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14 September 2007



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Ian Dempster  
Gas Industry Co  
Level 9, State Insurance Tower  
1 Willis Street  
PO Box 10-646  
Wellington  
New Zealand

Dear Ian,

### **Gas Outage and Contingency Management Arrangements**

Thank you for the opportunity to provide comments on the August 2007 statement of proposal.

Methanex is in general agreement with the approach that the combination of regulations and industry formulated OCMPs is likely to deliver the most satisfactory outcome. Attached are our comments on the specific questions posed by the GIC and the following are our thoughts on some of the key principles and other matters not addressed in the attached comments.

#### **1. Formulation of OCMPs**

The OCMPs are the key element in the handling of a contingency situation. We believe the process to establish and approve the OCMPs needs further clarification.

Section 8.12 of the Statement of Proposal states that the proposed framework allows *“industry participants to reach agreement, through a consultative process, on the way the detailed arrangements will be implemented.”* We agree that the OCMPs should ideally be agreed between the TNO and those industry participants that will be most effected by a contingency event.

Firstly, the regulations should specifically state that TNO's are required to consult with all the Major Users on their system.

Secondly, whilst the proposed drafting requires the TNO to consider submissions made on their proposed OCMP, there needs to be further consideration of what happens in the situation that the TNO does not reach agreement with the Major Users. The GCO, expert advisor and industry body are constrained in their approval of the plan to considering compliance with regulation 24 and the stated purpose of the regulations. It's possible that an OCMP could be in compliance with these at the same time as having rejected reasonable concerns raised by industry participants.



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Given that the OCMP is such a key part of the contingency arrangements, there needs to be an opportunity for the affected industry participants to have a greater say in the event that agreement is not reached amongst the parties. There should also be some process for Major Users to comment on the OCMP of other TNO's, to ensure that there is consistency in approach.

## **2. MPOC Arrangements**

The MPOC includes provisions for dealing with a reduction in the supply of gas from any given source. The contingency arrangements should only come into play as a last resort and should not come into play until it is clear that the existing MPOC provisions are incapable of dealing with the loss of gas supply from a particular field.

With this in mind, the ability of the GCO to declare a contingency prior to the pipeline pressure or linepack limits being triggered needs to be limited to circumstances where it is clear that the MPOC provisions will be incapable of avoiding the limits being breached.

## **3. Contingency Price**

The process for setting the contingency price could be improved by agreeing that a certain floor price will apply during any contingency. This will help ensure that suppliers have the incentive to maximize gas supplies as early as possible in a contingency situation. We propose that the floor price be set at \$10/GJ and that this is reviewed by the industry expert from time to time.

## **4. Minimal Load Consumer**

The proposal to set a time limit on a consumer being classified as a minimal load consumer is inappropriate. It will be totally impracticable for many minimal load consumers to make alternative arrangements and these consumers must be allowed to shut down plant in a controlled manner.

## **5. Curtailment Bands**

The review of the curtailment bands must require the industry body to consult with all Major Users. The drafting of regulation 33(4) currently doesn't require this.

Yours sincerely



Phil Watson  
Commercial Manager, NZ

## Appendix A: Recommended Format for Submissions

To assist the Gas Industry Co in the orderly and efficient consideration of stakeholders' responses on switching and registry cost allocation, a suggested format for submissions has been prepared. This is drawn from the questions posed in the body of this Statement of Proposal. Respondents are also free to include other material on switching and registry cost allocation in their responses.

Submission prepared by: Methanex NZ Ltd, Phil Watson

QUESTION	COMMENT
Q1: Do you agree the four problems described in this section are key issues needing to be addressed in any new arrangements for outage and contingency management?	Generally yes, although we don't agree with some of the points made under the heading "NGCOP is not suited to the post-Maui era."
Q2: Are there other key problems with the current arrangements which also need to be addressed?	N/C
Q3: Given the difficulties in assigning penalties for non-compliance under a pan-industry agreement and, therefore, the inability to ensure a high-level of compliance, do you agree that the only reasonably practicable alternative to the proposal is a more fully prescribed regime incorporating the detailed arrangements for contingencies in regulations and/or rules?	Yes.
Q4: Do you agree with the proposed regulatory objective?	It's not clear to us the reasons for specifically including the words "without compromising long-term security of supply", where there are other factors that equally should not be compromised.
Q5: Do you agree that the net benefits of the proposal are materially higher than the net benefits of the counterfactual?	Yes.

