

30 July 2014

Submission to Ministry of Business, Innovation, and Employment

Gas Disruption Study: Report on the potential impacts on the NZ gas market

Gas Industry Co welcomes the opportunity to make a submission on the Ministry of Business, Innovation, and Employment-released report *Gas Disruption Study: Report on the Potential Impacts on the NZ Gas Market*, dated January 2014.

The report is a welcome reminder of the importance of contingency planning to industry resilience. Unlike the gas transmission systems in many countries, the New Zealand system is long and stringy, and it is fed by a relatively small number of gas fields. As a consequence, the risk of disruption, either through an outage of a production station or a breakage of a pipeline, is very real. It is important that gas users understand this risk and take appropriate steps to determine their optimal level of resilience against such circumstances..

Resiliency

The Maui outage in October 2011 revealed that a large number of gas consumers, including many large industrial consumers, either had not considered loss of gas supply as a risk or did not have effective plans in place to manage such a risk. Consequently, a number of large industrial users sought to gain priority access to gas through their retailers or through political lobbying. Of course, with a finite amount of gas flowing to Auckland, preserving supply to these large users ultimately came at the expense of supply to smaller and, as subsequent analysis revealed, higher value-added users.

Gas Industry Co's review of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) following the Maui outage had two broad aims in this regard:

- Identifying those gas users who would impose a high social cost if they were to cease operations suddenly (e.g. hospitals);

- Engaging with large end users to have them understand that:
 - they were unlikely to sustain an argument for priority status; and
 - there are credible contingency scenarios in which there would not be sufficient gas available to sustain their operations; and
 - therefore, they needed to plan for their own resilience.

The amended CCM Regulations, which went live in March of this year, now include clear criteria for two groups of priority gas users: hospitals, residential care facilities, and other health-related gas users are accorded the highest priority; while water processing plants, sewage plants, emergency services, and other large health and safety-related gas users receive the highest priority amongst large gas users. The criteria are deliberately tight and will ensure that gas supply to these most critical gas users is available in the widest possible circumstances. Of course, it is also imperative for these high priority gas users to undertake their own contingency planning.

In terms of business resiliency planning, Gas Industry Co is pleased that some large users seem to be making good progress on this issue. We note in particular that the report cites Methanex and Fonterra and states that “these firms are fully cognisant of the risks they face from disruption to their gas supply, and in turn, are well-placed to respond to minimise any adverse impacts on their businesses, provided there is sufficient transparency to provide for informed decision making.” We would encourage other gas users to follow the lead of Methanex and Fonterra and to consider the specific risks they face and the actions they can take to minimise the impact of a gas outage.

Other issues

Gas market

The report notes the importance of gas trading to the successful management of an extended gas outage. As the report states, the CCM Regulations provide that the Critical Contingency Operator can terminate a critical contingency when it is satisfied that the supply of gas is sufficient to meet the reasonably expected demand. In a prolonged outage of a production station, this determination would depend on gas users being able to source gas from the remaining producers, which, as the report states, would be facilitated by the existence of a liquid gas market. Gas Industry Co notes that since the drafting of the report in January, the emsTradepoint market has grown and is continuing to attract participants. We are encouraged by this development.

Information disclosure

The report suggests that increased transparency regarding pipeline integrity management would help gas users in understanding the risks involved in their gas supply and that the Ministry or Gas Industry Co may have a role in bringing about this disclosure. Gas Industry Co suggests that, if the government wishes to mandate the disclosure of this information, consideration should be given to adding to the list of items required to be disclosed to the Commerce Commission under the Commerce Act 1986. Such an arrangement would make use of an already-existing disclosure regime,

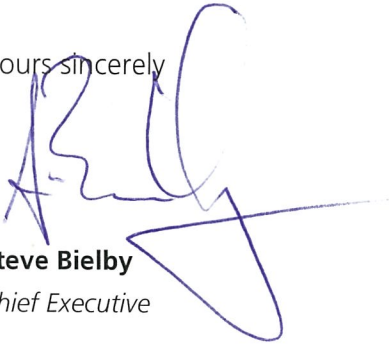
and there may be insights and efficiencies gained by the combination of information, since pipeline integrity management likely has an impact on the quality of pipeline services.

Efficient allocation of gas transmission capacity

The report notes that Gas Industry Co is working on this issue with industry. We would like to acknowledge as well that the industry has formed its own working group on transmission access issues, and this group appears to be making good progress. Gas Industry Co is also committed to developing a regulatory counterfactual, as a backstop to the industry process.

If you would like to discuss any part of this submission, please do not hesitate to contact me.

Yours sincerely



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