



Analysis of submissions on Statement of Proposal - amendments to the Gas Governance (Critical Contingency Management) Regulations 2008

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About Gas Industry Co.

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

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Executive summary

In October 2011 a six-day gas outage, precipitated by a leak in the Maui gas transmission pipeline, caused significant disruption to gas users north and east of Taranaki. Gas Industry Company published a Statement of Proposal (SoP) on 12 November 2012, aimed at making improvements to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), in order to capture the lessons from that contingency, including the recommendations from the Critical Contingency Operator's 'Critical Contingency Performance Report' (CCO Performance Report) of 21 December 2011, Concept Consulting Group's 'Review of Gas Critical Contingency Management: Post Maui Pipeline Outage' (Concept Review), and submissions from stakeholders on the latter.

The SoP drew on analysis from NZIER and Lowe Environmental Impact, and contained proposals to address:

- the economic efficiency of the curtailment bands;
- priority access to scarce gas during a contingency, and shortfalls identified with the current ESP/MLC designation process;
- communication arrangements during a contingency;
- the application of critical contingency imbalances;
- the role of the Critical Contingency Operator (CCO);
- the role of retailers in preparing for and managing a contingency;
- compliance issues.

Gas Industry Company sought submissions on the SoP. This document provides a summary of the issues raised in the submissions received and reviews the proposals contained in the SoP in light of those submissions.

This paper focuses on management of low-probability, high-impact contingency events. Gas remains a valuable, reliable and strategically important contributor to New Zealand businesses and homes. The October 2011 Maui Pipeline outage at 5-6 days was one of the longest experienced by the New Zealand industry in its 40-year history, and was the first of its kind in the 34 years of the Pipeline's life. Gas users can continue to have confidence in gas supply but, as with all energy and other utility supplies, it is important that the gas industry, including consumers, is well prepared for any future critical contingencies.

Abbreviations used in this document are defined in a Glossary on page 87.

Revisions arising from consultation

In summary, the 19 submissions received focussed on a relatively small group of the proposed changes to the Regulations included in the SoP. The changes that Gas Industry now proposes to the Regulations, as amended in a number of cases following submissions, are summarised in the following table (and discussed in more detail in the body of this report).

In addition, while some of the proposals themselves have not changed, submitters have in a number of cases provided information that Gas Industry Co will consider when drafting the amended CCM Regulations and implementing the changes. Such issues are discussed more fully under each referenced section.

Table 1: Summary of SoP proposals and revisions made following consultation

Section	SoP proposal	Revised proposal
2.1	Remove the distinction between Bands 2 and 3, and renumber the Bands so that 1a becomes 1, 1b becomes 2, and the merged 2 and 3 becomes 3.	No change
2.2	Explore the feasibility of allowing gas users in Band 3 to trade their rights to consume gas during partial curtailment. Implementation of any such option would be subject to strict caveats.	Gas Industry co remains open to the possibility of trading usage rights and will explore this matter further at the drafting stage.
2.3	Maintain existing provision under r53(1)(d)(ii) and r53(2) for partial restoration by the CCO and for responding to changing circumstances. Amend r56(2)(c) to allow retailers to reflect partial curtailment directives.	Substantially maintain existing provision, but consider what minor drafting amendments can be made to r53 to remove ambiguity and provide certainty. Amend r56(2)(c) to allow retailers to reflect partial curtailment directives.
3.2	Create a new curtailment band 7 for critical care providers, which would include hospitals, prisons, hospices, residential care facilities and rest homes, specialised medical service providers to critical care facilities, and laundry supplies to critical care facilities. There would be no consumption limit for Band 7 consumers.	No change Gas Industry Co to prepare guidelines regarding the criteria and application process.
3.2	Remove existing reference to the NCDEMP Order and tighten the criteria for ESP designation under Band 5 to only include mortuary services and crematoria, incineration of biohazards, municipal services, water and wastewater, police, fire and emergency services. Environmental protection catered for in existing MLC category. A consumer would not be eligible to become an ESP if it had alternative fuel supplies. Consumption restricted to > 2TJ/year	Tighten the criteria as proposed, but include a requirement to have a TOU meter. Consumers who satisfy ESP and critical care provider criteria qualify for Band 5 and 7, respectively, regardless of whether they have installed alternative fuel capabilities Gas Industry Co to prepare guidelines regarding the criteria and application process.

Section	SoP proposal	Revised proposal
3.3	<p>Broaden criteria for MLC designation to provide for an orderly shutdown to support health and safety, animal welfare and completion of critical processing – as well as current criteria to avoid serious damage to plant and mitigate serious environmental damage.</p> <p>Consumption threshold lowered to 2 TJ/year</p> <p>Requirement to have a TOU meter</p> <p>Requirement to fully curtail at Band 4 or Band 6</p>	<p>No change</p> <p>However, place four-hour restriction on completion of critical processing and consider how to more accurately define it.</p> <p>Gas Industry Co to prepare guidelines regarding the criteria and application process.</p>
3.3	<p>Provide for power stations with alternative fuel capability to have access to an agreed amount of gas for fuel switching. Either enact through:</p> <ul style="list-style-type: none"> • Allow power stations to be designated as MLCs; or • Create a separate category for power stations, with gas consumption for fuel switching limited to when approval is given by the CCO in consultation with the electricity SO. 	<p>Create a separate category for power stations, with gas consumption for fuel switching limited to when approval is given by the CCO following consultation with the electricity SO.</p>
3.4	<p>Move the approval process for ESPs and MLCs away from retailers to Gas Industry Co.</p> <p>Require retailers to collect and check applications and to pass them on to Gas Industry Co for processing and determination.</p> <p>Require ESP applicants to identify the level of supply that would be necessary to maintain only the essential service.</p> <p>Where an MLC applicant is successful, Gas Industry Co and applicant must agree on the absolute minimum level of gas supply required to avoid/mitigate damage and the time required for an orderly and complete shutdown.</p> <p>Designations expire after two years. Notice required if change of status.</p>	<p>No change</p> <p>However, a long-form and short-form application to be made available for new and existing¹ MLC/ESP-designates respectively, to reduce the compliance burden of reapplication.</p> <p>Amend the Gas (Switching Arrangement) Rules 2008 to provide for retailers to maintain the curtailment band field in the Registry.</p>
3.5	<p>Provide for a 9-month timeframe for transitioning to the new ESP and MLC arrangements.</p>	<p>No change</p> <p>Gas Industry Co to prepare information regarding the transition timeline, processes and requirements for industry participants during the period.</p>

¹ Existing in this context means an ESP/MLC that has been designated as such by the industry body under the amended CCM Regulations.

Section	SoP proposal	Revised proposal
3.6	<p>Restrict the ability for consumers to seek MLC or ESP designations during a contingency to situations where:</p> <ul style="list-style-type: none"> customers have previously applied, but their circumstances have changed sufficiently that they now meet the criteria; or appropriate resilience arrangements were made, but through unforeseeable circumstances, those arrangements failed, and the consumer meets all other necessary criteria. 	<p>Designations during a contingency limited to ESP designations only, where;</p> <ul style="list-style-type: none"> a consumer's circumstances have changed sufficiently that they now meet the criteria; or A new consumer installation has been established that meets the criteria and has not had sufficient time to make an application <p>Any designations approved during a contingency are temporary only, and a reapplication must be made post-contingency.</p> <p>Amend the breach criteria to exclude consumption where a consumer's alternative fuel supply fails, if they would otherwise qualify for ESP status.</p>
4	<p>Provide backstop regulations requiring the preparation of:</p> <ul style="list-style-type: none"> An initial holding statement by the CCO, for the Gas Industry Co, Minister and MBIE – not for public release; Release of a public statement by the CCO and affected asset owners within 1 hour of a curtailment direction being issued or the contingency becoming publicly known; Three-daily publication updates from the CCO and affected asset owners containing information about the contingency, its cause, the affected areas, actions being taken, and expected duration. 	No change
5	<p>Maintain the distinction between regional and non-regional contingencies.</p> <p>Imbalances to apply to non-regional contingencies only.</p> <p>Gas Industry Co to prepare and consult on guidelines providing scenarios exemplifying regional and non-regional situations.</p>	No change, though Gas Industry Co to consider options for providing appropriate incentives during restoration.
6.1	CCO required to make a determination of the status of a contingency (regional/non-regional) and communicate it to industry at an early stage during a contingency.	CCO to use best endeavours to monitor and communicate the status of a contingency to industry participants through usual notices within one hour of a contingency being declared, or as circumstances change.
6.2	Allow the CCO to direct system reconfiguration.	Add that system reconfiguration is to better meet the purpose of the CCM Regulations.
6.3	Amend CCM Regulations to clarify that the CCO is only in charge of the affected section of the network.	No change

Section	SoP proposal	Revised proposal
6.4	Require the CCO to produce a post-contingency performance report, consult on the report, and publish submissions received.	No change
6.5	Modify requirements of the CCO's performance report to remove the obligation for the CCO to assess its own compliance with the regulations.	No change.
6.6	CCO to collect information from asset owners on outages scheduled for the 12 months following a request for production stations, transmission assets and large consumers on a quarterly basis. CCO to publish the information on its website.	Proposal to be reconsidered as part of a separate process.
6.7	CCO to access gas load data from the allocation agent.	No change
6.8	CCM Regulations amended to allow Gas Industry Co to appoint any suitable person as the CCO.	No change
7.1	Retailers to notify customers annually of the possibility of curtailment during a contingency, the existence of and criteria for applying for ESP/MLC categories, and the potential for them to apply if they meet the criteria.	Regs to specify that notifications must occur at least every 3 years and no more often than yearly. Interval and content of notices to be determined by Gas Industry Co. Retailers also to notify customers with new connections Gas Industry Co to prepare draft notices to be consulted on, which retailers can consider using for these notifications.
7.2	Definition of urgent and ordinary notices expanded, for the purposes of contacting Band 6, to include SMSs (texts). "Best endeavours" obligation placed on retailers to contact Band 6 customers in decreasing order of size.	Definition of urgent and ordinary notices expanded, for the purposes of contacting Band 6, to include SMSs (texts). "Reasonably practicable" obligation placed on retailers to contact Band 6 customers in decreasing order of size.
7.4	Gas retailers to prepare curtailment plans outlining how they will prepare for and respond to a critical contingency, and either: <ul style="list-style-type: none"> publish these on their website, omitting commercially sensitive or personal information; or have the plans approved by an independent body, and published by that body. 	Retailer plans to be provided to Gas Industry Co.
7.5	Gas retailers required to assist consumers in applying for ESP/MLC status, by ensuring applications are properly filled out and forwarding them on to the Gas Industry Co.	No change

Section	SoP proposal	Revised proposal
8.1	Clarify that the Compliance Regulations do not apply to consumers. Move the interim injunction provision to the CCM Regulations. Add an offence provision to the CCM Regulations.	No change
8.2	Gas Industry Co to utilise consumption information from the allocation agent to assess compliance with curtailment directions.	No change
8.3	Regulations to require TSOs to relay CCO notifications within 30 minutes.	No change

Next steps

Gas Industry Co will provide a recommendation to the Minister for revisions to the CCM Regulations consistent with this Analysis of Submissions and with the other proposals in the SoP that were not revised following consultation.

To assist that process, Gas Industry Co plans to proceed with drafting of revised CCM Regulations and a formal recommendation to the Minister. Workshops will be held to consider input from stakeholders on drafting issues.

Subject to approvals by the Minister and Cabinet, the recommendation would be forwarded to Parliamentary Counsel Office for final drafting.

Gas Industry Co will maintain an active dialogue with industry participants regarding preparations and processes for transitioning to the amended CCM Regulations once they have been approved, finalised and gazetted.

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Introduction

On 12 November 2012, Gas Industry Company published a Statement of Proposal (SoP) to amend the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), following a critical contingency arising from an outage of the Maui Pipeline in October 2011, which lasted 5 days.

Primarily, the SoP aimed to capture the remaining lessons from the outage, including the recommendations from the Critical Contingency Operator's 'Critical Contingency Performance Report' (CCO Performance Report) of 21 December 2011, Concept Consulting Group's 'Review of Gas Critical Contingency Management: Post Maui Pipeline Outage' (Concept Review), and submissions from stakeholders on the latter.

Both post-event reviews found that the CCM Regulations generally worked well. The CCO Performance Report included a number of recommendations that have since been implemented by the CCO and TSOs respectively.

Gas Industry Company sought feedback on the SoP. Submissions closed on 24 December 2012. The proposals in the SoP, as amended after considering the feedback that has been provided from submitters, will form the basis of a recommendation to the Minister of Energy and Resources (Minister) that the CCM Regulations be amended.

The purpose of this document is to summarise the submissions received and to review the proposals contained in the SoP in light of those submissions. In some cases, the proposals put forward in the SoP have been accepted by a large majority of submitters; in other cases there is a substantial measure of disagreement. For each proposal contained in the SoP, this document summarises the positions of submitters and indicates Gas Industry Co's final recommendation to the Minister.

Gas Industry Co now plans to proceed with drafting of revised CCM Regulations and a recommendation to the Minister. One or more workshops will be held to consider input from stakeholders on drafting issues.

1.1 List of submitters

A total of 19 submissions were received from as the stakeholders listed in the following table:

Retailers	Transmission and distribution owners	Consumers	Consumer advocates	Other
Contact Energy	Maui Development Ltd (MDL)	Carter Holt Harvey (CHH)	Major Gas Users Group (MGUG)	Bay of Plenty – District Health Board (BoPDHB)
Genesis Energy	Powerco	Fonterra	NZ Disability Support Network (NZDSN)	Market Administrator (GIC)
Greymouth Gas	Vector	Methanex	NZ Food and Grocery Council (NZFGC)	Ministry of Civil Defence & Emergency management (MDEM)
Mighty River Power		NZ Sugar		Ministry of Health (MoH)
		NZ Steel		

The MGUG submission was made on behalf of the following gas users, some of whom also submitted in their own capacity:

- Ballance Agri-Nutrients
- Carter Holt Harvey
- Fonterra Co-operative Group
- New Zealand Steel
- New Zealand Sugar
- Refining NZ

1.2 Summarising Submissions

The SoP requested submitters to respond to a number of specific questions included at various points in the SoP. Appendix A to this document includes a series of tables collating all the responses to each individual question and a table collating all other responses that do not relate to particular questions.

Because of the number of questions asked of submitters, and the array of issues covered, this summary has been divided into a number of sections, in line with the structure of the SoP.

This document also includes a tabular summary of submissions at the start of each section in order to provide a visual indicator of the collective response, highlighting areas of agreement and dispute using the following key:

Tenor of Submission	Colour Code
Largely/wholly in agreement with proposal contained SoP	Green
A measure of agreement with proposal in SoP, but some qualification and/or amended approach is proposed	Orange
Largely/wholly opposed to proposal contained in SoP	Red

2

Critical contingency bands

As discussed in the SoP, while the CCM Regulations group and curtail consumers according to the size of their load, there is value in reviewing which gas uses have the highest value associated with them, and whether this should affect the approach to curtailment.

Gas Industry Co examined this issue in the SoP, and asked NZIER to estimate the typical value added per GJ of gas consumed by each industry sector to assist it in its deliberations.

The NZIER analysis showed that, in general, gas consumption volumes are inversely proportional to the value derived from that consumption on a per-GJ basis, and that the critical contingency band designations are broadly in line with economic efficiency – i.e. Band 1, the first group of customers to be curtailed, has a lower value added per GJ than the rest of the bands; Bands 2 and 3 have an intermediate value added; and Bands 4 and 6, with higher priority, have the highest value added.

An outlier in the analysis was the value added calculated for Band 5, the ESP band. This result is explained by the relatively large number of ESP-designated industrial customers, many of which have relatively low value added per GJ and high consumption volumes.

Gas Industry Co made a number of proposals to address concerns regarding the economic efficiency of the curtailment bands. These included:

- Combining curtailment bands 2 and 3;
- Exploring the possibility of allowing consumers to trade their usage rights to gas under curtailment;
- Allowing for partial restoration, under the existing regulations r53(1) and r53(2)

A summary of submitter positions against these proposals is shown in the following table.

Summary of submitter positions

Question	2	3	4
Submitter	Combine bands 2 & 3	Explore trading of usage rights	R53(1)/r53(2) sufficient as is
Contact			
Genesis			
Greymouth Gas			
Mighty River Power			
Carter Holt Harvey			
Fonterra			
Methanex			
NZ Steel			
NZ Sugar			
MGUG			
NZDSN			
NZFGC			
Ministry of Health			
BoPDHB			
MDL			
Powerco			
Vector			
MCDEM			
Market Administrator			

2.1 Proposal to combine curtailment bands 2 and 3

The proposal

Curtailment bands 2 and 3 are both for gas customers consuming more than 10 TJ per year but less than 15 TJ per day. The current distinction between bands is that Band 2 is for gas customers with back-up fuel arrangements, while Band 3 is for customers without back-up fuel arrangements.

