



# Gas transmission business: Customer engagement plan

Year commencing 1 October 2019



## 1. Purpose of the plan

The purpose of this engagement plan is to summarise the issues we plan to engage with gas transmission customers on during the year commencing 1 October 2019. This plan explains why we consider these issues to be important areas for engagement and describes how we plan to carry out this engagement.

Since Firstgas was established in 2016, we have had positive engagement with our gas transmission customers. We are particularly pleased with the engagement established with the Major Gas Users' Group (MGUG) and with industry during the development of the Gas Transmission Access Code (GTAC) and the Pariroa project. We want that positive engagement to continue. This plan develops our approach to customer engagement by seeking customer input at the start of each gas year on the issues to be addressed and the scope of that engagement.

This plan will not be locked in stone. Rather, it will be flexible to respond to issues that may arise during the year and the plan will adjust to changing priorities. This plan will provide a touchstone for assessing our customer engagement at the end of each gas year — ensuring that we are accountable for the progress we are making with our customers to resolve important gas industry issues.

We aim for this plan to help enable our customers prepare for engagement with Firstgas by ensuring that you:

- Have input into the priority areas where you can engage with Firstgas
- Understand the scope of the engagement proposed by Firstgas and how your input will shape our decisions
- Have the resources available to participate meaningfully in the engagement process
- Have information ready to contribute to the discussions.

We welcome input throughout the year on the scope of our engagement.

## 2. Background on our gas transmission system

Firstgas owns and operates the high-pressure gas transmission system consisting of underground pipelines, compressor facilities and above ground stations across the North Island of New Zealand. The transmission system is approximately 2,500 kilometres long and includes the 309-kilometre Maui pipeline. Gas is injected at Receipt Points located in Taranaki and is delivered to around 130 Delivery Points across the North Island.

As a provider of monopoly infrastructure, our gas transmission business is regulated under Part 4 of the Commerce Act 1986 and is subject to price-quality path and information disclosure requirements. In May 2017, the Commerce Commission set our revenue cap and quality standards for the period from 1 October 2017 to 30 September 2022 (the current regulatory period).<sup>1</sup>

We operate the gas transmission system under an “open access” regime. This means that any party wishing to connect to the transmission system or use it to transport gas may do so on standard terms and conditions. These terms and conditions are set out in the commercial code governing the use of the system, which from or after 1 October 2020 will be the Gas Transmission Access Code (GTAC).<sup>2</sup>

Further information on Firstgas' transmission system and access code arrangements can be found in our Asset Management Plan, which is available on our website here: <https://firstgas.co.nz/about-us/regulatory/transmission/>.

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<sup>1</sup> See Commerce Commission website for details <https://comcom.govt.nz/regulated-industries/gas-pipelines/projects/20172022-gas-default-price-quality-path>

<sup>2</sup> <https://firstgas.co.nz/wp-content/uploads/Final-Approved-GTAC-31-October-2018.pdf>

The First Gas Group also owns unregulated energy infrastructure assets across New Zealand through our affiliate Gas Services NZ Limited (GSNZ), a separate business with common shareholders that owns the Ahuroa gas storage facility and Rockgas. These businesses provide valuable perspectives from different parts of the gas supply chain for our regulated gas transmission business.

The Ahuroa gas storage facility (trading as Flexgas) can store up to 18 petajoules (PJ) of gas, with an expansion underway to increase the injection and withdrawal rates of the facility to 65 terajoules (TJ)/day. Visit the website [www.flexgas.co.nz](http://www.flexgas.co.nz). Rockgas is New Zealand’s largest LPG supplier and has over 80 years’ experience providing LPG to more than 100,000 customers throughout New Zealand. Visit the website [www.rockgas.co.nz](http://www.rockgas.co.nz)

### 3. Company values and commitment to stakeholder engagement

All Firstgas staff are expected to operate in a manner consistent with the company’s “TIGER” values – Together, Integrity, Grow, Empower and Respect.

For this plan, we expect our external communications and engagement with customers to be consistent with these values. We also expect to be held to account for any deviations from these values. We summarise in the table below how each of the TIGER values applies to our planned engagement in this plan.

**Table 1: Application of company values to customer engagement**

Value	Interpretation and Implementation
<b>Together</b>	All staff involved with customer engagement are familiar with the requirements, understand their role in relation to customers and are committed to working together with customers to protect the safety of the public and the pipeline.
<b>Integrity</b>	How we deal with customers. Integrity is about transparency, honesty, consistency, and reliability in everything we do. Integrity in our actions also contributes to the integrity of the pipeline system, ensuring high levels of reliability and security of supply for our customers.
<b>Grow</b>	Solving problems and challenges, ensuring that we adopt an attitude of continued improvement to ensure we adopt best practice in customer engagement. This value also calls for us to be open to new ideas that expand the range of possible solutions.
<b>Empower</b>	Focused on delivering outcomes, while appropriately engaging with customers in our approach to delivery. We empower our staff to provide answers to customer inquiries and requests, and we empower our customers to better understand how we operate the system and manage risk.
<b>Respect</b>	Supportive of the rights of our customers, protecting and respecting the environment we operate in, and protecting the safety of the community and our assets.

