



20/7

7 February 2008

Mr I Dempster
Gas Industry Company
PO 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 Energy Direct NZ (EDNZ) the retail division of Wanganui Gas Ltd (WGL).

I enclose a copy of our submission on the matters raised in your consultation paper Gas Outage and Contingency Management Arrangements dated December 2007. At this point we have not reviewed the draft Regulations in detail but would like to take this opportunity to make the following initial comments:-

The draft Regulations within the consultation papers state that the purpose is:-

“to achieve the effective handling of gas outages and contingencies without compromising the long term-security of supply.”

Gas outages to date have by their nature been short term problems which have resulted in a clash between objectives of keeping residential customers' gas supplies on for as long as practical as opposed to the contractual rights of those with gas that would normally not be used to supply those residential customers. I note that the Schedule associated with “Curtailement Arrangements” does not include residential customers as a curtailment group. Therefore, by omission, are we correct in assuming that one of the objectives of the proposal is that Gas supplies to residential customers should be maintained for as long as practically possible?

Whilst overall Residential customers take a very small proportion of the total amount of Gas used in New Zealand they do represent a significant proportion of our Gas sales. In its current form the proposals appear to attempt to have the best of both worlds whereby retailers such as EDNZ are required to maintain gas supplies to our residential customers but are then required to pay gas prices based on spot market electricity prices. Such a proposal is from our point of view both illogical and

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

irresponsible. It also represents financial suicide for a gas retailer who is not also an electricity generator.

Regulations 14-16 covers the calculations of both the Development and On Going Fees and are based on gas purchased from a Gas Producer. A Gas Producer is not a defined term and not all shippers purchase gas from what we would assume will be defined as a Gas Producer. EDNZ will be seeking to recover these and other fees developed by the Gas Industry Company from our customers as a separate identifiable fee and therefore would prefer to see these and any other fees as part of the Gas Industry Company Levy.

Under Regulations 22-31 the Transmission Service Operators (TSO) are required to prepare and have approved their Outage and Contingency Management Plans (OCMP). This does raise the question of whether a Critical Contingency Operator (CCO) is in fact required. Given that the TSO will be managing the contingency event on these pipelines why can the TSO not also be responsible for managing the Communication Plan and therefore save the Industry the cost of the CCO?

As stated above we have serious concerns about Regulation 66 and the setting of a Contingency Price based on the spot market price for electricity.

Regulation 67 assumes that a full and final accounting for imbalances can be concluded within two months of a Contingency Event yet the proposed new Reconciliation and Allocation Regulations are based on an accurate determination of allocated quantities four months in arrears.

EDNZ will carry out a more detailed review of the draft Regulations over the coming weeks.

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 by e-mail at jim.raybould@wanganuigas.co.nz or by phone on DDI 06 349 0126. Alternatively you can contact our Chief Executive, Trevor Goodwin, by email at trevor.goodwin@wanganuigas.co.nz or by phone on 06 349 0120.

Yours sincerely



Jim Raybould
Commercial Manager

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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: Jim Raybould, Manager, Energy Direct NZ (EDNZ)

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>EDNZ is of the opinion that the proposed deadlock breaker provision is appropriate but would want to have this reviewed after the provision has been used in practice</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>EDNZ agrees with the proposals in 5.18 and 5.19. We do not believe it is appropriate at this point for the GIC to impose the linepack thresholds. We do however believe that the GIC should have a watching brief over this aspect of the plan.</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>EDNZ believes that the CCO should have the right to curtail Residential supplies. Should we ever reach the stage of having to curtail the gas supplies to those currently defined as Group G in the NGOCP, EDNZ is of the opinion that only curtailing the business customers within that grouping would have a minimal impact on preserving gas supplies.</p>

QUESTION	COMMENT
Q4: Do you agree that the proposed curtailment arrangements outlined in 5.33 and as specified in the schedule to the regulations are appropriate?	Probably but EDNZ reserves final judgement on this matter until is can review the GIC's proposal.
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?	No. The theory of a sub day period is sound but there are already substantial difficulties in accurately defining contingency imbalances for a full day let alone a sub day.
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?	Yes
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>Agreed.</p> <p>EDNZ is however opposed to the proposal within the consultation paper with regards to capacity being allocated between shippers based on booked capacity during an Emergency. Such a proposal raises in our minds the question of what is the primary objective of the Emergency Plan? See our comments on this in our reply to question 9.</p> <p>In our opinion there are likely to be some transmission delivery points where some shippers only supply business customers whilst others supply only residential customers. A regime such as proposed could lead to the situation that some relatively large businesses have gas but some classified as essential services or residential customers do not.</p> <p>EDNZ favours the continuation of the load shedding protocols as laid out within the NGOCP with regards to regional emergencies. We would of course consider any alternative options that may be proposed.</p>

QUESTION	COMMENT
<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>No the proposal is too theoretical. If there is no spot market for gas how does the CCO determine the price of gas within a market that does not exist.</p> <p>If the market did exist then EDNZ would favour a system that set the gas price during the contingency event at the average price for gas in the period preceding the event. We believe that this type of price setting system is used in the UK.</p>

QUESTION	COMMENT
<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>No. To set the price of gas during a contingency event based on the spot market price of another commodity be it electricity or any other commodity is in our opinion both illogical and irresponsible. Gas is used in applications other than Electricity Generation. One could therefore argue that the Contingency Price should be based a range of any number of Commodity Prices.</p> <p>A critical part of the management of a gas emergency is that the GIC has to decide what the primary objective of any Emergency Plan is with regards to residential customers. This question has in our opinion long been sidestepped and must be answered before the final plans are implemented.</p> <p>If the objective is as far as possible and for as long as possible to maintain the gas supplies to residential customers then the financial penalties for those gas retailers who are supplying gas to this part of the market cannot be draconian. Whilst EDNZ accepts that there will be a gas contingency price the potential cost to EDNZ and any gas company who is not also an electricity generator if this gas price is linking to the electricity spot market price is inestimable.</p> <p>If the GIC's objective is to provide shippers with the opportunity costs associated with contingency pricing and so sets the contingency price based on the prevailing spot price of electricity as proposed then retailers such as EDNZ must have the option of not taking gas and disconnecting their customers including residential customers. The logistics in that exercise are potentially enormous and disconnection and subsequent reconnection would be extremely expensive to say nothing of the potential political repercussions. However such a course of action may be the lowest cost option for a retailer.</p>

QUESTION	COMMENT
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?	No
Q11: Do you agree that the CCO should be asked to spread its up-front costs over the duration of the agreement?	Yes
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?	Yes it should however be set as an annual Levy
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>No consumer compliance is a retailers' issue.</p> <p>If consumers fail to comply with curtailment notices then the retailers are responsible for ensuring compliances through their consumer contracts. Should consumers continue to take gas then retailers have the option of having the GMS removed and/or cutting the service.</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>No as stated above consumer compliance is a retailers' issue.</p> <p>The GIC may however wish to consider its options to require a shipper to comply with curtailment orders. In this case we would agree that an interim injunction would be the most effective option.</p>