The distinction between Bands 2 and 3 may have a disincentivising effect on consumer decisions when they are considering whether to invest in back-up fuel arrangements. Removing this disincentive ultimately gives individual parties responsibility for making decisions that best reflect the economic value of gas to their business, and the level of resilience that they consider mirrors that value -

whether that means investing in alternative fuels, maintaining a “cushion” of inventory, or accepting the risks of curtailment.

Further, the annual consumption of Band 2 is approximately 2.3 PJ per annum, compared to the 20.2 PJ per annum consumed by Band 3. In practical terms, the small size of Band 2 relative to Band 3 suggests that if the CCO needed to call for demand curtailment beyond Band 1b, it is almost certainly the case that both Bands 2 and 3 would be curtailed at the same time.

These considerations led Gas Industry Co to propose that the distinction between Bands 2 and 3 be removed, with renumbering of the Bands so that 1a would become 1, 1b would become 2, and the merged 2 and 3 would become 3.

What submitters said

Submitter	Response
Contact Genesis Greymouth Gas Mighty River Power Methanex MDEM MGUG MDL Powerco Vector	Agree with the proposal and the analysis performed by the GIC, noting the size of band 2 and the disincentive for investment in alternatives.
Fonterra	Supports combining bands 2 and 3, but concerned by size of band 3 combined with restricting ESP criteria. Proposes that dairy processing be differentiated from other consumers given a number of characteristics of dairying, including that it involves uncontrollable, perishable raw material that can cause significant environmental damage, with the potential for supply to dry up if it cannot be removed for processing.
NZ Steel	Agrees with the reasoning regarding the size of band 2, but notes that not all consumers have the ability to switch fuels, and that the ability is only real if supply of alternatives can be assured.
NZ Sugar	Is concerned about the proposal as NZ Sugar has investigated installing alternative fuel and has concluded it is not an economic or practical option, and there is unlikely to be an increase in manufacturers moving to alternatives to withstand a critical contingency event.

Gas Industry Co’s response

Almost all submitters that responded supported the merging of Bands 2 and 3 given the analysis provided by GIC, particularly the fact that Band 2 is small and is therefore unlikely to provide any real benefit to the CCO when managing a contingency. Fonterra, while supporting the merger of the two

categories of consumers within the two current bands, proposed that those consumers be separated. The issue of dairy processing in the context of a combined band 2 and 3 is considered in Section 3.2.

Gas Industry Co has concluded that the benefits of retaining the distinction between Bands 2 and 3 are limited (because the size of band 2 is small in practice) and they are out-weighted by the costs (added complexity and possible disincentives to invest in back-up supplies). Accordingly, Gas Industry Co will recommend that Bands 2 and 3 are combined.

2.2 Proposal to explore trading of usage rights

The proposal

The NZIER analysis indicates that curtailment Band 3 comprises industries that exhibit a wide range of value added. This suggests that there may be an opportunity, in circumstances of partial curtailment of that band, for gas consumers to trade their 'rights' to gas.

While not advocating this as a solution, Gas Industry Co wanted to canvass stakeholder views on whether there would be sufficient interest in trading rights to warrant further exploration of the feasibility of this option.

What submitters said

Submitter	Response
Contact	Considers that trading of gas usage rights would overcomplicate load curtailment when system is already under stress. However, if most other submitters support the idea then considers it should be restricted to larger consumers, fully documented, approved by Gas Industry Co and transparent to participants.
Fonterra	Does not support gas usage trading rights, but proposes that band 3 be differentiated on a needs basis.
Genesis	Doesn't object to the idea being explored with interested parties, but has concerns that it may compromise effective management of a critical contingency, and suggests strict implementation rules and criteria be employed.
Greymouth Gas	Considers that trading of gas usage rights would over-complicate critical contingency management. Would be open to discussions outside of this review, but doesn't consider it a priority.
MGUG	No view, but supports the productive sector's ability to optimise operation during periods of limited supply, but considers caution required when dealing with issues of property rights and uncertain situations.
Mighty River Power Methanex MDL	Does not consider trading of gas usage rights an option worth exploring given the likely complexity and limited practical application.
NZ Steel	Considers it is worth exploring if other avenues for making small quantities of gas can't be found, though notes that practicalities would be an issue.

Submitter	Response
Vector	Does not support trading of gas usage rights as an option worth exploring given the likely complexity and limited practical application. However, supports interested parties making commercial arrangements that would better prepare them for critical contingencies, with the CCO's agreement before an event.

Gas Industry Co response

Many responders suggested that the focus during a critical contingency should be on stabilising the system quickly and expressed concern that trading rights would add unnecessary complexity and could detract from properly managing a contingency. These concerns seem to reflect a perception that arrangement to trade could be made during a contingency. Gas Industry Co is of the view that any sort of trading arrangements would need to be put into place and approved by the CCO in advance, so as not to detract from the management of an event.

A number of submitters suggested they were happy for rights trading to be explored if others expressed interest. Gas Industry Co remains open to the possibility of trading usage rights as a way for gas users who value gas highly to make arrangement for access at times when otherwise they would be limited. Gas Industry Co intends to explore this matter further at the drafting stage of the CCM Regulations.

2.3 Partial restoration

The proposal

Recommendation 16 of the CCO Performance Report expressed a concern that the CCM Regulations *'do not expressly envisage a situation where the transmission system is curtailed and then partially restored'*. In the situation that prevailed, the CCO was able to achieve the desired end result simply by revising the existing curtailment directions, as provided for in regulation 53(1)(d)(ii).

Gas Industry Co examined the relevant regulations and considered that r53(1)(d)(ii) and r53(2) provided sufficient flexibility for the CCO to provide for partial restoration and to respond to changing circumstances. Accordingly, it proposed that no change be made to these regulations. However, a change was proposed to r56(2)(c) to allow retailers to reflect partial curtailment directives.

What submitters said

Submitter	Response
Contact	Agrees but considers clarity would be improved by adding "or restoration" after the first "curtailment" in r53(2)
Fonterra	Generally agrees that r53(2) provides the CCO with broad discretion, but prefers differentiating band 3 users during restoration.

Submitter	Response
Genesis Greymouth Gas Mighty River Power Carter Holt Harvey MDL Powerco Vector	Agrees the current regulations provide the CCO with sufficient flexibility to manage a contingency and enact partial restoration.
Methanex	Agrees but values certainty, and considers that the CCO may have felt constrained in the scope of its powers during the October contingency. Notes that the instruction “gas be used sparingly” was subjective and hence not sufficiently clear. Therefore, clarifying r53 may be beneficial.
MGUG	Generally agrees but considers the bias should be towards detail and guidance to minimise uncertainty and ambiguity.
NZ Steel	Agrees, but suggests there is a need to ensure accountability of decisions

Gas Industry Co’s response

Submitters generally agreed that the current regulations provided the CCO with sufficient flexibility to manage a contingency. However, three submitters suggested that there may be benefit in some minor clarifying amendments to provide absolute certainty. Fonterra noted its preference for the proposed band 3 to be divided into two based on a needs assessment, to avoid the CCO being overrun with requests from band 3 consumers for preferential restoration.

Gas Industry Co maintains that the current regulations provide the CCO with sufficient discretion to provide for partial restoration. Given that most submitters were comfortable with the proposal, Gas Industry Co considers it preferable to continue operating under the current r53.

However, Gas Industry Co agrees that there is merit in clarifying any possible ambiguity in order to reduce uncertainty. Gas Industry Co will therefore give further consideration to whether any minor amendments could be made to clarify the drafting of r53. Submitters will have an opportunity to comment on any such changes at a drafting workshops.

Accordingly, Gas Industry Co will recommend that no substantive changes be made to r53, and that r56 be amended to allow retailers to reflect partial curtailment directives.

3

Priority access to gas

The CCM Regulations currently provide for certain classes of customers to obtain priority access to gas.

The first of these, the ESP designation, provides for designated gas customers to move to a higher priority (higher numbered) curtailment band (Band 5), which allows for later curtailment and earlier demand restoration than would otherwise be the case. The second category, the MLC designation, allows a gas user time to undertake a controlled shut-down of its plant so as to avoid serious damage to plant or to mitigate serious environmental damage.

The October 2011 outage revealed a number of issues surrounding the ESP and MLC criteria and designation processes. These are discussed in the SoP.

Gas Industry Co made a number of proposals to address concerns regarding the criteria and processes for being designated as either an ESP or MLC. These included:

- Creating a new Band 7 for critical care providers and tightening the criteria for eligibility as a Band 5 ESP;
- Expanding the criteria for eligibility as an MLC;
- Determining an appropriate mechanism for electricity generators to access gas to support the electricity system;
- Providing for a more consistent approach to approving ESP and MLC designation requests;
- Providing time for industry participants to respond effectively to these proposed changes; and
- Reducing the ability for consumers to request re-designation during a critical contingency.

Summary of submitter positions

Question	6 & 7		8, 9, & 11	10	12	13	14
Submitter	ESP criteria		MLC criteria	Electricity MLC status	ESP/MLC application processing	Transitional provisions	Designation provisions
	Create Band 7	Band 5 change					
Contact				Opt 2			
Genesis				Mod. Opt 1			
Greymouth Gas				Opt 2			
Mighty River Power				Mod. Opt 1			
Carter Holt Harvey				Opt 2			
Fonterra							
Methanex				Opt 2			
NZ Steel				No pref			
NZ Sugar							
MGUG				Opt 2			
NZDSN							
NZFGC							
Ministry of Health							
BoPDHB							
MDL				Opt 2			
Powerco				No pref			
Vector				No pref			
MCDEM				No pref			
Market Administrator							

3.1 Essential service providers – analysis of status quo

As evidenced in the Concept Review and the resulting submissions, there are a number of important and complex issues arising when assigning a limited supply of gas to a large number of diverse consumers, with implications that will differ in severity for different users. To help inform its proposals for addressing issues with the existing ESP and MLC designation criteria, Gas Industry Co first detailed its analysis of the status quo.

Submitters were asked for any comments they had on the analysis of ESP consumers.

What submitters said

Submitter	Response
Contact	The management of curtailment bands would be improved by the regulations requiring bypass/private network consumers/ICPs to be on the registry for the purposes of transparently recording load shedding category, including those designated as ESPs.
Genesis	The analysis supports transferring the approval of ESP applications to an independent body, as it suggests retailers have not been applying it consistently.
Greymouth Gas	<p>Chart 9 is used to suggest variability of interpretation, but the analysis does not take into account different retailers' niche markets, which may explain some of the variability.</p> <p>As no breaches were alleged by retailers pertaining to incorrect ESP designations, GIC will have to ensure it appropriately captures its policy shift in both the regulations and the guideline note.</p>
Market Administrator	<p>Some consumers who were alleged to have breached the regulations during the October contingency thought they had been ESPs, despite the CCO and their retailer having concluded otherwise. This confusion is concerning. Having one entity responsible for granting ESPs may resolve this issue.</p> <p>Also concerned that retailers appear to have not always followed the designation criteria. Some of the ESPs that were allegedly in breach are unlikely to be able to rely on ESP status if the GIC's proposals go through.</p>
MDL Powerco Vector	Broadly agrees with the analysis.
Methanex	Considerations in setting criteria for essential services providers should be based on public health and safety requirements, not economics, and applying the CDEM criteria is not appropriate for a critical contingency given the expected short duration and that it is isolated to gas issues.
Mighty River Power	Generally agrees with the analysis but suggests that because the Network Operators populate the registry and don't have a direct relationship with customers, this may be a reason for some entries being incorrect. Suggest the gas switching rules be amended to transfer this responsibility to retailers.
NZ Steel	The analysis suggests smaller users provide a higher value add, but NZ Steel could drop to 95% of normal load, putting it in a small user category but with higher economic returns.
NZ Sugar	Chart 3 shows consumption at full operation, which is misleading considering NZ Sugar can operate at half load during a contingency. Furthermore, given the dairy and meat processing category accounts for approximately 9,000TJ/yr, this means that food manufacturers only account for around 10% of the total ESP consumption.

3.2 Proposal for revising ESP criteria

The Proposal

The SoP noted that, the larger the proportion of load residing in the ESP band, the higher the likelihood of the CCO needing to curtail the ESP band during a critical contingency that requires relatively deep cuts. This suggested that there was a strong case for tightening the criteria to provide more differentiation, and ensuring more consistent application of the criteria by having those decisions made by a single body.

Gas Industry Co made several proposals to revise the ESP criteria including:

- establishing a priority Band 7 comprising critical care providers - specified as hospitals, prisons, hospices, residential care and rest home facilities, and specialised medical service providers and laundry suppliers to critical care facilities;
- excluding gas users with alternative fuel capability from ESP designation;
- no longer basing the ESP criteria on the objectives in the National Civil Defence and Emergency Management Plan Order as they are too broad for the circumstances the CCM Regulations need to cover. As discussed further below, the Order is implemented as part of the wider civil defence and emergency regime, and the CCM Regulations are designed to fit with that regime;
- limiting Band 5 ESP categories to mortuary services and crematoria, incineration of biohazards, waste and wastewater, and police, fire and other emergency services.

In making these proposals, Gas Industry Co concluded that dairy processing facilities (in particular) should not qualify for ESP designation on environmental protection grounds. This conclusion was based in part on analysis in the Lowe Environmental Impact Report, including the existing legal requirements to avoid, remedy or mitigate environmental damage; options that would allow dairy farmers to dispose of milk on-farm without serious risk to the environment; and the size of consumption by dairy processing facilities relative to more critical ESP consumers and the linepack available to achieve the purpose of the CCM Regulations.

What submitters said

Submitter	Response
BoPDHB	Supports the creating of Band 7, but does not support restricting ESP designations to those without alternative fuel, excluding elective procedures from any gas allowance, or the need to reapply every two years.
Carter Holt Harvey MDL Powerco	Generally agrees.

Submitter	Response
Contact	Agrees with the creation of Band 7, but considers prisons would be more appropriately included in Band 5.
Fonterra	<p>Agrees that curtailment be used to protect critical care providers and those that contribute to health and safety.</p> <p>Preventing damage to the environment should remain as a category. If this criterion does not remain, then suggests Band 3 should be differentiated to allow for more efficient restoration. Proposed Band 3B would include Band 3 consumers that process an uncontrollable, perishable raw material that would cause major environmental impacts and significant economic loss.</p>
Genesis	<p>Strongly supports creation of Band 7</p> <p>Does not support restricting ESP designations to those without alternative fuel, as it creates disincentives for investment in alternatives.</p>
Greymouth Gas	<p>Agrees with the creation of Band 7, but suggests prisons may be more appropriately included in Band 5 and animal welfare issues included as an ESP category.</p> <p>Suggests the GIC be absolutely sure before restricting access to Band 5 and potentially reducing the appeal of gas for such consumers.</p> <p>Queries the distinction between Band 5 and Band 7, and suggests it may be more practical to amalgamate them into a single Band 7.</p>
MCDEM	<p>Generally agrees, but considers that inclusion of laundry services contradicts statement regarding suppliers to ESPs, and may open the door to many other such suppliers, with the results ultimately being the same as during the October contingency.</p> <p>Supports the Concept review option.</p> <p>Suggests more definition around "municipal services" and "other emergency services".</p>
Methanex	Generally agrees, but suggests there is a need to more clearly define an ESP as a user whose immediate and continuous access to natural gas is essential for the protection of people and the environment. Also suggests removing Band 5 altogether and amalgamating with Band 7.
Mighty River Power	Generally agrees, but queries whether fresh bread bakers should be included in Band 5.
Ministry of Health	<p>Strongly supports creation of Band 7 and agrees with other criteria.</p> <p>Does not support restricting ESP designations to those without alternative fuel, in case the back-up arrangements fail.</p> <p>Supports inclusion of laundry services and blood supplies to hospitals, but suggests GIC needs to further consider the practical aspects of this as these may be difficult to determine in advance as they are contracted out.</p>
NZ Steel	Agrees that ESPs should only have access to gas for essential services, not normal operations.
NZDSN	Strongly supports including residential services under Band 7.