## 4. Who are our customers?

For the purposes of this engagement plan, we define customers as any party receiving services directly from the gas transmission system via direct physical connections or commercial relationships. Customers may not be contractual counterparties with Firstgas (in some cases another service provider may contract with Firstgas). This definition also does not require a party to make payment directly to Firstgas for the services they receive to be classified as a customer of the transmission business.

To focus our engagement on this plan, this definition excludes broader stakeholders that do not receive services from Firstgas – such as regulators, landowners, iwi, and community groups. While these parties are critical to decisions on the gas transmission system, our engagement with these stakeholders is covered under other Firstgas policies and procedures, such as land management plans and project specific plans (i.e. Pariroa).

For the purposes of this plan, we have categorised gas transmission customers into the four groups set out in the table below. Each of these groups have different interests and are likely to want to engage in different ways on the issues described in this engagement plan.

**Table 2: Key customer groups**

Group	Description
<b>Major gas users (direct connects)</b>	<p>Several large gas users are directly connected to the gas transmission system. These gas users typically consume more than 1 PJ of gas per year (industrial scale demand) for activities including petrochemical production, electricity generation, food production, and other industrial applications.</p> <p>Many of the major gas users are represented by the Major Gas Users Group (MGUG), which meets quarterly and has its own secretariat. The members of MGUG are currently Ballance Agri-Nutrients Ltd, Fonterra Co-operative Group, New Zealand Steel Ltd, Oji Fibre Solutions Ltd and Refining NZ. Together with Methanex, these customers account for around 70% of gas flows across the gas transmission system.</p> <p>Our major gas user's interaction with the gas transmission system is guided by the commercial code(s) overseeing the system and most often, delivery point interconnection agreements (ICAs). Commercial management of transmission services to these end-users of gas is carried out via Shippers.</p>
<b>Shippers</b>	<p>At present, there are nine Shippers on the gas transmission system – Contact Energy, Genesis, Greymouth Gas NZ, Methanex, Mercury Energy, Nova Energy, OMV, Trustpower, Vector Gas Trading.</p> <p>Seven of these Shippers operate as gas retailers, although some also ship gas to their own gas-consuming facilities.</p> <p>Any party can become a Shipper by entering into a Transmission Services Agreement (TSA) with Firstgas.</p>
<b>Gas distribution businesses (GDBs)</b>	<p>There are currently 5 gas distribution businesses (GDBs) that are connected to our gas transmission system – Firstgas (distribution), Vector, Powerco, GasNet and Nova. The first four of these GDBs are regulated under Part 4 of the Commerce Act, while Nova owns unregulated (bypass) networks that are exempt from regulation.</p> <p>Gas distributors rely on the safe and reliable delivery of gas via the transmission system to deliver gas to customers across their distribution networks. Their connection to the gas transmission system is governed, in most cases, by a delivery point interconnection agreement (ICA).</p>
<b>Gas producers</b>	<p>Gas producers inject natural gas into the Firstgas transmission system. All gas producers are in Taranaki.</p> <p>Gas producers rely on the gas transmission system to connect them to downstream gas users and transport their product to market. Their connection to the gas transmission system is governed by a receipt point interconnection agreement (ICA).</p>

## 5. What are the key issues for engagement in the coming year?

The key matters we intend to discuss with customers are set out below. Our engagement with customers during the year commencing 1 October 2019 will be guided by the key projects and issues across our gas transmission system and the broader gas sector. We will also continue our regular bilateral engagement with customers on issues that relate specifically to their access and transport needs.

We welcome feedback throughout the year on whether these are the right issues to prioritise, and whether there are other topics that our customers would like to discuss with us.

