

10 June 2016

Gas Industry Company
Level 8, The Todd Building
95 Customhouse Quay
Wellington 6143
Attn: Ian Wilson

Dear Ian

Gas Transmission Security and Reliability

First Gas is pleased to make this submission on the Gas Industry Company (GIC) Gas Transmission Security and Reliability consultation paper dated April 2016.

First Gas now owns the gas transmission assets and the non-Auckland gas distribution assets previously owned by Vector Limited. First Gas has also agreed to purchase the Maui pipeline from Maui Developments Limited, and expects to take ownership of that gas transmission system on 15 June 2016. We therefore have a strong interest in the security and reliability of the gas transmission network.

We appreciate the effort that has gone into the preparation of the consultation paper and have noted the comments made by pipeline users and others at the workshop arranged by the GIC. We broadly agree with the findings of the paper – and in particular that:

- A considerable amount of information relating to gas transmission security and reliability is currently disclosed, but that the information could be presented in ways that enable better understanding of risk
- Disclosing the level of detail contained in Pipeline Integrity Management Plans (PIMPs) would not be beneficial to interested parties, and that introducing fixed security standards for gas transmission would be counter-productive.

Our general comments on gas transmission security and reliability are contained in the body of this submission, and specific responses to the questions listed in the consultation paper are provided in the appendix.

Integrated reporting on security and reliability

Following the acquisition of the Maui pipeline, First Gas intends to work towards full integration of its gas transmission assets. This will mean that all reporting to the Commerce Commission on gas transmission will ultimately be combined into a single set of reports. First Gas is currently preparing its first Asset Management Plan (AMP) combining the gas transmission assets previously owned by Vector and Maui, which will be released by 30 September 2016.

This approach will remove any inconsistencies that exist between the two gas transmission asset plans currently available.

Improvements to Asset Management Plans

AMPs already provide a comprehensive and detailed picture of each pipeline owner's management, maintenance and risk management systems, and the resulting plans for both capital and operating expenditure. The review carried out by MWH for the Commerce Commission in 2015 demonstrated a high level of compliance with regulatory expectations. Further assurance is also provided by regular visits by the independent pipeline inspecting authority.

However, we accept that there is scope for gas transmission AMPs to be improved. As we understand it, the criticisms of the information historically provided by pipeline owners can be summarised as follows:

1. AMPs are difficult to interpret
2. AMPs miss a layer of interpretation by the pipeline owner
3. A further level of detail should be disclosed, such as Pipeline Integrity Management Plans (although this is not recommended by the GIC).

First Gas intends to address the first two points through future AMPs. A summary that brings together the data provided on security and reliability across various disclosures will be included in our AMPs, together with our view of what the data means for the risks facing pipeline users.

We do not see a need for publication of the Pipeline Integrity Management Plan. It is already the subject of an expert review by the pipeline inspecting authority, which also spot checks procedures used in the plan. Key pipeline integrity risks within the network are provided in the AMP for reference for interested parties, and requiring more detail would likely work against the objective of ease of understanding.

Consulting with shippers and gas users

Another area of concern is that there has been a lack of communication on particular risks and investment options with shippers and end users, notably on the Whitecliffs realignment. First Gas is keen to improve communication with pipeline users, starting with the process of preparing our AMPs. We will be reaching out to our customers in the near future to organise opportunities to discuss this further. This consultation will include a discussion of the Whitecliffs project and any other large capital projects that we expect to carry out.

We look forward to continuing a constructive dialogue with the GIC, shippers and end-users on security and reliability issues for gas transmission. As highlighted in this submission, pipeline security and reliability is a key part of our business and an area in which we have strong incentives to perform well.