Submitter	Response
NZFGC NZ Sugar	<p>Supports the creation of Band 7 for critical care.</p> <p>However, strongly disagrees there is no justification for exempting food manufacturers from curtailment given that food is essential for human life, and that food shortages can quickly lead to civil unrest.</p> <p>States that food production often operates on a just-in-time basis, and in some instances has a sole supplier for the whole country. Many suppliers were close to running out during the October contingency.</p> <p>Submits that food manufacturers comprise a small percentage of Band 5. Furthermore, because so much of NZ's food production is dependent on gas and is geographically confined, considers it is appropriate for food producers to have priority access to gas, and encourages GIC to reconsider its proposal.</p>
Vector	<p>Generally agrees.</p> <p>Agrees regulations should make a clear distinction between essential and non-essential components of a service, and suggests further consideration into how non-essential part of the load is managed and compliance assessed.</p> <p>Suggests consideration of status of gas for apartments, student residences and domestic premises under commercial contracts.</p> <p>Suggests the GIC emphasise that Band 7 can still lose supply, and considers whether curtailing Band 7 (if it's necessary) may be a call for Civil Defence to make given the life or death nature of those services.</p>

Most submitters agreed that the criteria for ESP designation should be narrower, given the analysis set out in the SoP. Most submitters expressed strong support for the creation of a Band 7 covering critical care providers with highest priority. Some submitters agreed fully with the proposal, while others had some reservations or suggested some elements that should be given further consideration before progressing. These included:

- allowing consumers to be classified as ESPs even if they have alternative fuel given the potential for alternative fuels to run out or be disrupted, and the disincentive it provides for investing in alternative fuels;
- whether prisons may be more appropriately included under Band 5 than 7;
- the practicality of prohibiting gas consumption for elective surgery;
- whether including laundry services opens the door for other suppliers to essential services (e.g. chemicals for water treatment) to also demand ESP status;
- whether hospitals should have to reapply every 2 years for ESP status given the relatively unchanging nature of their operations;
- whether bread makers should be included under band 5 given its short shelf-life;

- whether it may be necessary to clarify when a contingency becomes a Civil Defence Emergency, and whether curtailment of band 7 should be a matter for Civil Defence rather than the CCO given the possible implications;
- whether it may be preferable to transfer some of the categories under band 5 into band 7, and drop band 5 altogether.

Three submitters (Fonterra, NZ Sugar and NZFGC) were strongly opposed to the proposal that food producers and dairy factories would not be considered as essential services. Fonterra suggested that, if dairy factories are not classified as ESPs, an alternative remedy to their concerns would be providing priority for Band 3 consumers whose curtailment could cause major environmental impacts and significant economic loss.

Fonterra's submission highlights problems for the dairy industry in responding to more lengthy outages, particularly if they occurred at the peak of the dairy season and if they triggered a need to dry off stock. The submission acknowledges other changes proposed in relation to the new Band 7 and a narrower Band 5, but seeks priority in relation to restoration of supply for some Band 3 users. Fonterra also recognises that it is important that dairy processors and farmers consider how best to avoid or mitigate harm to their operations and the environment within a wide context of possible events – gas curtailment being but one.

Gas Industry Co's response

Context of the CCM Regulations and need for tight ESP criteria

The purpose of the CCM Regulations is "to achieve the effective management of critical gas outages and other security of supply contingencies *without compromising long-term security of supply*" (emphasis added). This purpose reflects section 43ZN of the Gas Act, which sets out the objectives of the industry body in recommending gas governance regulations. These include that "risks relating to security of supply, including transport arrangements, are properly and efficiently managed *by all parties*" (emphasis added). In other words, gas users cannot rely on the CCO or the gas industry to manage supply risks for them; indeed, such reliance is not feasible, given the limited supply of gas during a critical contingency. Rather, gas users need to take a primary role in managing the risks they face of a gas outage, as they do with any other supply failure, such as electricity, water, or telecommunications. Although the gas industry can provide a high level of reliability – 99.96% in the case of the Maui pipeline – it cannot provide absolute certainty. It is axiomatic that having end-users determine their respective levels of resilience to such unpredictable, low-frequency events will produce the most efficient outcomes.

Gas Industry Co notes that the Ministry of Civil Defence and Emergency Management supports the approach of promoting the need for all gas users to develop and maintain their business continuity plans to ensure their continued and safe operations in the wake of a gas outage. We are aware of a number of users who have reviewed their emergency preparedness since; some have taken steps to

improve their resiliency, while others have decided that such steps are not justified in their circumstances. The important point, again, is that the CCM Regulations are not, and cannot be, a substitute for gas users' own resilience planning. Rather, the focus of the CCM Regulations is on the management of critical gas outages from the perspective of long-term security of supply.

As discussed in the SoP, and as demonstrated by the October 2011 outage, major users such as hospitals and food and dairy manufacturers need to be prepared for having gas supplies curtailed entirely. This is particularly so if, as with the October 2011 outage, the CCO does not have clear information as to the time to repair, and needs to act conservatively in curtailing load in the initial phase of the event to maximise chances of system survival.

In terms of ESP designations, allocating priority gas to a broader range of users than was proposed in the SoP would significantly increase the risk for all users that they will face a longer outage associated with reinstatement of the system; it would also increase the possibility that critical gas users such as hospitals would have to be curtailed in a critical contingency.

Specific categories of gas users

Food security

Both NZFGC and NZ Sugar posit that the provision of staple food items should be a consideration in the criteria for ESP designation. Both submissions cite overseas examples where lack of food became a "political issue". All of the examples given (Hurricane Katrina, Queensland floods and Christchurch earthquake) are materially different to gas critical contingencies. Unless a gas critical contingency is associated with a natural disaster then there will be little effect on the supply of a large number of foods, including fresh fruits and vegetables, rice and pasta, canned goods, and foods that New Zealand generally imports. Further, the examples cited by NZFGC are more properly characterised as civil defence events, which is addressed further below.

As outlined in the SoP, critical contingencies are generally of relatively short duration; the majority of events last less than two days. The October 2011 outage was an exception; at 5-6 days, it was one of the longest outages experienced in the industry's 40-year history. (The Pohangina Bridge collapse in 2004 was another exception; it reduced gas supplies to Hawkes Bay for 6-7 days). The analysis presented in the SoP demonstrates that, on a number of scenarios, the CCO will only be able to maintain minimum system pressures if only the most essential gas uses continue. If there were a longer period of reduced gas supplies than the 7 days experienced by the industry to date, and particularly if this were associated with particular issues such as food shortages, then the civil defence and emergency management (CDEM) regime can be activated and, to the extent necessary, would override any CCO instructions.

The CDEM Act provides for declarations under which the responsible authorities can provide for the conservation of food, fuel and other essential supplies. In contrast to the fixed nature of the curtailment bands, the CDEM regime provides the flexibility that would be required in a longer-term

outage. By declaring a civil defence emergency in one or more affected regions, the relevant civil defence authority can evaluate the competing needs for available gas supplies and determine how best to apportion gas at that time.

For these reasons, Gas Industry Co does not consider that the manufacture of staple food items needs to be included in the criteria for ESP designations.

Milk processing

As noted above, Fonterra's submission understandably focusses on significant issues associated with interruption of dairy production, including economic and environmental impacts. Fonterra is right to recognise the need to tighten priority provision for ESPs and to recognise the need to consider back-up fuel. Again, the risks associated with Fonterra's business include disruptions to supply that may occur not just from gas supply outages, and a lengthy outage may be best managed in conjunction with CDEM authorities.

Fonterra's submission appropriately acknowledges that its principal dairy plants will be in the proposed Band 3 (combining the existing bands 2 and 3) if existing Band 5 is reduced. But it proposes that dairy production be differentiated from other Band 3 users, due to the uncontrollable and perishable nature of its raw materials, the disposal of which poses a potential threat to the environment and significant economic loss. While Gas Industry Co does not dispute the nature and extent of the issues that the dairy industry faces in the event of a gas outage, there are a number of issues associated with giving this sector priority over other Band 3 customers:

- On the environmental issue, there appear to be a number of options for the environmentally responsible disposal of milk, as outlined in the LEI report (a copy of which is on the Gas Industry Co website). Additionally, Gas Industry Co is aware that the Ministry of Primary Industries is investigating measures that would help the dairy industry be more resilient to supply chain disruptions such as gas outages. Again, Gas Industry Co acknowledges that milk disposal presents some difficult challenges, but those challenges exist for a range of gas and other supply outage scenarios, and the preparation for addressing those challenges cannot depend on a gas supply that may not be available.
- In terms of economic loss, although milk that is unable to be processed represents a loss to the dairy industry, gas outages similarly impose irretrievable losses on other industrial gas customers.
- Although the combination of environmental risk and economic loss may be unique to Fonterra, Gas Industry Co is aware of other stakeholders who argue that the circumstances of their own situations are also exceptional and worthy of priority within Band 3.
- Prioritising Fonterra's risks would effectively require other Band 3 users to increase their own risks.
- As already mentioned, in the event of a longer-term outage that might crystallise the risks cited by Fonterra, the declaration of a civil defence emergency would be the appropriate response.

For all of these reasons, Gas Industry Co does not consider that there is a clear and unambiguous case for differentiating users within Band 3.

Alternative fuels

A number of submitters raised concerns that disallowing dual-fuelled customers from qualifying for ESP status would create a disincentive to those customers from investing in alternative fuelling, which could lead to ESP customers not being equipped to cope during an event in which full curtailment was necessary. Gas Industry Co agrees with this assessment. It is crucial that critical care providers and other gas consumers who provide for public health and safety are appropriately prepared to manage a gas outage. There may be situations in the future that require all critical contingency bands to curtail their usage, and it is vital that such users are prepared for that eventuality. The CCM Regulations should act to support gas users' resiliency planning, rather than act as a deterrent to it.

For this reason, Gas Industry Co will not recommend lack of alternative fuel capability as a criterion for ESP designation.

Conclusions on ESP criteria

Gas Industry Co has considered the issues raised by submitters and concluded:

- During a contingency requiring deep curtailment of gas demand, the distinction between Band 5 and Band 7 consumers could become crucial in maintaining a gas supply to critical care providers. This is because of the size of Band 5 consumers relative to Band 6 consumers, and the associated benefits in being able to curtail a small number of large consumers quickly to help stabilise system pressures. Gas Industry Co therefore considers it appropriate to maintain Band 5;
- Because the CCO will only curtail gas supply to the proposed Band 7 consumers as a last resort, and when all other options have been exhausted, it is necessary for the CCO to make this decision in the first instance (rather than CDEM authorities as some submitters have suggested). However, in these circumstances, the CCO will be notifying CDEM authorities, and network operators are likely to be taking responsibility for managing extremely limited gas supplies, which may include curtailing supplies to domestic consumers.
- It is difficult to consider all possible essential suppliers to critical care providers in advance but, as with any application, it is envisaged that gas consumers seeking ESP designation would need to demonstrate that the service they provided was essential and that there were no reasonably practicable alternatives available (which would include drawing on stored inventory). These issues will be clarified further in the drafting of the amended CCM Regulations and in guidelines to be prepared by Gas Industry Co.

Gas Industry Co will recommend a change to the CCM Regulations to give effect to:

- Establishing a priority Band 7 comprising critical care providers - specified as hospitals, prisons, hospices, residential care and rest home facilities, and specialised medical service providers and laundry suppliers to critical care facilities;
- Removing reference to the objectives of the NCDEMP Order as the basis for ESP eligibility;
- Limiting Band 5 ESP categories to mortuary services and crematoria, incineration of biohazards, waste and wastewater, and police, fire and other emergency services.

3.3 Minimal load consumers (MLC)

The Proposal

The SoP noted that, with the proposed tightening of the eligibility criteria for ESPs, it may be appropriate to broaden the MLC criteria to include a wider range of possible circumstances, such as providing for an orderly transition to alternative fuel supplies to address health and safety issues; to provide a limited interim supply to address possible animal welfare issues; and to provide a limited interim supply to mitigate extreme economic costs.

The SoP also proposed lowering the eligibility threshold for MLC designation from 10TJ per annum to 2TJ per annum, as long as the consumer has ToU metering, or has it installed as part of the approval process.

The SoP suggested that it could be appropriate to provide a form of MLC designation for electricity generators, to cover circumstances where a transitional gas supply could be important to maintaining electricity supplies during a transition to alternative electricity generation sources. The SoP suggested two possible options:

- Option 1: allow some electricity generators to continue to use a limited gas supply for a limited period during a critical contingency, according to a pre-approved profile;
- Option 2: allow some electricity generators to continue to use a limited gas supply for a limited period during a critical contingency, but only when given approval by the CCO, provided the CCO has confirmed with the electricity system operator that this is needed for security of electricity supply.

What submitters said about eligibility

Submitter	Response
Carter Holt Harvey	<p>Supports the broader MLC criteria and lower threshold, with its plant likely to fit under the MLC category.</p> <p>Suggests that CCO model may need improvement to incorporate MLCs and would welcome a workshop to explore issues.</p> <p>Also consider improved communication, particularly early warning of potential curtailment would assist in this area.</p>
Contact MDL Methanex Mighty River Power Powerco	Agrees with proposed broader MLC criteria and lower threshold
Fonterra	Agrees with the proposed broader MLC criteria and lower threshold, and suggests Fonterra would pursue this option for disposing of milk already in transit.
Genesis	Agrees but questions the need for MLC to have ToU meters due to their expense
Greymouth Gas	Agrees with proposed broader MLC criteria and lower threshold, but considers that some may be better under ESP category (e.g. animal welfare) or require caveats pertaining to health and safety.
MCDem	Supports the proposed categories, but suggests that "completion of critical processing" requires more definition to avoid erosion of the usefulness of the MLC category.
Methanex	Supports broader MLC criteria but questions if the lower threshold will significantly increase the number of MLC-designated consumers and impact the CCO's ability to manage a critical contingency event.
MGUG	Considers that ramp down may not always follow a defined path. Suggests that the definition and scope of critical processing and "ramp down" are made more explicit.
NZ Steel	<p>For some large users, there may be no difference between shutting down "as soon as reasonably practicable" given safety/plant integrity concerns, and ramping down under an MLC profile.</p> <p>Large users may not be able to follow a defined ramp-down profile if their amount of gas use at any particular time is variable, as with users with many uses of gas. The regulations should provide for the shutdown schedule to incorporate such variability.</p> <p>Considers recognition should be given to the higher value that can be provided by large users operating at significantly reduced volumes relative to consumers in higher priority bands.</p>
Vector	<p>Considers that "critical process" is likely to be subjective and difficult to enforce.</p> <p>Suggests GIC consult animal welfare experts to clarify how to deal with animals in transit.</p>

Gas Industry Co's response

Submitters who responded regarding MLC criteria were generally very supportive of broadening the criteria and lowering the threshold. Some submitters expressed minor concerns or clarifications that they suggested should be explored before amending the CCM Regulations. These included:

- ambiguity around what “completion of critical processing” might mean exactly, and the possibility for it to be exploited. Three submitters suggested that clarifying guidelines be produced to narrow the scope of interpretation;
- that the renewed criteria may make the CCO's model insufficiently detailed, and may require development and more granular data;
- a concern that requiring TOU meters may be expensive, and another suggestion that they be required by all MLC consumers regardless of size; and
- a suggestion that some categories (namely animal welfare issues) may be more appropriately categorised under the ESP designation, and that some criteria may need caveats with respect to r47.

Gas Industry Co has concluded that the MLC criteria should be broadened, the eligibility threshold should be lowered to 2TJ per annum, the criteria should include a requirement for ToU metering, and the issues listed above should be addressed in the context of drafting the revised CCM Regulations and associated guidelines, to be prepared by Gas Industry Co.

Gas Industry Co agrees that it is necessary to clarify what “completion of critical processing” means, and it will be recommended that in this regard, that “critical processing” is limited to circumstances that allow processing to continue to a point where it can safely be turned off without damage to plant or having to dispose of large quantities of product, and that full curtailment must be achieved within a maximum four hour window, unless an MLC approval provides for longer.

What submitters said about electricity generation

Submitter	Response
Carter Holt Harvey	Considers that allowing generators MLC status should only be at the request of the electricity system operator for reasons of system security and stability.
Contact MCDEM	Support a separate category for electricity generators
Genesis	Supports allowing generators access to gas to provide for electricity system support. Proposes a combination of the options whereby generators are included under a separate designation, and are able to use gas in accordance with any pre-approved profiles, with the CCO, in consultation with the electricity system operator, able to revoke access to gas if necessary and appropriate.

