

31 July 2014

Ministry of Business, Innovation & Employment

Via email energymarkets@mbie.govt.nz

Dear Sir/Madam,

Re: Gas Disruption Study

1. Thank you for the opportunity to comment and provide feedback on the Gas Disruption Study (January 2014) commissioned by MBIE. This feedback is provided by the Major Gas Users Group (MGUG), which was established in 2010 to promote the interests of a number of industrials as major consumers of natural gas.
2. MGUG includes:
 - Ballance Agri-Nutrients Ltd
 - Carter Holt Harvey Ltd
 - Fonterra Co-operative Group Ltd
 - New Zealand Steel Ltd
 - New Zealand Sugar Ltd
 - Refining New Zealand
3. Members of the group make up a significant proportion of New Zealand's productive sector and as major exporters (or in import substitution) use large quantities of natural gas for energy (including co-generation), process heat and as a feedstock. Hence security of supply is a fundamental concern for members. Collectively the group consumes about 25 PJ's per annum of natural gas or about 16% of the gas supplied to the market in New Zealand.
4. Natural gas is a raw material for transformation and is also a preferred fuel because of its:
 - Low capital cost for utilities compared to other forms of energy (coal, biomass)
 - Lower operating cost and ease of operation
 - Cleaner burning characteristics with lower emissions than coal
 - Ease of handling and consenting
5. This feedback covers issues raised in the study which are common to MGUG members. Nevertheless the range of industries that members are engaged in is very diverse. Disruption to supply may have a significant or potentially huge impact on an individual member but the nature of that impact and how they might respond will be very much influenced by the particular industry circumstances in which they operate.

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For these reasons it is likely that individual members will provide their own feedback on what gas supply disruption would mean to their individual businesses.

6. MGUG holds the view that given the significance and dependency on gas supply to these industries, and wider economy, the continuing focus for Government should be on ensuring that an event such as the Maui pipeline outage in 2011 does not happen again or that the risks of that occurring are managed to the lowest practicable level.
7. We think it is useful to take the scenario approach that the study has done. The two scenarios would appear to encapsulate the two most credible maximum impact gas disruption events. This helps all stakeholders (including Government) to understand what a worst case scenario might look like, what the potential impact might be on users, the economic significance and how each scenario might play out under the current regulatory framework. It provides an opportunity for individual affected enterprises to illustrate the effects on their organisations.
8. MGUG members consider that the estimates of value-added for their businesses have been significantly under-represented in the economic analysis and therefore consider that the overall benefit to NZ Inc. has also been diminished. This is important because it may be more cost effective for many businesses to support a focus on a NZ Inc basis toward prevention and reduction of the risk and duration of any pipeline or gas production loss events. A better understanding of the economic impact of a disruption event would help assign priorities if this approach was adopted.
9. This feedback makes three points in relation to the study :
 - a. **Transparency:** The level of engagement and transparency around the nature of pipeline risks should include more active engagement by Gas Pipeline Businesses (GPB's) with users.
 - b. **Alternative Fuels:** The assumption that users consider alternative fuels in the context of setting business continuity plans does not address whether those options are realistic, particularly for the timeframes considered by the scenarios. MGUG recommends that MBIE undertake further work to test the resilience of alternative fuel supply for a gas disruption of long duration.
 - c. **Economic Impact:** Member feedback indicates that the economic impact has been greatly under-valued. The study recognises that further quantification may well be desirable and suggests consideration of a standardised economic approach for asymmetric risks (low probability/high consequence events) to ensure more robust economics. MGUG believes this economic analysis should be undertaken, given the significance of natural gas as an input to the economy.

TRANSPARENCY

10. The pipeline failure scenario is a significant increase in time compared to the Maui outage in October 2011. The presentation by the Maui pipeline owner in June 2013 (a request from the Government as part of the Maui Outage review) provided insight into the risk to the pipeline from landslide and erosion, and the approach to managing those risks (including timeframes for repair). This presentation provided an opportunity for users to engage with the asset owner to understand those risks and how they are managed.
11. Unfortunately these ongoing risks are not well communicated to industry and hence it is difficult for gas users to address economic risk mitigation strategies to address business continuity. MGUG believes GPB's should continue to share these vulnerability assessments, including other parts of their network and make these assessments available to industry which is reliant on reliable gas supply.
12. There is no ongoing obligation on the part of the owner to provide this interaction with users, other than that required by the continuous disclosure obligations on GPB's set by Part 4 of the Commerce Act.
13. The Maui Outage review noted (at page 52):