**Table 3: Key issues for engagement**

Key project / matter	Description
<b>Customer engagement plan</b>	Firstgas received input from stakeholders on an initial draft of this plan and we welcome further feedback throughout the year on whether our engagement approach is meeting the needs of our customers.
<b>Asset Management Plan</b>	<p>Firstgas will present our 2019 AMP Update to customers. This document summarises the work we have completed over the past 12 months (year in review) and provides forecast capex and opex plans for the next 10 years with a focus on the coming 12 months.</p> <p>We plan to focus this engagement on what customers would like to see included in our next full AMP due to be published by September 2020. This builds on previous engagement on our AMP where customers have provided valuable suggestions on the format and content of AMP documentation.</p>
<b>Risk management</b>	Previous feedback on our AMP has highlighted the need to better link our planned expenditure to assessments of transmission system risk. To address this feedback, we will engage with customers on our risk management framework, systems and tools and how they are used to develop our capital programme.
<b>Value of Lost Load (VoLL)</b>	<p>During the process of resetting the Default Price - Quality Path (DPP) for 2017 – 2022, the Commerce Commission emphasised the importance of understanding the economic impacts of gas transmission reliability. This information helps to inform decisions on appropriate levels of expenditure to address network risks, particularly high impact, low probability (HILP) events.</p> <p>Firstgas has previously used a very broad estimate of economic impacts based on the 2011 Maui pipeline outage. An investigation after this outage quantified total economic loss in the order of \$200 million, or \$40 million per day. We are keen to develop a better estimate of economic impacts by undertaking a value of lost load (VoLL) study for gas in New Zealand. This will help to inform our future risk mitigation activities and investment by providing a more comprehensive and up to date view of high gas outages affect our customers.</p>
<b>Implementation Gas Transmission Access Code (GTAC)</b>	Firstgas intends to go live with the GTAC and its associated systems and processes on or after 1 October 2020. Prior to go live, we will continue to engage with customers (particularly Shippers and Interconnected Parties) on the design and operation of the GTAC IT systems, and we will be completing User Acceptance Testing (UAT) of these systems. Customer representatives will also receive focussed training on all new GTAC IT systems and processes. We intend to complete a post-implementation review of GTAC systems.

Key project / matter	Description
<b>Preparing for a Customised Price-Quality Path (CPP) application</b>	<p>Firstgas intends to submit a CPP application for its gas transmission business to cover the period 1 October 2022 to 30 September 2027. The primary driver of the CPP application is completion of the pipeline realignment near Mangapukatea (White Cliffs) in north Taranaki (which requires a step-change increase in capital expenditure), although we will be looking across the business to ensure that expenditure levels are both efficient and fit for the future energy sector needs.</p> <p>This year we will engage with our customers on the high-level scope of our CPP application as we work towards a draft application. Several other topics described in this engagement plan also link to our CPP application since they will form part of the rationale and context for the expenditure proposed in our CPP.</p>
<b>Cost-reflective pricing</b>	<p>As part of consultation on the GTAC pricing methodology for 2019/20 several stakeholders asked about our longer-term strategy for transmission pricing. While our immediate focus is on maintaining price stability for GTAC implementation, we acknowledge that a longer-term view is desirable for industry on the direction of travel for transmission prices and how any changes (such as the closure of a major gas load) would be managed.</p> <p>We consider that work on developing cost-reflective pricing for the transmission system needs time and consultation with stakeholders. We need to understand stakeholder views on the scope of cost-reflective pricing, to what extent pricing should be cost-reflective, and how quickly prices should move towards this goal. We propose to commence consultation on this issue in late 2020 and develop the work over 2021 in time for our proposed CPP application by 30 September 2021.</p>
<b>Major capital projects to address geohazards</b>	<p>Firstgas is currently completing several large capital expenditure projects that address geo-technical risks on the gas transmission system. The Commerce Commission has engaged independent engineering consultants AECOM to review how Firstgas manages these risks, and we intend to engage with customers on the final published report. Firstgas also engaged Advisian to prepare a report<sup>3</sup> on our handling of the defect on the Maui gas transmission pipeline at Pariroa.</p> <p>We will also continue to update our customers on the status of risks and activities at the following three sites (as well as any other sites where risks emerge):</p> <ul style="list-style-type: none"> <li>• Pariroa</li> <li>• Gilbert Stream</li> <li>• Mangapukatea (White Cliffs)</li> </ul>
<b>Future of Gas</b>	<p>The energy system in New Zealand is changing with a growing focus on decarbonisation, decentralisation and digitalisation. These changes will have profound impacts on how energy is produced, transmitted and consumed. Firstgas has a strategic interest in ensuring that gas and gas pipeline infrastructure remains relevant and valuable in New Zealand's energy mix and we are working with energy users and government stakeholders to better understand gas' role in the energy future.</p> <p>We are keen to ensure that our customers are engaged in the various activities and workstreams that we believe help to retain a future focus for gas. These include the hydrogen Provincial Growth Fund (PGF) pipeline trial led by Firstgas, as well as other initiatives to explore the use of complementary fuels such as biogas. We are also actively in discussion with government officials about the gas specifications, and amendments that may be needed to enable future lower carbon fuels.</p>

<sup>3</sup> <https://firstgas.co.nz/news/tick-of-approval-for-first-gas-handling-of-maui-pipeline-defect/>