Submitter	Response
Greymouth Gas	Suggests the option 2 fits more closely with the intent of the regulations. The counterfactual doesn't canvas the need for electricity grid support. Presumes the ramp-down of power stations is already allowed for within r55(1).
MDL	Considers it possible that electricity system operator and CCO coordination pre-critical contingency would present an opportunity to start generation to support electricity system. Favours option 2, where generators are given approval from the CCO.
Methanex	Supports proposal of a separate category, to be exercised at the CCO's discretion, provided it doesn't result in curtailment of ESPs.
MGUG	Questions whether gas for start-up is justified at all times – depends if the electricity system operator requires generation for electricity system support. The electricity system operator should be involved in consultation regarding the requirement for any gas supply.
Mighty River Power	Prefers creation of a specific regulation to cover this issue, with the CCO having power of veto over the use of a predetermined and limited amount of gas (effectively option 1 with CCO veto). Concerned that requiring the CCO's approval would result in delays that could undermine efforts to stabilise the electricity system.
NZ Steel	Considers that it makes sense for gas to be available to support the electricity system, and that co-generators can contribute to this.
Powerco	Prefers the option that is most fit for purpose and supported by industry.
Vector	Has no problem with electricity generators having MLC status, assuming no practicable alternatives and input is sought from the electricity system operator.

Gas Industry Co's response

The majority of responding submitters supported a preference for a separate MLC category for electricity generators to allow switching to alternative fuels if necessary for electricity security of supply. There was a general consensus that under either option, electricity generators should only have access to an approved amount of gas and a consumption profile to be determined in advance. Some submitters suggested that generators should only be allowed to use gas for switching at the CCO's discretion, in consultation with the electricity system operator, while the submitting electricity generators tended to the view that the need for quick action meant that it would be preferable for them to have express authority to act if necessary (option 1), possibly with the CCO having a power of veto.

Gas Industry Co has considered these responses, and while it appreciates that generators may need to act quickly to support the electricity system, it would not be appropriate for electricity generation to continue if the electricity system didn't definitely need those generators to operate for security of supply reasons. This is consistent with the analysis above confirming the need to tighten the current provision for ESPs. In any case, curtailment (or revised curtailment) directives would not be issued

without prior consultation with the electricity System Operator, who should be able to provide advice on the electricity system need for those generators.

Gas Industry Co has therefore concluded that a separate but narrow MLC category for electricity generators should be established, to allow switching to alternative fuels, if necessary for electricity security of supply. Designated electricity generators would be required to follow a pre-approved consumption profile, and only with the express approval of the CCO, following confirmation from the electricity System Operator that such action is necessary for electricity security of supply.

3.4 Process for designating ESPs and MLCs

The proposal

The SoP noted that there were several problems with the process for approving ESP and MLC applications, including in particular:

- The potential for inconsistent designations arising from the approval by retailers;
- The need for a clearer set of information justifying any application for ESP or MLC designation, including the minimum quantity of gas required for essential purposes, what alternative options have been considered, and what emergency arrangements are in place to cope with full loss of supply; and
- ESPs consuming more gas during a critical contingency, than the minimum necessary to maintain essential services.

In order to address these issues, the SoP proposed that:

Gas Industry Co should be the approving body;

ESP applicants should be required to provide a clear set of information justifying the application, including minimum level of supply necessary to maintain the essential service;

Retailers should be required to collect and check applications and pass them through to Gas Industry co for consideration (discussed under Section 7.5);

Any designations would expire after two years.

What submitters said

Submitter	Response
BoPDHB	Hospitals should not be required to reapply for ESP status after 2 years, as it would be an unnecessary compliance cost
Carter Holt Harvey	Agrees with GIC's evaluation, given the consistency GIC can apply to the application process.

Submitter	Response
Contact	Agrees except for the expiry after 2 years. Suggests retailers can instead provide GIC with confirmation that there is no change to the information, having consulted with customers.
Fonterra	Agrees. Concerned about the specifics of the application process, suggesting it must remain transparent and objective and include a process for review.
Genesis Greymouth Gas MDL Ministry of Health	Agrees
Market administrator	Some consumers who were alleged to have breached the regulations during the October contingency thought they had been ESPs, despite the CCO and their retailer having concluded otherwise. This confusion is concerning. Having one entity responsible for granting ESPs may resolve this issue. Also concerned that retailers appear to have not always followed the designation criteria.
Methanex	Agrees, as the alternative of an independent assessor would create duplication and raise principal-agent risks.
Mighty River Power	Agrees, but considers eligibility should be contingent on having a TOU meter, as otherwise compliance could not be assessed.
Vector	Agrees with GIC's evaluation. GIC can bring efficiencies to the role, including removing the need for an appeals process. ²

Gas Industry Co's response

All submitters that responded generally agreed with the evaluation of options regarding processing ESP/MLC applications, and supported a move towards a single body approving applications, and applicants having to supply adequate supporting information. However, there were concerns about ESP/MLC consumers having to re-apply every two years and suggestions that it might be better if retailers could provide confirmation that the information supporting the initial application had not changed.

Having considered the issues, Gas industry Co has concluded that:

- Gas Industry Co should be the approving body;
- ESP applicants should be required to provide a clear set of information justifying the application, including the minimum level of supply necessary to maintain the essential service;
- Retailers should be required to collect and check applications and pass them through to Gas Industry Co for consideration (discussed further in Section 7.5);

² Tighter designation criteria would seem to obviate the need for an appeals process, but the final word in this matter rests with Parliamentary Counsel Office.

- It is important that consumers periodically reapply for ESP and (particularly) MLC designation so as to help avoid a number of redundant or out-dated designations remaining in place and causing complications during a critical contingency. However, Gas Industry Co agrees that the re-application process should not impose any unnecessary costs, and as such, will recommend a long form application and a short form application to accommodate new and existing ESP/MLC-designates respectively;

Gas Industry Co will recommend revised CCM regulations to give effect to these conclusions.

Another issue raised in the SoP was the maintenance of the load shedding category in the gas registry. As outlined in the SoP, Gas Industry Co considers that the parties best placed to fulfil this function are the retailers, as they have information about their customers' usage and can classify them into curtailment bands accordingly. Gas Industry Co intends to progress this issue in conjunction with the project to add metering fields to the registry, which will include amendments to the Gas (Switching Arrangement) Rules 2008.

In the meantime, Gas Industry Co, as the body approving ESP applications, will liaise with distributors to ensure that Band 5 and Band 7 customers are correctly categorised in the registry.

3.5 Transitional provisions

The proposal

The SoP suggested that if the proposals to tighten the eligibility for ESP designation, and broaden the criteria and lower the threshold for MLC designation were implemented, there would be considerable changes to accommodate, and consumers should be provided with a reasonable transition period. The proposed transition arrangements included:

- ESP and MLC holders to reapply as soon as possible after any new CCM Regulations come into effect;
- Any existing ESP or MLC designations that were not reconfirmed within 9 months would lapse.

What submitters said

Submitter	Response
Carter Holt Harvey Contact Genesis Greymouth Gas MDL MGUG Fonterra	Agrees with proposal

Submitter	Response
Mighty River Power	Considers ESPs designations could reasonably be assessed within 3 months and MLCs within the proposed 9 months.
Methanex	Agrees, but considers the faster the better, particularly for ESP/MLC designations, to avoid the risk of confusion associated with an event during the transition period.
NZ Steel	Considers 9 months should be adequate, unless a lot of process and evaluation work will be necessary to meet the rigour required by the designating entity.
Vector	Agrees. Recommends that the GIC clarify how long its assessment of applications will take, and what parties are required to do during the 9 months. Retailers may be able to prepare some processes before the amended regulations are gazetted.

Gas Industry Co's response

There was a substantial measure of agreement with the need for a transition period. Gas Industry Co agrees that any transition period should be kept to the minimum necessary to allow consumers a reasonable time to prepare applications and have them processed by the approving body.

While it may be possible for ESP designations to be assessed in a shorter period, it is noted that during the transition period, the current ESP and MLC designations would apply and designation changes would not come into effect until nine months following the revised CCM Regulations coming into effect. Any critical contingency during the transition period would need to be managed by the CCO using the current ESP and MLC designations. When the proposals to tighten the eligibility for ESP designation and broaden the criteria and lower the threshold for MLC designation are implemented, many current ESP designations are likely to fail to meet the revised ESP criteria and those consumers may consider an MLC designation as an alternative. It is therefore important that the revised ESP and MLC designations take effect at the same time.

Gas Industry Co has therefore concluded that a nine month transition represents an appropriate compromise between minimising the transition period on the one hand, and allowing sufficient time for consumers to make alternative arrangements and for revised applications for ESP/MLC applications to be considered, on the other hand.

Gas Industry Co plans to distribute information regarding timelines, responsibilities and processes during the transition period. One of the first milestones will be working with retailers, distributors and the CCO to establish an authoritative list of current ESP/MLC consumers. Gas Industry Co will be recommending that consumers be required to apply for ESP/MLC status within three months of the regulations coming into effect, so that it has sufficient time to assess them all and notify applicants within the transition period.

3.6 ESP/MLC designations during a critical contingency

The proposal

The SoP noted that many of the current ESP designations were received during the October 2011 pipeline outage and some of those designations do not appear to meet the revised criteria. This suggested that arrangements needed to be revised to ensure that consumers had appropriate incentives to apply for ESP/MLC designations before any critical contingency occurred, and that opportunities for designating ESPs and MLCs during a critical contingency were limited to unforeseen situations.

The SoP therefore proposed amendments to the CCM Regulations to clarify that retailers had a responsibility to notify consumers about ESP and MLC designation possibilities at least annually (discussed under Section 7.1), and that flexibility to designate ESP and MLC consumers during a critical contingency would be limited to those that had previously applied (and been unsuccessful) but as a result of some change in circumstances or some unforeseen event, now meet the criteria.

What submitters said

Submitter	Response
Carter Holt Harvey Contact MGUG Mighty River Power Powerco	Agrees with proposal
Fonterra	Agrees, but questions whether consumers should be designated as ESP/MLC if back-up fuel runs out.
Genesis	Agrees that designations should be sorted before an event and ability to obtain one during an event limited to exceptional circumstances. Suggests the GIC provide guidelines on the application process.
Greymouth	Disagrees because it does not believe consumers should have had to apply previously, to avoid incomplete applications being lodged just to attain eligibility.
Methanex	Disagrees because re-designations should be not considered at all except in the case where a consumer's back-up fuel supply has failed and they would otherwise be eligible for ESP status.
MDL	Agrees, but queries whether a prior unsuccessful application should be a prerequisite.
Ministry of Health	Considers that consumers should be eligible for ESP status even if they have alternative fuels in case the alternative fuel supply fails.
NZ Steel	Agrees, but suggests need to recognise safety risks, equipment damage and financial impacts, when considering requests for designation during a contingency.

Submitter	Response
Vector	<p>Agrees that designations during a contingency should be limited to extreme circumstances such as where back-up fuel arrangements have failed.</p> <p>Recommends that GIC clarify the status of applications still being processed during a contingency.</p>

Gas Industry Co's response

The issue of back-up fuel supplies failing has been discussed in Section 3.2; since Gas Industry Co now considers that having back-up fuel supplies should not disqualify gas users from being designated as an ESP, this issue is no longer relevant.

Gas Industry Co acknowledges that there may be exceptional circumstances where a consumer has not previously applied for ESP designation, and it may be appropriate to consider an application during a contingency. For example, there may be a new consumer, or a consumer with circumstances that have changed recently that mean it now qualifies for ESP designation, where they have not had sufficient time to prepare an application prior to the contingency occurring. Gas Industry Co considers that any ESP designation made during a contingency should be temporary, given that they may be situation specific, with those consumers required to reapply after the event in order to maintain that designation going forward.

However, Gas Industry Co does not envisage a situation where an MLC designation would need to be made during a contingency, given the short time-frames for which these are relevant. The nature of an MLC designation is that it is a path towards a shutdown. Any MLC applicant would need to shut down pending approval – at which point an MLC designation is pointless.

Gas Industry Co has therefore concluded that the CCM Regulations should be amended to make it clear that flexibility to designate ESP consumers during a critical contingency will be limited to situations where either:

- circumstances have recently changed sufficiently for a consumer to meet the criteria for designation, and there has been insufficient time to prepare and have an application considered; or
- a new consumer installation has been established that meets the criteria for designation, and there has been insufficient time to prepare and have an application considered; and
- in either case, such designations will be provided on a temporary basis and it would be necessary for consumers to reapply once the critical contingency is terminated.

Gas Industry Co will recommend changes to the CCM Regulations to give effect to these arrangements.

4

Communications

Many stakeholders reported concerns about how communications were managed over the duration of the October 2011 critical contingency. The SoP suggested that improvements are required in order to promote awareness of the possibility of a critical contingency and the need for gas users to respond promptly to directions to curtail demand, to keep all stakeholders well informed during a critical contingency, and to assign clear responsibilities to industry participants who are best-placed to provide communications.

Gas Industry Co has worked with industry participants over a considerable period, seeking to establish a communications protocol to address these issues. Although there has been significant agreement about the issues and the need to address them, a protocol has yet to be agreed.

The SoP therefore proposed amending the CCM Regulations to establish a set of “backstop” communications arrangements requiring early public notification by the CCO and affected asset owners following declaration of a critical contingency, and the provision of regular updates.

Summary of submitter positions

Question	15	16
Submitter	Comms framework	Comms responsibility
Contact		
Genesis		
Greymouth Gas		
Mighty River Power		
Carter Holt Harvey		
Fonterra		
Methanex		
NZ Steel		
NZ Sugar		
MGUG		
NZDSN		

Question	15	16
Submitter	Comms framework	Comms responsibility
NZ Food & Grocery Council		
Ministry of Health		
Bay of Plenty DHB		
MDL		
Powerco		
Vector		
MCDEM		
Market Administrator		

4.1 Backstop regulations pertaining to communications

The proposal

The proposed backstop regulation listed the types of information that would be required and the timing of initial notification and on-going updates, including:

- Preparation of an initial “holding statement” by the CCO for the information of Gas Industry Co, the Minister, and the Ministry of Business, Innovation and Employment (MBIE) and not for public release;
- Release of public statements by the CCO and affected asset owners within one hour of curtailment directions being issued or the critical contingency becoming known;
- Three daily publication updates from the CCO and affected asset owners, containing certain information about the critical contingency, its cause, the affected areas, the actions being taken, and expectations about duration and when supplies might be restored (to the extent that such information is able to be determined).

What submitters said about the communications framework

Submitter	Response
Contact Genesis Greymouth Gas Methanex Ministry of Health	Agrees

Submitter	Response
Fonterra	<p>Agrees. Supports the availability of unfiltered information.</p> <p>Suggests adding major users to list of people for the CCO to directly notify of an actual or potential contingency.</p> <p>Suggests asset owner discloses options being considered for repair, including the economic considerations being taken into account, so that decisions are not being made solely based on private and/or short-term consideration, but also consider wider economic implications. Proposes that priority should be on short-term restoration, with long-term repair solutions considered after.</p>
MCDEM	<p>Agrees. Suggests GIC explore aligning public messaging with MBIE's oil emergency response strategy.</p>
MDL	<p>Agrees communications could be better coordinated but prefers a non-regulatory approach in the first instance.</p> <p>Queries whether r51 should cross reference r36 or the CCO information guide, rather than providing a fixed list so as to future-proof communications and provide flexibility.</p> <p>Notes that r53(1)(g) already requires the CCO to provide information updates.</p> <p>Given GIC's statements about the limited functionality of OATIS, queries whether it is therefore meeting r9.</p>
Methanex	<p>Supports including large customers in list of parties notified of critical contingencies</p>
MGUG	<p>Supports back-stop regulations, but suggests that CCMPs need to be more detailed for transparency and clarity. Major users should be included in CCMPs regarding early notification of a contingency, as early notification is essential for response planning.</p> <p>Consultation during an event should be provided at regular intervals regardless of the status of the event.</p> <p>CCMPs should be prepared in consultation with a wider group of stakeholders (including major users).</p>
Mighty River Power	<p>Agrees, but suggests formalising the impact and involvement of Network Operators.</p>
NZ Steel	<p>Prefers a single point of contact for all updates and information, provided verbally and supported with documentation by email.</p> <p>Early notification and receiving regular updates is important for planning, particularly where a workforce has been stood down.</p>
Powerco	<p>Agrees. Considers that the communications arrangements, if a critical contingency escalates to a Network emergency, need to be addressed and documented, to ensure effective management in such a situation.</p>

Submitter	Response
Vector	<p>Does not support the proposed communications framework, as it would not be comfortable taking on a “substantially expanded CCO role” and considers that GIC should take the responsibility for these proposed functions.</p> <p>Does not consider that GIC can prescribe how Vector performs its functions. Considers that any shortfalls in communications during the October contingency were due to others not adhering to agreements.</p> <p>Expresses a concern that undertaking the CCO role involves considerable risk, and that expanding the role would only increase this.</p> <p>Suggests that taking on a communications role would also distract the CCO from its core responsibilities; that the boundary between CCO and asset owner responsibilities isn’t sufficiently clear; the GIC/Minister shouldn’t be able to direct the timing of updates; the “holding statement” proposal is not the most appropriate approach; and considers GIC should speak to the status of the emergency and repairs.</p>

Gas Industry Co’s response

There is a substantial measure of agreement that a more comprehensive framework is necessary to manage communications during a critical contingency, and the majority of responders agree with the communications framework proposed in the SoP.