“Asset risk management forms a component of a GPB's overall risk management plan or policy, focusing on the risks to assets and maintaining service levels. AMPs should demonstrate how the GPB identifies and assesses asset-related risks and describe the main risks within the network. The focus should be on credible low-probability, high-impact risks. Risk evaluation may highlight the need for specific development projects or maintenance programmes as well as additional contingency plans to support a reduction in the duration of the loss scenarios. Where this is the case, the resulting projects or actions should be discussed, linking back to the development plan or maintenance programme.”
14. We believe this comment provides a very clear steer on what level of interaction should be required of the asset owner. The opportunity to ask questions and seek clarification directly from the asset owner/operator provides a logical and useful step in understanding the risks. Regular updating to users should be a standard requirement.
15. The study could go further in setting the appropriate expectations for informing users. From a user perspective, this level of proactive transparency should be part of an operator's licence to operate for what is a critical piece of infrastructure supporting the economy.
16. We think this approach is reinforced by the Disclosure requirements themselves but it is difficult to conclude that there is consistency between the AMPs in the nature of

the information and the way it is presented. Paragraph 17 (page 68) states the following:

“AMPs must provide details of risk policies, assessment, and mitigation, including—
17.1 methods, details and conclusions of risk analysis;

17.2 strategies used to identify areas of the **network** that are vulnerable to high impact low probability events and a description of the resilience of the **network** and asset management systems to such events;

17.3 a description of the policies to mitigate or manage the risks of events identified in subclause 17.1 of this attachment;

17. Paragraph 18 (page 69) says –

Details of emergency response and contingency plans.

Asset risk management forms a component of a **GTB**'s overall risk management plan or policy, focusing on the risks to assets and maintaining service levels. **AMPs** should demonstrate how the **GTB** identifies and assesses asset related risks and describe the main risks within the **network**. The focus should be on credible low-probability, high-impact risks. Risk evaluation may highlight the need for specific development projects or maintenance programmes. Where this is the case, the resulting projects or actions should be discussed, linking back to the development plan or maintenance programme.

18. And Paragraph 2.6 says

The purposes of **AMP** disclosure referred to in subclause 2.6.1(2) are that the **AMP**—

(1) Must provide sufficient information for an interested person to assess whether:

(a) assets are being managed for the long term;

(b) the required level of performance is being delivered; and

(c) costs are efficient and performance efficiencies are being achieved;

(2) Must be capable of being understood by an interested person with a reasonable understanding of the management of infrastructure assets;

(3) Should provide a sound basis for the ongoing assessment of asset-related risks, particularly high impact asset-related risks.

19. If anything the study (see Section 5.2.2) is a little contradictory. On the one hand it says the ID regime provides a wide range of information (see page 27) but then concludes (last para) that the “Commerce Act does not have a direct impact on the asset management, design, construction...and management practices....and the threats/risks to which they are exposed. The AS 2885 standard provides the primary framework and detailed requirements in this respect”.

20. In our view the ID requirements do not provide users the level of detail/interaction that would enable them to properly assess the risks as well as they might.

ECONOMIC IMPACT

21. The MBIE review of the Maui outage developed a methodology for estimating the economic impact. The terms of reference for this study did not include undertaking specific economic analysis. But the study authors recognised the need for a measure of value at risk. In the absence of specific analysis they adopted analysis by NZIER which measured the value-added for industries that consume gas; the purpose of this study was to get a measure of the value at risk in a demand curtailment and confirm whether the profile of the curtailment bands themselves matched that value hierarchy.
22. Whether this is an acceptable approach/proxy for the value attributed to the outage scenarios is difficult to say. As noted MGUG member disagree. The study would seem to imply that the authors themselves were uncomfortable on this point, given Point 1 of the recommended further analysis (page 74). We note also that the NZIER analysis ignored any multiplier effects.
23. Much is made of users building the risk of disruption into their Business Continuity Plans. Another approach could be to consider whether investment in further reducing the risk of pipeline failure (rather than end users making possibly inefficient BCP investments) was a more optimal approach. Appropriate economic analysis would assist in developing this understanding. MGUG considers that a study of this nature should include appropriate economic value analysis.

ALTERNATIVE FUEL SUPPLY

24. The commentary in this study (and in other areas) encouraging gas users to consider their risks as a user of natural gas in the context of their business continuity planning provides little constructive input in quantifying those options, including risks with accessing alternative fuels and the changes required to make facilities dual fuel capable.
25. This is exacerbated by the uncertainty around what alternatives gas users might choose to put in place, and the potential impact on other fuel availability to meet a gas supply contingency as well as the normal market demand for these fuels. It is difficult for any one user (in determining its options) to assess what the wider response to business continuity planning might be and what that might mean for their individual capability to rely on other fuels.
26. The study has been useful in providing a time bounded measure of disruption. However, some further work could usefully be undertaken to assist consumers and provide a sense of the potential demand for other fuels during a contingency, including any constraints.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hale'. The signature is fluid and cursive, with a large initial 'R' and a trailing 'Hale'.

Richard Hale
Secretariat for the Major Gas Users Group