

Questions	Comments
<p>Q47 What is your view of the line pack being notionally allocated across shippers in proportion with their nominations? If you disagree, what would be your preferred approach and why?</p>	<p>We do not believe that we can have a view on this until the principals of the Plan are agreed. Only when you have agreed on what you are trying to achieve can you investigate and determine the allocation of gas.</p>
<p>Q48 In the absence of a transparent, short-term market for gas in New Zealand, what is your view of using an independent expert to set emergency prices ex post?</p>	<p>We agree that an independent party should set the emergency prices but have concerns that if these will only be determined after the event. Retail tariffs are set annually based on contract pricing and if the emergency pricing is significantly higher for than this for an extended period of time then retailers may have to consider disconnecting domestic customers as the cost of this may be less than purchasing emergency gas. This could be particularly true if the emergency gas price is set based on spot market electricity prices.</p>
<p>Q49 If you disagree with the use of an independent expert, what should be used as the basis for determining emergency gas prices and how is this superior?</p>	<p>Don't disagree</p>
<p>Q50 In the event of a pipeline interruption, how do you view the pro rata allocation of line pack among shippers as a means of consistently applying the emergency pricing framework? If you disagree, what alternative arrangement would you suggest and why?</p>	<p>Again this comes back to the ultimate objective of the Emergency Plan. If the objective was to be to keep all of the residential market connected and the networks pressurised then a pro rata methodology may leave some retailers with insufficient gas to supply their customers. It will however be very difficult to measure this on the day as retailer in the reticulated market only know how much gas they have shipped and week into the new month.</p> <p>Whilst it is possible that you could use a pro rata methodology on the southern pipeline and keep residential customers connected it may be more difficult for this to work on the northern pipeline where the gas fired power stations are located.</p>

Questions	Comments
<p>Q51 Do you agree that for an emergency pricing framework to operate in a low-cost manner it will be essential for the overall emergency plan to be a mandatory arrangement (irrespective of whether that is implemented by rules, regulations or a multilateral contract)?</p>	<p>Yes the Plan must be mandatory</p>
<p>Q52 What is your view of requiring parties to endeavour to settle their positions in the first instance by trading among themselves?</p>	<p>This would be an ideal solution</p>
<p>Q53 Do you agree that there should be a limit below which parties are not able to enter the emergency pricing framework?</p>	<p>Depending on what the lower limit is WGL may disagree with this position. As a small retailer we would be concerned that because our volumes may be low we may be excluded from this option yet overall the volume may be significant to us.</p>
<p>Q54 What is your view of the price determination process? Do you agree that using a desktop study is the best approach?</p>	<p>Reserve judgement as need more time to consider the implications of this.</p>
<p>Q55 Please provide any other comments on the procedural steps.</p>	<p>No comment</p>
<p>Q56 What is your view of the appropriate body to undertake the role of determining emergency pricing whilst keeping the costs to a minimum?</p>	<p>WGL view is that the setting of emergency pricing should determined by an independent third party.</p>