MDL would prefer that the industry participants be allowed time to address communications rather than backstop regulation being implemented. Gas Industry Co promoted such protocols both prior to and after the October 2011 event. None has emerged and the SoP signalled that a regulated alternative needed to be considered.

Vector does not support the proposed communications framework. Its concerns relate primarily to the proposal that the CCO should have a greater role in communications and that this “would result in considerable distraction” from managing any critical contingency. These issues are discussed in the following section.

Some large users have recommended that they be included in the list of persons the CCO is required to give notice to, and that they be included in consultation on CCMPs and other communication issues. Gas Industry Co notes that it intends for large users to be included in the proposed list of stakeholders to be kept informed by the CCO and affected asset owners.

Fonterra and MGUG also proposed that asset owners should disclose the options being considered for repair and the economic considerations involved. Gas Industry Co notes that asset owners face a range of statutory and commercial obligations and incentives to repair in timely fashion, including safety and technical certification requirements. Their focus during any outage needs to be on rapid repair. However, Gas Industry Co acknowledges that large users require a certain level of information to inform their business decisions, which was not necessarily provided during the October 2011

contingency. The proposed communications framework, specifically the additional proposed communication requirements on asset owners, should contribute significantly toward this.

Gas Industry Co's continued preference is that the key participants establish a communications protocol to address the issues discussed as part of this proposal, and it is disappointing that an agreed protocol has not emerged from the process to date. In the circumstances, Gas Industry Co has concluded that some form of backstop arrangement is necessary. This proposal is not intended to mandate a media spokesperson, the requirements for which will vary in a range of circumstances, but rather to ensure that the minimum required information is made publicly available so that it can be accessed by interested and affected parties. The proposed regime of statements and updates will provide this.

4.2 Communications responsibilities

The proposal

The SoP proposed that the CCO and affected asset owners should be required to manage communications during a critical contingency under any backstop arrangements, because these parties are likely to be best-placed to communicate information promptly and accurately.

What submitters said about communications responsibility

Submitter	Response
Carter Holt Harvey	Supports MGUG's comments regarding the communications framework, suggesting a traffic-light warning system for large consumers.
Contact	Agrees with proposed changes. Suggests that pre-prepared communications templates cover off key messages (such as meaning of curtail) to avoid confusing messages from media, and consider carefully targeted advertisements to mass market consumers.
Genesis	Agrees. Suggests CCO obtain additional resources for communications, as key role is still managing the risk of non-supply.
Greymouth Gas	Agrees, but suggests more robustness to assign specific items to specific parties to avoid disagreements, and to ensure information is concise and accurate.
MCDEM	Requests that MCDEM and CDEM Group Duty Officers be included on the CCO's distribution list for notifications.
MDL	Supports a non-regulatory approach in the first instance as previously stated.
Methanex	Agrees. Suggests CCO be responsible for all communications except for actions being taken to restore normal operation, best estimate of repair time, and other asset information.
MGUG	Supports backstop regulation and suggests a workshop approach to determining communication and information requirements.

Submitter	Response
Mighty River Power	Agrees, but suggests further consideration of communications protocols for instances where domestic consumers are affected and Network operators involved.
Ministry of Health	Suggests that notifications go to the Director, Emergency Management, Ministry of Health, rather than the Minister and Director-General as stated on p22 of the SoP. Also recommends removing “The Minister of Health can direct hospitals to cancel elective surgeries” on p22 of the SoP to maintain consistency in reporting lines. Also need to ensure that communications consider that not all recipients are direct gas consumers.
Powerco	Disagrees as the role of gas distribution businesses has not been adequately defined, particularly as they relate to arrangements for when a contingency escalates to a network emergency.
Vector	Disagrees. Considers that GIC should take responsibility for the role of incident spokesperson, and any preparation and issuance of public information and updates. Suggests this role is regulatory rather than commercial and hence more appropriately undertaken by the GIC. The CCO could provide the GIC with the relevant information it holds. Further suggests the asset owner should speak on behalf of their assets, and provide relevant info to the GIC.

Gas Industry Co’s response

There is a substantial measure of agreement that the communications responsibilities proposed in the SoP are appropriate.

Powerco disagrees with the proposed allocation of communication responsibilities, on the basis that the role of gas distribution businesses has not been adequately defined, and this could become important if a critical contingency escalates to a network emergency. They nevertheless support the proposed framework.

Gas Industry Co acknowledges that there is potential for confusion in transition from a critical contingency to a network emergency. Strictly speaking, however, this is outside the ambit of the CCM Regulations, as the powers for network operators are governed directly by the Gas Act 1992. Gas Industry Co therefore considers that this issue should be investigated further and pursued outside of the current review process.

The main disagreement to the proposed communications responsibilities comes from Vector, which, as discussed above, continues to oppose broadening the existing communications responsibility of the CCO.

Gas Industry Co continues to hold the view that it is necessary for communications to be timely and accurate, and that responsibility for providing information should be placed with those parties who have the best and most up-to-date information and understanding of the issues that need to be

communicated. This involves both the CCO and the owner(s) of the failed asset(s) providing information and updating it regularly, allowing it to be accessed directly by affected parties and distributed more widely by others (media, Gas Industry Co, etc).

Gas Industry Co also notes that, when operating under the CCM Regulations, the CCO is fulfilling a regulatory function as a common-good service to all consumers. The terms of this service are set out in the service provider agreement (SPACCO) and these services could readily be clarified so as to incorporate an expanded communications responsibility. The agreement also includes provisions for appropriate compensation. It is not unusual for regulatory authorities to contract services from participants best placed to perform regulatory functions on behalf of all consumers.

Given the existing requirements for the CCO to notify people and to advise on the status of a critical contingency, the responsibility to provide public communications is not seen as substantial expansions of its existing obligations. Gas Industry Co has therefore concluded that the CCO and affected asset owners should be required to provide the proposed communication information during a critical contingency. In summary:

- The proposals set minimum communication requirements for asset owners and the CCO.
- This still leaves scope for other arrangements to be agreed in any future industry protocol.
- In relation to the CCO role, the proposals reflect the existing reporting obligations on the CCO, adding some greater requirements as to content and timing.
- Further details are to be confirmed in drafting of the amended regulations, but the intention is that the proposed “public statements” referred to in the SoP can be fulfilled by the asset owners and the CCO through the their respective websites and/or OATIS (or any replacement/alternative), and accessed by a wider range of interested parties (such as major end users).

Gas Industry Co plans to recommend the changes to the CCM Regulations included in the SoP to give effect to these arrangements.

5

Critical contingency imbalances

In the SoP, Gas Industry Co discussed the uncertainty that exists amongst industry participants regarding the identification and treatment of regional and non-regional critical contingencies. In particular:

- participants seek real-time guidance on whether a critical contingency is a regional critical contingency or not; and
- some participants consider that the distinction of regional critical contingency could be done away with altogether and the contingency imbalance arrangements applied to all critical contingencies.

Having considered the issues, Gas Industry Co made a number of proposals to address these concerns, including:

- Proposing to retain the distinction between regional and non-regional critical contingencies;
- Requiring Gas Industry Co to consult on and publish a set of guidelines to clarify the definition of regional and non-regional contingencies; and
- Requiring the CCO to declare the regional/non-regional status of a CC event.

Submitters were asked if they agreed with the Gas Industry Co proposals. A summary of their positions is shown in the following table. Discussion on the proposal for the CCO to declare the regional/non-regional status of a contingency, and the submissions on that matter, are included under Section 6.1.

Summary of submitter positions

Question	17	18
Submitter	Imbalance application	Regionality guidelines
Contact		
Genesis		
Greymouth Gas		
Mighty River Power		

Question	17	18
Submitter	Imbalance application	Regionality guidelines
Carter Holt Harvey		
Fonterra		
Methanex		
NZ Steel		
NZ Sugar		
MGUG		
NZDSN		
NZFGC		
Ministry of Health		
Bay of Plenty DHB		
MDL		
Powerco		
Vector		
MCDEM		
Market Administrator		

5.1 Proposal to apply contingency imbalances

The proposal

The critical contingency prices and imbalances (regulations 67 through 81) are calculated to settle the inadvertent trading that occurs among different parties during a contingency.

The contingency price arrangements are intended to provide an incentive for these parties to act in a manner that is in line with effectively managing the contingency event, rather than protecting themselves against economic losses.

However, the concept that underpins the contingency imbalance arrangements – that certain shippers/welded parties are ‘long’ gas in the system due to load curtailment, and other shippers/welded parties are ‘short’ due to their upstream supplier(s) having failed – does not translate readily to the circumstances of a regional critical contingency, as described in the SoP.

Gas Industry Co considered that if the regional critical contingency distinction were to be removed, it would require significant time and effort to calculate contingency imbalances across the whole

transmission system, including areas that were unaffected by the critical contingency, and this would serve no useful purpose.

Furthermore, Gas Industry Co was unable to identify an amended set of arrangements that could be applicable in all critical contingencies (both regional and other) and would improve on the existing balancing and peaking pool arrangements (in the case of regional contingencies) and the existing contingency imbalance arrangements (in other critical contingencies).

Therefore, Gas Industry Company proposed to retain the distinction of regional critical contingencies, with imbalances only applying in the case of non-regional contingencies.

What submitters said

Submitter	Response
Contact Genesis Methanex Mighty River Power Powerco	Agree with proposal
Greymouth Gas	Disagrees, and considers the distinction should either be dropped or apply to both regional and non-regional events, unless curtailment is restricted to consumers downstream of an issue, otherwise retailers and suppliers that are long on gas will be incentivised to reduce supply/upstream purchases, or are not rewarded for providing supply in a regional critical contingency.
MDL	Does not consider there are sufficient mechanisms in place to incentivise supply for re-pressurisation of an affected pipeline, which may result in supply security concerns. Removing the regional concept would mean incentives apply for producers to increase supply for this purpose. Considers a need for further thought as to whether the regional concept sufficiently accounts for the physical realities of pipeline transmission failures, and whether removing it would create distorted or insufficient incentives. Considers that GIC should further consider the regional/non-regional issue in a separate discussion paper.
Powerco	Agrees due to the difficulty in assigning property rights to line-pack.
Vector	Considers that GIC should further investigate this proposal. The proposal does not sufficiently canvas the impact of daily balancing. Generators/retailers desire to balance their position could have an impact on the restoration process. If imbalances were managed consistently in any event, then this would avoid the need to avoid unexpected balancing actions, enable TSOs to purchase balancing gas, provide for an easy transition if the type of event changes, cater for pipeline issues on Frankley Road to be treated as a production station outage, and cater for over-pressure. The only variance would be whether all or some Balancing and Peaking Pools were included in calculations.

Gas Industry Co response

The majority of submitters agree that the regional/non-regional distinction should remain. The submissions from MDL and Vector highlight some issues that may require further consideration, particularly around restoration and the termination of a contingency. It may be that transitional arrangements could be put in place to improve incentives during restoration.

Gas Industry Co remains of the view that removing the distinction between regional and non-regional contingencies would require significant time and effort to calculate contingency imbalances across the whole transmission system, including areas that were unaffected by the critical contingency, and this would serve no useful purpose. It has therefore concluded that the distinction between regional and non-regional contingencies should remain in the CCM Regulations. However, it agrees that further consideration should be given to the issues raised by MDL and Vector as part of a separate industry process.

5.2 Publication of guidelines

The proposal

A 'regional critical contingency' is defined in regulation 82. This typically describes a set of circumstances where the issue is a reduction or complete loss of transmission. In such circumstances, the shortage of gas availability downstream is not caused by a shortage of gas upstream but by the inability to deliver the gas that is available.

Participants have expressed some uncertainty regarding the identification and treatment of regional and non-regional contingencies. It is important that participants understand and can be confident of the status of a contingency, to avoid situations like that seen during the October contingency where parties acted quickly to benefit from imbalance prices were they to apply, leading to over-pressurisation upstream of the pipeline failure.

To assist in this regard, Gas Industry Co proposed that it be required to consult on and publish a set of guidelines that provide scenarios exemplifying regional and non-regional situations to assist industry with understanding and anticipating the status of a contingency.

What submitters said

Submitter	Response
Contact	Agrees if it cannot easily be included within the regulations themselves.
Genesis Powerco	Agrees, guidelines would be an easy way to provide certainty to parties.
Greymouth Gas	Agrees if the distinction is maintained.
Mighty River Power	Agrees but suggests renaming the two events to provide more clarity.

Submitter	Response
Methanex	Agrees. Suggests the guidelines would require further information than Appendix 2, including further definition of the circumstances that constitute a regional or national contingency, and the practical implications of each on affected parties.
MDL	Agrees, contingent on the outcome of further discussion on the scope of imbalances as discussed previously. Suggests any guidelines be more detailed than the example in Appendix 2, be an evolving document to include further scenarios as and when they became apparent, and possibly identifies areas of the transmission system that are likely to be subject to a regional critical contingency declaration.
Vector	Suggests the imbalance issue be considered further, as per previous comments.

Gas Industry Co response

The majority of submitters agree that guidelines should be published (including two parties whose support is contingent on the regional/non-regional distinction being retained given their response to Q17). Given the interest in this proposal, Gas Industry Co will recommend amending the CCM Regulations to include a requirement for gas industry Co to consult on and publish a set of guidelines that will provide scenarios exemplifying regional and non-regional contingencies.

Gas Industry Co agrees with submitters who suggested that such guidelines will necessarily be more detailed than the example provided in Appendix 2 of the SoP, and note that they will have a further opportunity to comment on the content and detail provided in the guidelines during the proposed consultation process.

6

CCO Role

Gas Industry Co and the majority of submitters to the Concept Review considered that the CCO performed its role well during the October 2011 outage. However, there are a number of aspects of the CCO role that require clarification within the CCM Regulations, or where amendments were recommended in the CCO Performance Report, the Concept Review, or both.

The SoP made a number of proposals to amend the CCO role, including that:

- the CCO should be required to declare the regional/non-regional status of a contingency;
- the CCO role should allow for direction of system reconfiguration;
- the CCO should only be responsible for the affected region of a transmission system;
- the requirement for the CCO to produce a performance report after a contingency should be retained;
- some modifications should be made to the required content of the CCO Performance Report;
- the CCO should collect and publish information on scheduled outages;
- the CCO should be able to source more granular load data for its modelling from the allocation agent;
- Gas Industry Co should be able to appoint other parties as CCO.

Summary of submitter position

Question	19	20		21	22	23	24	25	26
Submitter	CCO declare regionality	Reconfiguration		Control of upstream pipeline	CCO to produce report	Modifying CCO report	Collect outage info	Data granularity	Others able to be CCO
		y/n	w/ TSO						
Contact									
Genesis									
Greymouth Gas									
Mighty River Power									
Carter Holt Harvey									
Fonterra									
Methanex									
NZ Steel									
NZ Sugar									
MGUG									
NZDSN									
NZFGC									
Ministry of Health									
Bay of Plenty DHBoPDHB									
MDL									
Powerco									
Vector									
MCDEM									
Market Administrator									

6.1 Determine regional/non-regional status

The proposal

As discussed in Section 5, there is some uncertainty amongst industry participants regarding the definition of a regional/non-regional critical contingency and when each applies, and a suggestion that there is a need for more certainty when a contingency occurs as to the status of that contingency.

Gas Industry Co therefore proposed that a determination of the status of a contingency be made and communicated to industry participants at an early stage during a critical contingency.

Gas Industry Co considered that the CCO was best-placed to undertake this role given that it had the necessary technical knowledge of the system, access to real-time data, and existing communication channels to industry participants, and therefore proposed that this be included within the regulations.

What submitters said

Submitter	Response
Carter Holt Harvey	Agrees. Suggests CCO's system model could be improved, which may help the CCO in this aspect of its duties.
Contact Greymouth Gas MDL	Agrees, provided it is done as soon as possible.
Genesis	Considers the CCO should make a recommendation to the GIC.
Mighty River Power MGUG	Agrees. Suggests will need to ensure the CCO has sufficient information to make this call.
Methanex	Agrees. The CCO should monitor and revise the status or scope of a contingency if necessary.
Powerco	Agrees
Vector	Suggests the imbalance issue be considered further, as per previous comments.