Key project / matter	Description
<p><b>Planned and unplanned interruptions to gas supply</b></p>	<p>Firstgas will proactively engage with all customers and stakeholders on any planned or unplanned disruption to gas supply.</p> <p>Firstgas has Crisis Communications Plan, alongside our Emergency Operations Plan, that sets out the steps that we will take and our approach to communications during an emergency. We are also guided by the processes established for a Critical Contingency, as specified in the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) and communicated by the independent Critical Contingency Operator (CCO). We note that the GIC runs yearly critical contingency exercises to ensure all parties in the gas sector have the necessary processes and communication plans in place.</p> <p>Our engagement and learnings from the Pariroa project will also guide our communications on any future planned interruptions to gas supply.</p>

Firstgas will also endeavour to coordinate our engagement and consultation with work underway by our two regulators – the Gas Industry Company and the Commerce Commission. We have reviewed this plan against the proposed work programmes for both regulators and keep both agencies up to date with all key workstreams through regular catchups and briefings.

## 6. When will we engage?

We appreciate that the issues above cover a significant area and it is therefore important to phase our engagement on these topics throughout the year. We encourage a continuous dialogue with our customers, while we also understand that some of our customers will be more interested in certain issues than others.

### 6.1. Major gas users

Meeting	Items proposed to discuss
September 2019	Engagement plan, 2019/20 Asset Management Plan and deep dive on risk management framework
December 2019	Major capital projects to address geohazards
March/April 2020	TACOS training (TBC), CPP high-level summary, VoLL
June 2020	CPP key issues and approach to customer engagement, future of gas
September 2020	Transmission pricing

### 6.2. Shippers

The focus for the year will continue to be on implementation of GTAC and testing of the required IT systems.

Month	Items proposed to discuss
September 2019	Engagement plan
October 2019	Static demo of TACOS system
December 2019	TACOS UAT (to be rescheduled)
January 2020	TACOS UAT (to be rescheduled)
March/April 2020	CPP high-level summary, VoLL
June 2020	Future of Gas, CPP key issues and approach to customer engagement
From September 2020	Transmission pricing and cost of service model

### 6.3. Gas distribution business and gas producers

We have historically had less engagement with GDBs and gas producers. We see the major issues of relevance to these parties this year as being:

- **GDBs:** Continued engagement on delivery point ICAs, interconnection fees, Value of Lost Load at a distribution area, any planned interruptions, and our CPP application.
- **Gas producers:** Gas information disclosure (transparency of planned and unplanned outages) and gas quality. These workstreams are being led by the Gas Industry Company (GIC) and timeframes will be determined by the GIC. There will also be engagement on GTAC ICA's and other relevant GTAC agreements.

## 7. How will we engage?

We plan to use a range of different approaches to engage with our customers, including:

- **Regular meetings.** We regularly attend quarterly Major Gas User Group meetings and find these valuable in sharing our ideas and hearing directly from major gas users on high priority issues. We intend to continue to use presentations and discussions at quarterly MGUG meetings to advance the consultation items presented in this plan.
- **Workshops.** The GTAC process has involved an extensive number of stakeholder workshops since that process was launched in 2016. Industry workshops will continue to provide a good avenue for sharing information widely and gauging industry views on the topics relating to gas transmission.
- **Presentations and briefings.** Over the past few years we have scheduled several ad hoc presentations to update stakeholders on specific issues. For example, in late 2017 we gave a presentation to industry on implications of the Refinery to Auckland pipeline (RAP) outage for gas transmission. We will continue to make use of industry presentations and briefings as required to communicate on specific topics.
- **Bilateral meetings.** We regularly meet one-on-one with various customers and stakeholders of the gas transmission. We find these meetings to be a good opportunity for parties to ask questions of relevance to their business or operations that might not be applicable across a broader audience. Bilateral meetings can also be a good chance to address commercially sensitive issues that are not appropriate to discuss in industry meetings.

## 8. Providing feedback on this plan

This is the first time that Firstgas has prepared an engagement plan, and we see this as an important part of maturing our approach to customer engagement. We welcome feedback on this customer engagement plan throughout the year.

Please provide feedback or suggestions on this plan to any of the Firstgas team listed below.

Name	Role	Email	Phone
Ben Gerritsen	GM Commercial and Regulation	<a href="mailto:Ben.Gerritsen@firstgas.co.nz">Ben.Gerritsen@firstgas.co.nz</a>	(021) 911946
Stuart Hylton	GM Asset Management and Transformation	<a href="mailto:Stuart.Hylton@firstgas.co.nz">Stuart.Hylton@firstgas.co.nz</a>	(027) 607 2158
Karen Collins	Regulatory and Policy Manager / CPP Project Manager	<a href="mailto:Karen.Collins@firstgas.co.nz">Karen.Collins@firstgas.co.nz</a>	(027) 472 7798
Pamela Caird	Transmission Commercial Manager	<a href="mailto:Pamela.Caird@firstgas.co.nz">Pamela.Caird@firstgas.co.nz</a>	04 830 5310