Kind regards



Richard Krogh
Interim Chief Executive

Appendix: Response to Consultation Questions

QUESTION	COMMENT
<p>Q1: Do you agree that the current disclosed metrics provide useful status and trend indications? If not, what information do you think is redundant or missing?</p>	<p>The current disclosed metrics provide interested parties with information that is relevant to the security and reliability of the gas transmission network. Even where the disclosed metrics do not change from year to year, this still provides useful information to gas customers.</p> <p>We do see scope for clarifying the meaning of some of the metrics disclosed. For example, the category of “incidents and emergencies” covers a broad range of events that are caused by quite different factors. Similarly, reporting the “number of gas vents” may not be helpful when the reason for venting can differ.</p>
<p>Q2: Do you agree that the metrics could usefully be summarised and displayed in a ‘dashboard’ format, accompanied by the GTB’s interpretation? Are there other improvements you would suggest?</p>	<p>First Gas is currently preparing its first Asset Management Plan for gas transmission (to be released by 30 September, 2016). In this process, we are taking on board the comments made in the consultation paper and at the workshop about the way that information is presented in AMPs and the level of interpretation provided when presenting that information.</p> <p>We are keen to understand better what is meant by a dashboard, and what value our customers would obtain from such a presentation of information. If the idea is simply to present information in a more graphical and engaging way, then we will take that on board. If something more is envisaged, then we would want to weigh the usefulness of the presentational format against the costs involved.</p>
<p>Q3: Do you agree that there are strong reputational, contractual and legislative drivers for a GTB to achieve effective S&R? If not, what else do you think is needed?</p>	<p>We absolutely agree with this statement.</p> <p>Failure of the security and reliability of gas supply is one of the largest risks to our business. There are strong commercial incentives for us to maintain security and reliability because any failure to do so would cause significant operational hardship on shippers and end users of gas. A failure to supply any portion of the gas supply chain would therefore prevent growth of the network and cause customers to question their desire to fund investment in gas infrastructure.</p> <p>The legal obligation to act as a reasonable and prudent operator (and consequent liability for failing to do so) further supports these commercial incentives.</p>
<p>Q4: Do you think we have correctly identified the requirements to achieve the S&R objectives? If not, what requirements are unnecessary, or missing?</p>	<p>First Gas agrees that the GIC has identified the requirements to achieve the S&R objectives.</p> <p>However, we find it useful to distinguish between physical security and commercial access arrangements. As previously announced, First Gas is keen to develop a single operating code for gas transmission, working closely with its customers and the GIC. While that work will need to be aware of security and reliability issues, we see it as a distinct workstream. As a result, we would not see the need for a different set of access arrangements as a “gap” in transmission security and reliability.</p> <p>In a similar way, other gas industry topics are related to security and reliability – but may be best kept as distinct areas of focus. Examples here include the critical contingency framework and pipeline balancing.</p>

QUESTION		COMMENT
Q5:	Do you think the gap analysis is adequate? If not, what gaps have not been identified?	Subject to our comments on Q4, we think the gap analysis is adequate. Rather than failing to identify any relevant “gaps”, we suggest that a direct focus on physical security and reliability might be more useful when thinking about reporting and communication in this area.
Q6:	Do you agree that it is not necessary to mandate any security standards?	<p>We agree that it is not necessary to mandate security standards, and that to do so would likely be counter-productive. As mentioned above, First Gas already has strong reputational, contractual and legislative drivers to ensure security and reliability.</p> <p>We also agree with the GIC that in many situations customers benefit from the flexibility of not having mandated standards. For example, a major customer that expands its requirements is likely to be best placed to decide whether it is willing to pay more for firm capacity that could only be delivered through redundancy (such as through two compressors rather than one).</p>
Q7:	Do you agree that the current AMPs are generally adequate, but missing a layer of GTB interpretation?	<p>As mentioned above, First Gas is currently preparing its first Asset Management Plan for gas transmission (to be released by 30 September, 2016). The consultation paper is helpful in pointing out difficulties in quickly locating and understanding information that has been presented in previous AMPs, and we are keen to improve the readability of our AMP.</p> <p>We are also interested in exploring greater customer consultation as part of the process of preparing our AMP, within the limited timeframe available. We will be reaching out to our customers in the near future to organise opportunities to discuss this further.</p>
Q8:	Do you agree that it is unnecessary for a GTB's PIMP to be disclosed?	We agree that the disclosure of Pipeline Integrity Management Plans (PIMPs) is unnecessary. PIMPs are developed under the requirements of AS2885 for individual pipeline assets. These are documents used by a GTB to manage the integrity of the pipelines, as such do not contain all the information required in an Asset Management Plan. Key pipeline integrity risks within the GTB's network are provided in the AMP for reference for interested parties.
Q9:	Do you agree that there are statutory arrangements to permit scrutiny of a GTB's decisions to invest, or not invest (albeit that these arrangements have not yet been tested)?	We agree that these statutory arrangements do exist. In our view, however, the Commerce Commission has primary responsibility for ensuring investment in regulated industries (including gas pipelines). As long as the Commerce Commission achieves its legislative mandate under Part 4 to promote investment in regulated industries, then the provisions of the Gas Act should not be required.
Q10:	Are there any aspects of the gap analysis that you do not agree with?	No

QUESTION		COMMENT
Q11:	Do you agree with our suggested action points? Are there any other actions that you believe are necessary?	First Gas looks forward to working with stakeholders (including end-users, GIC and the Commerce Commission) to ensure future AMPs and other disclosures provide a more assessable presentation of the GTB's interpretation of the data, identification of issues, and means of addressing those issues. We believe that these processes should provide greater clarity on security and reliability risks, which will be valuable for our customers.