Gas Industry Co response

The majority of submitters supported the proposal to have the CCO declare the status of a contingency, the exception being Vector which provided no view given its recommendation that maintaining the regional/non-regional distinction should be re-considered.

In light of Gas Industry Co's conclusion that the distinction (as discussed under Section 5.1) should be maintained, and submitters' broad support for this proposal, Gas Industry Co will recommend that the CCM Regulations are amended to provide for the CCO to be required to determine and communicate the status of a contingency.

Gas Industry Co agrees with submitters who suggested that any declaration needs to be made in a timely fashion so that industry participants can act accordingly. It also agrees that the status of a contingency may change over time, and that the CCO should monitor and revise the status as appropriate. In this regard, it notes that any change should apply from midnight before the status change in order to accommodate the effects of daily balancing.

Gas Industry Co will therefore recommend that the CCO use best endeavours to monitor and communicate the status of a contingency to industry participants through usual notices within one hour of a contingency being declared, or as circumstances change.

6.2 Ability to reconfigure networks

Network reconfiguration was employed during the October 2011 contingency to allow gas in the Kapuni-Rotowaro pipeline to flow north. While this came at a cost of partially curtailing load in areas served by the Vector Bay of Plenty pipeline, it meant that the CCO was able to direct restoration of load to selected customers north of the Maui pipeline failure.

The SoP proposed that the CCO should be able to direct such network reconfiguration in a similar manner, where doing so would minimise the cost of a contingency across the economy. It also invited submissions as to whether participants considered the TSO's support for such an action should be required.

What submitters said

Submitter	Response
Carter Holt Harvey Contact	Agree
Genesis	Agree. TSO should only be able to object based on pipeline integrity or safety reasons.
Greymouth Gas Mighty River Power Powerco Vector	Agree, and TSOs should be properly consulted.
MDL	Considers the scope for this is limited, but agrees. TSOs should be consulted.
Methanex	Yes, though constraining users on a part of the network that is otherwise unaffected is justifiable only if required to enable supply to ESPs and MLCs that would otherwise be curtailed
MGUG	Agree, assuming CCO has sufficient information to make such a call.

Gas Industry Co's response

All submitters supported the proposal to allow the CCO to reconfigure the grid during a critical contingency.

Most submitters agreed that TSOs should be properly consulted by the CCO when making any reconfiguration decision. Gas Industry Co agrees with submitters that it is important for TSOs to be included in any decision making (the CCO is already required to receive and consider information from the TSO under regulation 53(1)(b)), but also considers that the CCO should be the final decision maker, after assessing the costs and benefits across all sections of the pipeline system.

Methanex suggested that reconfiguration should not disadvantage consumers upstream of a pipeline failure unless it was necessary to supply ESPs/MLCs. While that may be one factor the CCO might consider in some cases, Gas Industry Co is concerned that a requirement to this effect might compromise the CCO's ability to meet the purpose of the Regulations, which is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

Gas Industry Co will therefore recommend that the CCM Regulations be amended to allow the CCO to direct system reconfiguration, but will clarify that such reconfiguration should be consistent with the purpose of the Regulations.

6.3 Over-pressurisation associated with critical contingencies

The proposal

The SoP highlighted that pressures south of the isolated section of the Maui pipeline rose after the critical contingency was declared because the reduced off-takes were not initially offset by reductions in gas receipts into the pipeline.

Gas Industry Co considers that the commercial arrangements under the transmission codes are adequate to manage such situations, as long as the parties understand who is controlling the relevant part of the transmission system. Gas Industry Co suggested that this issue should be satisfactorily addressed by its proposal to have the CCO determine and communicate the regional/non-regional status of a contingency.

What submitters said

Submitter	Response
Contact Genesis Greymouth Gas Mighty River Power Vector	Agrees
Methanex Powerco MDL	Agrees. A declaration by the CCO regarding the regional/national status of a contingency as proposed will be important in this respect.

Gas Industry Co's response

All submitters agreed with the Gas Industry Co analysis.

Given the general support for the proposal under section 6.1, the Gas Industry Co proposes an amendment to the CCM Regulations to state that the CCO is responsible for the affected section.

6.4 Requirement to produce performance report

The proposal

Regulation 65 requires the CCO to prepare and publish a performance report assessing compliance with the Regulations and the overall effectiveness of the critical contingency arrangements.

As part of the report, regulation 65 requires the CCO to report on CCO and transmission system owners' compliance with the regulations. Vector has expressed concerns that this represents a conflict of interest and that an independent party may be better placed to perform the review.

Gas Industry Co considered this alternative in the SoP, but determined that the CCO is in the best position to produce the report and that this provision should remain in the CCM Regulations. However, it has proposed to delete the requirement for the CCO Performance report to assess the CCO's and the TSO's compliance with the CCM Regulations, in order to address the issues raised by Vector, and because the focus of the CCO Performance Report should be on improving the performance of the arrangements, rather than assessing compliance. The CCO will remain bound under the Compliance Regulations to notify the Market Administrator of any alleged breaches that it believes have occurred.

What submitters said

Submitter	Response
Contact Greymouth Gas MDL Mighty River Power	Agrees
Genesis	Agrees. GIC should be able to request an audit of the report.
Methanex	Agrees. A draft report should be published for public comment, with submissions considered before finalising. GIC should be able to request an independent audit of the report.
MGUG	Agree, but the report should be consulted on by a wider audience before finalising.
Powerco	Agree. Main issues about the report are around transparency.

Submitter	Response
Vector	Does not consider it appropriate for Vector to produce a report and prepare a self-assessment of its compliance. Doesn't consider it appropriate for Vector to prepare a report and then have GIC commission a consultant to prepare a duplicate report. Rather, it considers a suitably independent consultant, subject to consultation with the CCO and System Operator should prepare performance reports in the future. The CCO and System Operator should be given the opportunity to review the draft before it is publicly released for consultation.

Gas Industry Co's response

All submitters agreed with the Gas Industry Co analysis and proposal, with the exception of Vector, which maintains that it is not appropriate to be reviewing its own performance, despite the removal of the requirement for the CCO to assess its own compliance with the CCM Regulations as part of the Performance Report.

Gas Industry Co continues to consider that the CCO is the party best-placed to provide a report on the performance of the CCM arrangements following a critical contingency, and to assess the overall effectiveness of the arrangements. The requirement for the CCO to consider submissions from other stakeholders assists in this regard.

Accordingly, Gas Industry Co will recommend that the CCO continue to be required to produce a CCO Performance Report and that the industry body has the ability to audit the CCO Performance Report.

6.5 Modification to the performance report

The proposal

To address the Vector and CCO concerns about assessing self-compliance as part of the CCO Performance Report, it was proposed that the requirement to assess compliance be removed from the reporting obligations (as outlined in the previous section). Compliance reporting obligations are covered elsewhere and Gas Industry Co considered that the focus of the CCO Performance report should be on learning from a critical contingency and recommending possible improvements to the overall framework.

What submitters said

Submitter	Response
Contact Genesis Greymouth Gas MDL Mighty River Power	Agrees

Submitter	Response
Methanex	Disagrees that the compliance self-assessment requirement should be removed, as the conflict of interest is not sufficient to not require the discipline it places on the CCO. Given the report is consulted on it seems unlikely that the CCO would be incentivised to misrepresent its own performance. Furthermore, do not consider that it would over-shadow the CCO's other reporting responsibilities.
Powerco	Agrees. Supports circulating the report to a greater audience for comment before finalising. The report should not be an onerous task.
Vector	Disagrees that Vector should be preparing a report at all, as per previous comments.

Gas Industry Co's response

The majority of submitters agreed with Gas Industry Co's proposal.

Gas Industry Co continues to consider that reporting on CCO and TSO compliance with the CCM Regulations should not be the focus of the CCO Performance Report, and notes that the CCO will still be bound by the reporting obligations under the Compliance Regulations. It therefore considers that the costs of excluding the compliance reporting provision will be small, while the benefits of allowing the report to focus on areas for learning and improvement will be maintained.

Gas Industry Co will therefore recommend that Regulation 65(1)(a) be amended to exclude the requirement that the CCO assess its own compliance with the CCM regulations.

6.6 Information on scheduled outages

The proposal

Outages of production stations, transmission assets, and large consumers can affect the security of the gas transmission system by precipitating (or mitigating, in the case of large consumers) a critical contingency and they can affect the management of, and recovery from, a contingency event.

If a critical contingency happens to coincide with a scheduled outage, it has implications for how the CCO would manage the contingency event. Further, advance notice of scheduled outages could provide the CCO with valuable information about situations in which the transmission system might be vulnerable to other outages.

Gas Industry Co proposed that the CCO be able to collect information on outages scheduled for the 12 months following the request, for production stations, transmission assets, and for large consumers on a quarterly basis from industry participants. In turn, those industry participants would be obliged to provide the best available information on its tentative, planned, and confirmed outages within 20 business days of the CCO's request. The CCO would be required to collate and publish the information on its website.

What submitters said

Submitter	Response
Contact	Agrees
Genesis	Agrees. This will increase transparency, and should not be difficult to provide on a quarterly basis.
Greymouth Gas	Disagrees. While supportive of the CCO factoring in supply side risk factors in their decision making, considers the proposal too broad brush, and will be onerous for suppliers to provide, given that not all outages are known far in advance, will be long enough to have a material effect, and may intrude on suppliers' operations. Would support the information being provided on a voluntary basis, or reducing the obligation to material outages only (e.g. >1 day) and including protections for commercially sensitive data.
MDL	Considers this information may be better sourced by the TSO and shared with the CCO, noting that MDL is already required to notify affected shippers and welded parties of scheduled maintenance, some of these activities may be commercially sensitive, and "scheduled outage" is not well defined.
Methanex	Support the requirement to provide the information to the CCO, but do not support it being distributed more widely, as its utility is not sufficient to offset the commercially sensitive nature of the information.
Mighty River Power	Agrees. This is similar to the information provided by Transpower for the electricity industry.
Powerco	Disagrees, as this would not add any value above what is already provided by OATIS.
Vector	Disagrees as this information is already available through existing industry systems and would create unnecessary duplication.

Gas Industry Co's response

While all submitters agreed that outage information would be useful for managing a contingency, less than half agreed that the CCO should collect and publish it, as a result of concerns about commercial sensitivities, suggestions that most of the information is available on OATIS anyway, and there would be little net benefit in the provision.

In addition, there is a project and shutdown plan published periodically by Jam Solutions (see www.jamsolutions.co.nz) that contains the type of information that was proposed in the SoP. Gas Industry Co does not propose to take this any further at this stage.

6.7 Granularity of load data

The proposal

The October contingency demonstrated that the load data provided to the CCO under regulation 39 may not be sufficiently detailed for the CCO to properly manage a contingency where significant curtailment is required. It is vital that accurate information is held about the sites that are curtailed and

the sites that are allowed to continue drawing gas in order for the CCO to accurately calculate the system's survival time.

Gas Industry Co considered that a relatively low-cost means of providing additional data to the CCO would be to make use of existing datasets prescribed by the Reconciliation Rules. This would allow historical information to be used to construct seasonal profiles for gas gates and large gas users. The SoP therefore proposed that the allocation agent database be used to provide more granular data.

What submitters said

Submitter	Response
Carter Holt Harvey	Agrees. The CCO needs more granularity in its model which this proposal would provide. Large retailers and consumers could also provide useful input to the model if it was shared with them for comment.
Contact Genesis Greymouth Gas MDL Mighty River Power Powerco	Agrees.
Vector	Agrees. This may require amendments to the Gas (Downstream Reconciliation) Rules 2008, which should be investigated. Queries how these additional functions of the CCO and allocation agent will be funded, and whether the additional costs are efficient.

Gas Industry Co's response

All submitters agreed with the proposal to utilise the information in the allocation agent database to support CCO modelling.

Gas Industry Co will recommend any necessary changes to the Gas (Downstream Reconciliation) Rules 2008 at the same time as recommending the changes to the CCM Regulations.

6.8 Future proofing the service provider role

The proposal

As currently drafted, The CCM Regulations do not provide adequately for parties other than the incumbent to be appointed as CCO, if that was necessary or desirable for any reason.

Gas Industry Co proposed that the industry body be able to appoint any suitable person as the CCO, and that whoever the CCO is, is able to access the necessary data required to fulfil the role.

What submitters said

Submitter	Response
Contact Genesis Greymouth Gas Mighty River Power Powerco Vector	Agrees with proposal
MDL	Agrees with proposal. Can't comment fully regarding amendments to r38 without seeing drafting.

Gas Industry Co's response

All submitters agreed that the regulations should allow any party to be appointed as CCO. Gas Industry Co will therefore recommend that the CCM Regulations be amended to provide for this. Industry participants will have an opportunity to comment on the drafting of any changes at a later date.

Similarly, regulation 38 will be reviewed to determine whether changes are required so as to ensure that, no matter who is appointed, the CCO always has access to all information that may be required so as to be effective in the role.

7

Retailers' roles

There are a number of roles that retailers play during a critical contingency and a number of steps that they can take to ensure that they and their customers are prepared to respond in the event curtailments are required.

Under the current CCM Regulations retailers are required to inform customers about the possibility for ESP and MLC designations and to notify customers in each band if and when they are required to curtail gas demand.

The October contingency highlighted a number of issues with the current requirements on retailers, and Gas Industry Co made a number of proposals in the SoP to address these, including:

- Introducing a requirement for retailers to notify their customers annually of the potential for curtailment and ESP and MLC designations;
- Allowing for SMS to be utilised for notifying customers in Band 6 of a contingency and their obligation to curtail;
- Including a "best endeavours" obligation on retailers for contacting Band 6 customers;
- Requiring retailers to prepare and publish plans for how they will deal with a contingency and curtailing customers; and
- Coordinating applications for customers to be designated as ESP/MLC for processing by the Gas Industry Co.

The SoP invited feedback on these proposals.

Summary of submitter position

Question	27	28	29	30	31
Submitter	Annual customer notifications	Text messages to Band 6	Best endeavours for Band 6	Retailer curtailment plans	Coordinating ESP/MLC apps
Contact					
Genesis					
Greymouth Gas					
Mighty River Power					
Carter Holt Harvey					
Fonterra					
Methanex					
NZ Steel					
NZ Sugar					
MGUG					
NZDSN					
NZFGC					
Ministry of Health					
Bay of Plenty DHB					
MDL					
Powerco					
Vector					
MCDEM					
Market Administrator					

7.1 Ensuring customers know of ESP/MLC categories

It was apparent during the October contingency that many consumers had not contemplated the possibility of load curtailment, and/or were ignorant of their obligations during a contingency. Furthermore, there was a large group of consumers that applied for ESP status during the event, which distracted the CCO from its primary duties.

Regulations 44 and 45 require retailers to inform their customers about the ESP and MLC designations, although the wording of the sections implies a one-time notification, rather than an on-going obligation. Gas Industry Co proposed to amend the CCM Regulations to include a standing requirement for retailers to contact their industrial and commercial customers (everyone except for those categorised as DOM (domestic)) annually and inform (or remind) them:

- Of the possibility of loss of supply or need to curtail;
- Of the existence of and criteria for ESP and MLC categories;
- That customers who meet the relevant criteria are able to apply for the appropriate designation; and
- That customers who have previously applied but not been approved may apply again if their circumstances have changed and they believe they now meet the criteria.

Such a requirement would provide a means of keeping the CCM arrangements in front of customers and remind them to consider their emergency management arrangements. It is expected that this would materially contribute to those customers being better prepared for future critical contingencies.

What submitters said

Submitter	Response
Carter Holt Harvey Greymouth Gas Ministry of Health	Agree
Contact Genesis Mighty River Power	Disagree. Consider notifications every two years would be more appropriate, due to the need to balance awareness with turning consumers away from gas. There would be benefit in GIC/the industry drafting these communications, in order to balance these concerns and provide for consistency and standard guidance.
Market Administrator	A point raised in responses from consumers alleged to have breached the regulations was that they didn't fully comprehend the situation, didn't understand the direction was to fully curtail, which band they were in, and the CCM regulations relationship with their other obligations. Those consumers required further education, and had presumed further guidance would be given on what to do. Annual notifications would be a step toward educating customers about what to do during a contingency.
MCDEM	Agrees. Encourages GIC to promote good business continuity planning practices in such notifications, and would be willing to assist in drafting them.
Methanex	Supports the proposal, but is not convinced that annual notifications are necessary, and perhaps bi-annual would be sufficient, with GIC able to require retailers notify customers of any relevant material matters to be brought to their attention.
Powerco	Agrees. Considers annual notification an important communication step in preparing consumers for a contingency and reinforcing their responsibilities for coping.
Vector	Agrees. Suggests GIC produce the notifications for retailers to distribute.

Gas Industry Co's response

All submitters were supportive of the proposal to provide regular notification to consumers of the possibility of being curtailed and being designated as an ESP or MLC consumer. However, three retailers suggested they did not support annual notifications, and there were suggestions that bi-annual notifications were probably sufficient.

Gas Industry Co notes that the three retailers share a concern that annual notifications will cause alarm and possibly reduce the appeal of gas for consumers. Gas Industry Co acknowledges that this is a legitimate concern. On the other hand, there are benefits to ensuring the customer base is well educated on the risks of curtailment and their responsibilities. For this reason, Gas Industry Co still considers that regular notification to customers is important, but it is possible that the appropriate interval between notifications could change over time. Gas Industry Co therefore intends to recommend an amendment to the CCM Regulations that requires retailers to notify their customers about critical contingency arrangements at an interval to be determined by Gas Industry Co that is no more frequent than annually and no less frequent than once every three years. Retailers will also be required to notify customers at new connections.

A number of submitters recommended that Gas Industry Co should provide the drafting for the notices, taking due care not to cause unnecessary alarm. Gas Industry Co is comfortable with preparing draft notices for retailers to consider using, and suggests these be consulted on at the same time as the guidelines regarding regional/non-regional discussed in Section 5.2. This change will also be incorporated into the draft recommended regulations.

7.2 Curtailment arrangements for Band 6

Stakeholders have expressed concern about the difficulty of contacting hundreds or thousands of retail customers in a short timeframe if it becomes necessary to direct them to curtail.

Retailers must give urgent notice to their consumers directing them to curtail. Regulation 23 states that an urgent notice may be given orally but should be confirmed in writing by post, fax, or email. Gas Industry Co accepts that these provisions may not be workable for contacting large numbers of customers, such as would be needed if Band 6 were required to curtail. SMS messages provide a possible avenue for easing this burden.

Communicating with customers through SMS messages would offer two major advantages over telephoning customers: it allows contact with many customers at once (since SMSs can be sent in bulk to a list of people), and it can facilitate contact with business owners themselves (rather than an employee), so the contacted person is likely to have the authority within the contacted businesses to cease gas usage.

Gas Industry Co therefore proposed to broaden the definitions of 'ordinary notices' and 'urgent notices' in the CCM Regulations to include SMS (text) messages.

What submitters said

Submitter	Response
Contact Mighty River Power	Agrees
Genesis	Agrees. Suggests r56(2) may also need redrafting to reflect this change. Retailers should still be required to communicate orally with consumers in other bands.
Greymouth Gas	This raises the issue of whether messages are received and when. This same issue is why r55(1), r56(1) and r57 have an “as soon as reasonably practicable” caveat.
MCDEM	Agrees, though maintaining contact lists may be onerous.
MDL	Agrees. Requests that broadening the definition of ordinary and urgent notices to include SMSs is not restricted to Band 6 consumers.
Methanex	Agrees, but should not replace retailers’ obligation to try and make direct contact.
Powerco	Agrees. Considers it important that public broadcasting is carried out to reinforce the message and increase public awareness.

Gas Industry Co’s response

Submitters were generally supportive of allowing SMS as a means of contacting Band 6 customers. There was a suggestion that this could have broader application, including between TSO and retailers/large consumers. It was also suggested that SMSs should be in conjunction with public appeals and human contact. Concerns included that it may be difficult to ensure a text is received, and that maintaining the contact list may be onerous. It was also noted that r56(2) may also need amending to accommodate the change.

Gas Industry Co acknowledges that retailers cannot guarantee a text is received, but does not consider that a reason to exclude SMS messages from the suite of communication options given the other benefits they provide. Furthermore, as per the proposal discussed in Section 7.3, Gas Industry Co is not suggesting that SMS messages should entirely replace direct human contact. Gas Industry Co further expects that retailers already maintain contact details for their customers.

Gas Industry Co has examined r56(2) and confirmed that it will not need amendment.

Accordingly, Gas Industry Co will recommend that the definition of ordinary and urgent notices be amended to include SMS messages.

7.3 Best endeavours obligation

While it is difficult to make contact with the large number of Band 6 customers, and they represent a small proportion of the overall demand, if the CCO needs to call for such extensive curtailment, then it

is most likely due to the extended nature and scale of the outage – and that means it is important to explore all feasible avenues to direct those customers to curtail.

Regulation 55(2)(b) states that retailers must provide regular updates of consumers’ compliance with retailers’ curtailment directions. The only way to know about most small customers’ compliance is to receive this information from them, and for that, the most expedient way seems to be by telephone. Telephoning each Band 6 customer would be challenging from a logistical point of view, so it would make sense to prioritize the customer list by size. Telephone contact would reinforce the curtailment message sent by text and/or email, and it would enable customers to provide feedback on their curtailment, so that retailers in turn can report this information as required by regulation 55.

Gas Industry Co therefore proposed that consideration be given as to whether there should be a 'best endeavours' obligation for retailers to telephone Band 6 customers in decreasing order of size.

What submitters said

Submitter	Response
Contact	Disagree. Consider that Band 6 remains problematic to communicate with, and splitting Band 6 into two (>250GJ/yr and <250GJ/yr). Making contact with the larger customers in Band 6 would involve them calling around just 15% of ICPs in band 6, comprising 70% of the load in Band 6. Suggests the smaller customers are treated like domestic, and targeted with media communications.
Genesis Powerco	Agree
Greymouth Gas	Disagrees. Considers a best endeavours obligations to be unjustifiable, requiring significant investment with little guarantee of it being effective. Suggests a “reasonably practicable” obligation would be more realistic.
Methanex	Support placing an obligation on retailers but consider “best endeavours” too high a threshold. Support option 3, and retailers being given an opportunity to propose a process that would best achieve an effective level of communication at reasonable cost.
Mighty River Power	Agree. Support the suggestion that retailers prioritise consumers in Band 6 from largest to smallest.
Vector	Considers the requirement to contact Band 6 customers in order of size to be unnecessary, as volumes could vary according to the time of year. Suggests it would be better if retailers are able to use whichever way they consider to be quickest and most effective for contacting customers.

Gas Industry Co’s response

Half of submitters support a best endeavours approach to contacting Band 6 consumers, while some submitters suggested this was too high a standard and would be expensive and onerous to comply with, suggesting “reasonably practical” may be a better option.

Having further considered the implications of a “best endeavours” obligation, Gas Industry Co agrees that this may be too high a threshold for retailers to meet, taking into account the large number of customers in band 6, and the potentially extreme lengths that a retailer might need to adopt in order to meet a “best endeavours” test. Ultimately, it could mean that retailers were expected to physically visit every consumer if other forms of contact had been unsuccessful, which does not seem realistic.

Contact suggested splitting Band 6 in two, noting that there is a broad distribution of customer size within Band 6 at the moment. Splitting the band would enable larger customers to be contacted first. Gas Industry Co considers there is merit in this idea. However, instead of creating a new band 8, which would create yet another curtailment band with minimal load, Gas Industry Co considers that the boundary between curtailment Bands 4 and 6 should be adjusted, so that curtailment Band 4 contains consumers with an annual consumption of more than 250 GJ and up to 10 TJ. In practice, this will mean that a number of customers currently in curtailment Band 6 will move to Band 4 – but operationally, it will make little difference in a critical contingency. If there is an event for which curtailing down to Band 4 is insufficient, then it is likely that Band 6 would also need to be curtailed.

Gas Industry Co agrees that it may not be entirely practical to make physical contact with all customers in Bands 4 and 6. The inclusion of SMS messages as a means of notifying small consumers – those consumers using less than 2 TJ of gas per year – should make it practicable to make basic contact with most of these consumers. In combination with “all reasonably practicable” attempts to contact consumers, and focusing primarily on larger customers in the first instance, this should provide a workable arrangement.

Gas Industry Co will therefore recommend that the CCM Regulations are amended to:

- redefine Bands 4 and 6 as described above; and
- provide that retailers make “all reasonably practicable” attempts to contact small customers (Band 6 and part of Band 4).

7.4 Gas retailer curtailment plans

Gas Industry Co proposed that retailers prepare curtailment plans as a way of ensuring that retailers have the appropriate plans in place to prepare for, and respond to, a critical contingency. It was suggested that such plans would include:

- A list of consumers and the curtailment band and contact details for each (including backup contact details if required; for example, for the plant owner as well as plant manager);
- Evidence that all consumers have been contacted about the possible need to curtail gas demand during a contingency and the possibility of being designated as ESP or MLC;

- How the retailer will go about contacting consumers with curtailment directions within each curtailment band (including training and/or script development for call centre staff needing to contact Band 4 and Band 6 customers);
- How the retailer will monitor compliance with curtailment directions (including the manner of collecting feedback from consumers, monitoring metering data, and conducting site visits);
- How the retailer will report compliance to the transmission system owners;
- Staff training details;
- Communications strategy;
- A process for keeping the plan up to date.

Gas Industry Co suggested the possibility that it could provide for the ability to audit retailers against their curtailment plans, either before an event, to make sure that retailers are preparing as they have planned to do; or after a contingency event, to check performance during the event against retailer plans.

A mechanism would be necessary to ensure that retailers were preparing plans as required and that the plans contained all of the required information. Gas Industry Co proposed two options in this regard:

1. Retailers could be required to publish their curtailment plans on their websites (omitting commercially sensitive or personal information such as customer lists and contact details). This option would make transparent retailers' preparation and would invite public comparison of the plans
2. Retailers' plans could be approved by an independent body, perhaps Gas Industry Co. This method would have the advantage of ensuring that all of the required content of the plans was included (because incomplete plans would not be approved), but it would also entail higher administrative costs. Plans could also be published under this option.

What submitters said

Submitter	Response
Contact	Doesn't support publishing curtailment plans given large amounts of commercially sensitive information and privacy breaches, which would be costly to remove and lose context. Would support certifying with GIC that plans were in place. Some participant's emergency plans will cover a range of gas emergencies, and would be onerous to split out those for contingencies alone.
Genesis	Not opposed to publishing on website, but likely to be of limited relevance to customers. Suggests submitting plans to GIC would be a better option.

Submitter	Response
Greymouth Gas	Supports plans being subject to audit, with other options being at odds with GIC's lead-in discussion. Is not convinced there is a problem to be solved, and that the options provided by the GIC are an overreaction and over-bearing.
Market administrator	From the information provided on alleged breaches of the regulations, it was observed that retailers had different approaches to notifying and directing customers to curtail. Curtailment plans could lead to more consistency during an event. Alternatively, retailers could be encouraged to share their approaches in a workshop setting.
Mighty River Power	Doesn't support publishing curtailment plans given large amounts of commercially sensitive information, the potential for operational difficulties of having published internal contact information during a contingency, and there being little benefit in publishing heavily redacted pages. Suggests submitting plans to GIC for approval instead.
Powerco	Supports having retailers publish their plans on their websites, as it provides a high level of transparency that addresses a number of issues identified in the SoP. Updating and standardisation would be issues to discuss further.
Vector	Believes it is appropriate for retailers to have plans and for them to be tested during contingency tests

Gas Industry Co's response

There was mixed support for the options presented by Gas Industry Co. Some submitters were not clear on a preference.

One of the key benefits that Gas Industry Co sees in publishing the curtailment plans is that the retailers can share and take ideas from other plans. Ultimately, this could lead to a useful degree of standardisation and optimisation. Gas Industry Co also notes the example of electricity distributors' Participant Outage Plans, which are designed to cope with the need to curtail electricity demand during severe shortages. In this case the plans are published and a high degree of uniformity of approach and learning from one party to another appears to have occurred.

Greymouth Gas asserts that the Gas Industry Co has failed to identify a problem requiring the need for action. On this point, Gas Industry Co refers to the Concept Review, which highlighted that stakeholders acknowledged and identified significant problems in this area during the October contingency. Some retailers themselves had stated that they were not well prepared during the event. As the October 2011 contingency remains fresh in the industry's collective consciousness, it is expected that retailers are now more prepared to deal with a large-scale event. However, the October 2011 event was the first time the Regulations had really been required to address a contingency, and it is entirely possible that it could be many years before a contingency of equivalent scale could occur again. It is therefore important that all parties involved in coordinating a response to such an event

remain prepared to do so, now and in the future. Documenting response and readiness plans is clearly the best approach to ensuring this.

Greymouth Gas contends that no other non-strategic business policies and procedures are required to be published. Gas Industry Co disagrees with this point, noting that the CCO and TSOs are all required to have plans outlining how they will deal with a contingency and communicate with stakeholders, and to publish those plans.

Gas Industry Co acknowledges the difficulties retailers would face in publishing their curtailment plans. Instead, we will recommend that the CCM Regulations are amended to provide that retailers be required to prepare curtailment plans and to provide them to Gas Industry Co. This route will ensure that all retailers have prepared their plans and give comfort to the CCO that they are prepared to respond promptly to CCO instructions.

7.5 Receiving and vetting ESP/MLC applications

As outlined in section 6, Gas Industry Co will recommend that the responsibility for approving ESP and MLC designations be transferred from retailers to Gas Industry Co.

However, given that Gas Industry Co does not have a direct relationship with end users, retailers should continue to have an important role in the application process. Gas Industry Co proposed that retailers will receive applications from their customers and ensure they are complete before forwarding them on to Gas Industry Co for evaluation and, where appropriate, approval.

What submitters said

Submitter	Response
Carter Holt Harvey Contact Mighty River Power Powerco	Agrees
Genesis	Agrees. Suggests that customers also have the option of applying directly to GIC, and that guidelines are provided to assist customers and retailers.
Greymouth Gas	Disagrees. Considers the GIC should assist customers in completing the forms. However, retailers could forward on the applications.
Vector	Does not support including this in the regulations, and would prefer being able to make it a value-added service for competitive advantage.

Gas Industry Co's response

Most retailers were happy to be involved in assisting consumers lodge applications. However, there were some suggestions that consumers should be able to lodge an application directly with Gas Industry Co if they wished to, and a further suggestion that retailer support should be considered an optional "value added" service for customers.

Gas Industry Co considers that retailers are a very important part of the process for informing consumers about the prospects for curtailment and the possibility of applications for ESP and MLC designation. Requiring retailers to support consumers in the application process reinforces this dynamic and should provide retailers with important feedback on which consumers have particular security of supply needs, and confirm whether consumers have made applications for ESP/MLC designation or not.

Gas Industry Co will recommend that the CCM Regulations are amended to provide that retailers ensure applications for ESP/MLCs designation contain all the appropriate information, before forwarding them to Gas Industry Co for approval.

8

Compliance issues

During a contingency, the CCO issues directions to TSOs, who relay notices to retailers, who relay directions to customers if they are to curtail, and customers must comply with those directions.

It is possible that one person's non-compliance could impact upon the CCO's ability to manage a critical contingency event and cause a long-term gas outage. Therefore it is important that there are processes in place both to incentivise and ensure compliance with the CCM Regulations.

Compliance during the October contingency was very good overall; most small customers curtailed their load as instructed. Forty-five breaches were alleged against customers who did not curtail as directed, and only three breaches were alleged against industry participants. However, some deficiencies in the compliance framework were identified.

Gas Industry Co made three proposals for improving compliance arrangements, including:

- Clarifying the jurisdiction of the Compliance Regulations and adding an offence provision to the CCM Regulations;
- Providing for Gas Industry Co to utilise information from the allocation agent for assessing compliance;
- Adding performance criteria to the TSO's requirement to relay notifications.

Submissions were sought on these proposals.

Summary of submitter positions

Question	32	33	34
Submitter	Changes re compliance	Using allocation agent for data	TSOs 30 min to relay notifications
Contact			
Genesis			
Greymouth Gas			
Mighty River Power			
Carter Holt Harvey			
Fonterra			
Methanex			
NZ Steel			
NZ Sugar			
MGUG			
NZDSN			
NZFGC			
Ministry of Health			
Bay of Plenty DHB			
MDL			
Powerco			
Vector			
MCDEM			
Market Administrator			

8.1 Proposed improvements to ensure compliance with CCM regulations

As outlined in the SoP, the Compliance Regulations provide for the monitoring and enforcement of the CCM Regulations.

However, when directed by a retailer to curtail gas demand, there is currently no real consequence for a non-industry participant consumer failing, or refusing, to comply. Any non-compliance with directions during a critical contingency carries with it the potential to compromise effective management of the contingency (and widespread non-compliance would effectively make the CCM Regulations ineffective). It appears that high levels of compliance in October 2011 were supported by a belief amongst consumers that there would be penalties for not curtailing.

To address this issue, Gas Industry Co proposed:

- that the jurisdiction of the Compliance Regulations be clarified by altering the 'participant' definition to remove any reference to consumers that are not also an 'industry participant'. Consumers that do not comply with the CCM Regulations would be liable under a new strict liability offence (described further below). The Compliance Regulations work well for industry participant breaches, so their application to industry participants would remain unchanged;
- the interim injunction power be removed from the Compliance Regulations and inserted into the CCM Regulations. The provision itself would remain unchanged. The shift is to reflect that an interim injunction power may need to be used against a consumer, whereas the Compliance Regulations are only intended to apply to industry participants. In this way, the 'compliance provisions' in the CCM Regulations would unambiguously apply to a wide set of persons, including consumers; and
- to insert offence provisions into the CCM Regulations. This would provide a mechanism to enhance enforcement provisions to cover breaches by non-industry participant consumers. It would also remove the need to guide consumers through the compliance process in the Compliance Regulations, which has limited jurisdiction over consumers and is not designed to accommodate consumer breaches in a timely, effective, and efficient way.

The offence provisions would make a consumer liable if:

- it did not comply with a direction issued by their retailer as soon as reasonably practicable (regulation 57);
- it provided misleading information in its application for ESP or MLC designation
- as a large consumer, it did not provide information about its total annual consumption as required under regulation 40;
- as a large consumer, it did not comply with directions of a transmission system owner or provide the transmission system owner with regular updates of their directions of the transmission system owner as required under regulation 55; and
- as a holder of an ESP or MLC designation for which it no longer qualifies, did not comply with a curtailment direction issued by their retailer.

Given industry participant breaches are already covered by the Compliance Regulations, it was not proposed to make the offence provisions apply to industry participants.

What submitters said

Submitter	Response
Contact Greymouth Gas MDL	Agrees
Genesis	Agrees. Suggests GIC be responsible for enforcement.
Market Administrator	Agrees. The existing regime doesn't lend itself to consumer breaches. Furthermore, a lot of work went into explaining critical contingencies, the GIC, the market administrator and the compliance process to consumers. An offence regime would be much more straight-forward for consumers to understand.
Methanex	Amending r55 to include a 4hr limit on updates is unnecessary as updates may not be required at that frequency. Further consideration should be given to an appropriate compliance threshold..
Mighty River Power	Agrees, but questions how non-TOU customers will be assessed for compliance.
Vector	Agrees. Recommends that the GIC consider a higher penalty limit to reflect the varying impacts of their non-compliance on other participants and the market. Suggests the compliance provisions be communicated as part of the regular notification process.

Gas Industry Co's response

Submitters generally agreed with the proposed changes, although Methanex suggested that the frequency of compliance updates proposed may be too high, and Mighty River Power supported the proposal but queried how Gas Industry Co could ensure compliance amongst non-TOU customers.

Gas Industry Co acknowledges that without widespread adoption of TOU meters it will be difficult to confirm compliance. However, it is noted that during the October 2011 contingency there were apparently a number of anecdotal reports (such as "the cafe across the road" is not curtailing) and it may be that in some situations, reported non-compliance could be investigated (either immediately or at a later date, depending on the prevailing situation and the scale of the load).

Gas Industry Co accepts that, in some circumstances, four-hourly updates from retailers and large consumers may not be necessary, but notes that it could also be very helpful in other situations. Accordingly, it proposes to amend regulation 55(2) to provide for an upper limit of 4 hours between updates, which can be relaxed by the CCO if it considers that this is more frequent than necessary in a particular situation.

Gas Industry Co will recommend the amendments to the Compliance regulations and the CCM Regulations that are necessary to give effect to the proposal contained in the SoP. It is noted that

these amendments will place the responsibility for enforcement on Gas Industry Co in the first instance.

8.2 Compliance monitoring

For these compliance provisions to be effective, they will need to be accompanied by a provision that allows Gas Industry Co to assess compliance after the event. It was proposed that this be implemented by allowing for the utilisation of consumption information supplied through the allocation agent. This option provides a simple, low cost means of improving compliance incentives.

What submitters said

Submitter	Response
Contact	Agree, but only daily GJ are submitted for TOU ICPs.
Genesis	Agree. Smart meters may provide better options in the future though.
Greymouth Gas	Agree, with retailers able to discuss or explain timing.
Mighty River Power Powerco	Agree
Vector	Agree, assuming it is GIC assessing compliance.

Gas Industry Co's response

Submitters agreed that the allocation agent was the best data source for assessing compliance. Gas Industry Co notes that under the proposal:

- while daily consumption data may not be ideal for determining non-compliance in all events, it will likely be sufficient for many or most circumstances, and is the best data that is available;
- Gas Industry Co agrees that smart meters may provide better options in time, and will consider this when drafting the amended regulations; and
- there will be opportunities for parties to explain data before any allegation of breach is pursued.

Gas Industry Co will recommend that the CCM Regulations are amended to allow consumption information from the allocation agent to be used for compliance purposes.

8.3 TSO compliance

TSOs are responsible for relaying CCO notices to retailers and large consumers, and it is important that this is done in a timely fashion. Although Gas Industry Co has approved amended Critical Contingency Management Plans that are intended to address this issue, it would be prudent to include performance criteria in the CCM Regulations. Therefore, Gas Industry Co proposed adding a requirement to regulation 54(b) that requires TSOs to relay CCO directions within 30 minutes of receipt.

What submitters said

Submitter	Response
Contact Mighty River Power Powerco	Agree
Genesis	Agree that a timeframe is a good idea, but generally rely on OATIS after first notification.
Greymouth Gas	Disagree, as TSOs may not be in a position to meet the deadline. Suggest removing TSOs from the communication loop entirely, with notices going straight to retailers, as this would streamline communications and free-up TSOs to focus on fixing the problem.
Methanex	Agree, assuming the amendment is to relay notification “as soon as possible, and in any event, within 30 minutes”.
MDL	Considers this has already been sufficiently addressed by TSOs and hence regulation is not required.
Vector	Considers this unnecessary, as OATIS now sends notices to TSOs, retailers and large consumers simultaneously.

Gas Industry Co’s response

Submissions on this proposal were mixed, with some submitters supportive, and others suggesting this change was not necessary because the information was available through OATIS, had already been addressed by TSOs through the CCMPs, and would be better dealt with by excluding TSOs from the communications route altogether.

Gas Industry Co acknowledges the points raised by submitters who suggest that this issue has already been dealt with in the CCMPs. While Gas Industry Co is pleased with the changes made to CCMPs to address delays in relaying notifications, it still considers it prudent to provide a back-stop arrangement to future-proof the CCM Regulations. As these notices are now distributed automatically via OATIS the 30 minute deadline can readily be met by TSOs.

Gas Industry Co does not support removing TSOs from the communications loop because TSOs have a better knowledge of who is connected to the network and need to be informed, particularly with regard to large consumers. Including the TSOs also helps to future proof the Regulations in the instance that the CCO is not also the main operator of many of the pipelines, and hence does not have this intimate knowledge.

Furthermore, TSOs need to be able to effectively manage their pipeline networks during any restoration process. This may involve taking a particular approach to restoring load in order to manage gas flows within the network. It is therefore appropriate for TSOs to be in the loop and aware of any notices to retailers and large consumers.

9

Additional matters

The SoP covered a wide range of issues, but it was acknowledged that there may have been further issues that had been over-looked, or that submitters thought were pertinent and could or should be addressed by this review. The SoP therefore asked submitters if there were any other matters for the GIC to consider.

What submitters said

Submitter	Response
Contact Energy Genesis Energy	No other matters to address
Greymouth Gas	<p>Need to deal with the expiration of the National Civil Defence Emergency Management Plan Order 2005 if references to it are to remain.</p> <p>Need to deal with arrangements for when Civil Defence gets involved – i.e. coordination with MCDEM and relevance of CCM Regulations in such a situation</p> <p>GIC should consider increasing the contingency cash-out price as \$11/GJ is similar to normal cash-out prices. Notes VoLL of \$20,000/MWh in the electricity sector.</p> <p>Need to address the CCO’s ability to call for additional resources during a contingency.</p> <p>Need to clarify whether and/or how contingencies can be part regional and part national, and how imbalances would work in such circumstances.</p> <p>Need to create a requirement for an immediate independent report on the cause of the problem for consumers’ insurance claims, and the Maui report took too long.</p> <p>Consider whether risk registers for TSO pipelines should be made public to give industry confidence of ongoing supply security.</p>
Market Administrator	<p>Need to replace or provide greater clarity over what “as soon as is reasonably practicable” means, as parties that were alleged to have breached the regulations commonly justified their continued use of gas based on them curtailing as soon as was reasonably practicable, and clearly had varied interpretations of what this means.</p> <p>Note, this threshold is included under r56(1) and r57.</p>
MDL	<p>Could better address in the regulations the restoration of line pack, recovery of balancing gas costs on the day an event is declared, exempting the Mokau compressor from imbalance calculations, and removing the need for a list of contact details within the CCMP itself.</p>

Submitter	Response
Methanex	Agrees that r47 is too permissive, and users should need to demonstrate a threat to life or safety to justify non-compliance. Suggests GIC clarify the gap it sees necessitating the proposed changes to r60(3)
MGUG	Need to clarify the purpose statement in the regulation to clarify that economic and health and safety criteria are also relevant.
Mighty River Power	Need to give proposals as to how customers apply for and are approved for the new ESP/MLC designations. A formal communications relationship between the CCO and Network Operators be formalised within the Regulations at a minimum.
NZ Steel	Considers that while the risk of supply interruption is inevitable in NZ, it is important that the GIC take all reasonable steps to ensure pipeline owners and operators are fully prepared to address any issue as quickly as possible. Notes that this was an outcome of the MBIE review. States that the next best thing to no interruption is speedy restoration. GIC should also consider an emergency supply plan for alternative fuels to provide for increased availability and prioritised consumption during a gas contingency. NZ Steel has considered alternative fuels but determined that sufficient supplies were not available at short notice for that to be practicable. Suggests that more consumers would invest in back-up fuels, reducing their need for MLC status and concerns re curtailment, if availability of back-up fuels could be assured.
Powerco	Give consideration to the process of transitioning from a critical contingency to a network emergency should domestic load shedding be required, including the necessary planning and communications between the CCO and TSOs in such a situation.
Vector	Recommends the GIC explain why it considers the CCO is better placed to make a public conservation campaign, and clarify how the CCO's new functions would be contracted and funded. Also recommend replacing references to the Gas (Information Disclosure) Regulations 1997 with the Gas Transmission Information Disclosure Determination 2012.

Gas Industry Co's Response

Gas Industry Co has considered these additional matters raised by submitters and concluded (in turn) that:

- References to the National Civil Defence Emergency Management Plan Order 2005 will be removed as part of the proposed changes to the CCM Regulations;
- The CCM Regulations are subordinate to the MCDEM. Furthermore, Gas Industry Co has no ability to place any obligations on MCDEM. Hence no action is proposed on this matter;
- The \$11/GJ is presumably in reference to the imbalance price from the Pohokura outage in March 2012. That price reflected conditions at the time (i.e. middle of a Saturday near summer), and would

be different for a contingency under different circumstances (noting other recent contingencies have resulted in imbalance prices of \$15/GJ). Furthermore, imbalance prices are determined by an independent expert, and Gas Industry Co has no ability to influence those prices. Hence no action is proposed on this matter;

- The CCO's ability to call for additional resources during a contingency is dealt with in the SPACCO, which requires the CCO to make the necessary resources available to perform the role. During the October 2011 outage, the CCO was able to draw on a range of resources and expertise from within Vector;
- Contingencies being part regional/part national were discussed in Section 6.1, with more detail being provided when the amendments to the regulations are drafted and consulted on;
- While Gas Industry Co sympathises with the need for expedient reporting on the causes of an outage, that issue sits outside the ambit of the CCM Regulations. Similarly for the suggestion that risk registers for TSO pipelines be developed.
- Gas Industry Co will be issuing guidelines regarding how consumers apply for ESP/MLC designation, and the approval process and criteria;
- Gas Industry Co will pursue discussions regarding a formal communications relationship between the CCO and Network Operators;
- Gas Industry Co agrees that r47 is too permissive and discussed this further in the SoP;
- The proposed change to r60(3) is to remove an unnecessary restriction on the CCO's ability to declare the end of a contingency, which could result in a contingency being "live" for longer than necessary;
- Gas Industry Co does not consider that it is necessary to clarify the purpose statement, as economic and health and safety criteria are implicit within the purpose statement, and explicit within the objectives of the curtailment arrangements;
- Gas Industry Co is further investigating potential options with regard to restoration of line-pack, as discussed further in Section 5.1;
- While Gas Industry Co acknowledges NZ Steel's concerns regarding pipeline owners' level of preparation and response time, and the availability of alternative fuels, these issues are beyond the scope of the Gas Act 1992, and hence Gas Industry Co's ability to respond;
- Escalation to a network emergency is outside the ambit of the CCM Regulations. However, Gas Industry Co will follow up with Powerco to discuss its concerns;
- Gas Industry Co refers Vector to the SoP regarding why it considers that the CCO is better placed to call for a public conservation campaign;

- Gas Industry Co notes that any new obligations placed on the CCO will be contracted under the SPACCO and its compensation provisions;
- Gas Industry Co notes Vector's suggestion that references to the Gas (Information Disclosure) Regulations 1997 need to be updated and will include amendments in the draft CCM Regulations to reflect this;
- Gas Industry Co agrees that "as soon as is reasonably practicable" needs to be better defined, and will recommend a four-hour limit be included in this regard.

10 Glossary

CCM Regulations	Gas Governance (Critical Contingency Management) Regulations 2008, the regulations governing the gas supply system in times when the market is unable to sustain a balanced supply and demand situation.
CCMP	Critical contingency management plan – under the CCM Regulations, the plan that is required to be prepared by a TSO and approved by Gas Industry Co.
CCO	The critical contingency operator.
CDEMA	The Civil Defence Emergency Management Act 2002.
Curtailment	An instruction, originated by the CCO and relayed by TSOs and retailers, to reduce or completely cease the use of gas by end users.
Curtailment band	Curtailment bands generally group gas users by annual consumption and this defines the order of curtailment directed by the CCO. Curtailment bands 5 and 7 differ in that they comprise ESPs and may have customers who would otherwise be in different bands.
ESP	Essential service provider – a consumer that has been granted a designation moving them to a higher-priority curtailment band
Gas Industry Co	The ‘industry body’ as defined in Part 4A of the Gas Act.
GJ	Giga-joule – a measure of energy equivalent to 277.7 kWh.
HSEA	Health and Safety in Employment Act 1992
ICP	Installation Control Point – the demarcation point between a customer installation and the distribution network or transmission system that supplies the connection.
LEI	Low Environmental Impact – a consulting firm.
MBIE	The Ministry of Business, Innovation and Employment.
MCDEM	The Ministry of Civil Defence Emergency Management.
MED	The Ministry of Economic Development (now subsumed into MBIE).

MLC	Minimal load consumer – a consumer that has been granted a designation allowing them, when directed to curtail, to shut down using an agreed consumption profile so as to mitigate plant or environmental damage.
MPOC	Maui Pipeline Operating Code – the document that contains the multilateral terms for users of the Maui pipeline, i.e. shippers and interconnected parties.
NCDEMP Order	National Civil Defence Emergency Management Plan Order 2005.
NGOCP	National Gas Outage Contingency Plan – an arrangement among industry participants that was superseded by the CCM Regulations.
PJ	Peta-joule – One million GJ or approximately 278 GWh (278 million kWh).
RMA	Resource Management Act 1991.
SCADA	Supervisory control and data acquisition - systems that monitor and control industrial processes that exist in the physical world. In the context of this SoP, SCADA refers to the control and monitoring systems used by Vector’s Gas Control group at Bell Block in Taranaki.
SMS	Short message service – a text messaging service allowing the exchange of short text messages between mobile or fixed line phone devices.
SoP	Statement of Proposal – this document.
TJ	Tera-joule – One thousand GJ or approximately 278,000 kWh.
TSO	Transmission system owner.
VTC	Vector Transmission Code - the document that contains the multilateral terms for users of the Vector pipeline, i.e. shippers and interconnected parties.