<p>Q6: Do you agree that the proposal has the potential to address the key problems identified with the current arrangements?</p>	<p>Yes.</p>
<p>Q7: Do you agree with the proposed definition of a Gas Contingency? If not, what would you propose?</p>	<p>Yes.</p>
<p>Q8: Do you agree with the list of responsibilities given to the GCO?</p>	<p>Yes, subject to the recognition that the GCO should, except in exceptional circumstances, be acting in accordance with the agreed OCMF.</p>
<p>Q9: Do you agree that the GCO should be provided with some flexibility to take action that it considers necessary to ensure the effective management of a gas contingency?</p>	<p>Yes, but only in exceptional circumstances.</p>
<p>Q10: Do you agree with the split between the planning role for the TNO and the communications plan role for the GCO? Do you agree that an industry expert should assist the GCO in the process to approve the plans?</p>	<p>Yes. There needs to be a process for a user to ensure that a TNO has taken proper account of the views voiced by the user in the consultation and submission process (see comments in covering letter).</p>
<p>Q11: Do you agree that the existing NGOCP curtailment bands should be updated: a) To distinguish large consumers supplied from the transmission system that have an alternative fuel capability, from those that do not have an alternative fuel capability? b) To combine the existing NGOCP bands B, C and D into a single band? c) To establish the category of minimal load consumer?</p>	<p>(a) Yes, provided that those parties that are able to switch to alternative fuel are compensated for doing so. See comments on question 14.  (b) Yes.  (c) Yes. Some of the drafting relating to minimal load consumers needs editing to make it clear that it applies to the Major Plant band. The 3<sup>rd</sup> bullet point in section 9.33 of the Statement of Proposal implies that the minimal load concept doesn't apply to the Major Plant band.  In regulation 42(5)(a) the word "would" in lines 2 and 3 needs to be replaced with "could". The use of "would" is too high a test.</p>

<p>Q12: If you agree with the provision for the category of minimal load consumer, do you consider these arrangements should be designed in such a way as to encourage such consumers to make alternative arrangements wherever practicable, for example by making the classification for a consumer time-limited?</p>	<p>The time-limit on a consumer being classified as a minimal load consumer is not appropriate. For many minimal load consumers it will not be practicable to make alternative arrangements and for these consumers it is necessary to continue to provide for a managed shut down of plant. We note the wording in the regulations does not allow for the "wherever practicable" concept, but even if it did allow for this concept we do not consider it appropriate. It raises the question of what are the criteria and who is going to determine what is practicable. It should be left to the consumer to determine the practicality of installing alternative fuel capability.</p> <p>The following sections of the regulations should be deleted: 42(1)(b); 42(3)(c); 42(5)(c); 42(6)(b)</p>
<p>Q13: Do you agree that the proposed contingency cash-out price will provide incentives for commercial arrangements to be put in place to maximise upstream production during a GC?</p>	<p>Not necessarily. There's total uncertainty as to what the price outcome will be. See comments to question 14.</p>
<p>Q14: Do you agree with the proposed criteria for setting the contingency price? Are there any other prices that the expert could usefully reference to determine the contingency price?</p>	<p>No. The gas or electricity wholesale market price in the 7 days leading up to the contingency is very unlikely to have any bearing on the value of gas during a contingency. Whilst the industry expert is required to disregard pricing if it is not representative of the true value of gas during a contingency, the inclusion of these price signals is misleading.</p> <p>It would be helpful for a minimum price to be part of the price setting criteria. This would help avoid the possibility, however unlikely this might be, of too low a contingency price being set by the industry expert. This is important to ensure that the parties that are forced to shut down, or switch fuel, during a contingency receive at least some level of compensation for contracted gas supplies diverted elsewhere. It would also provide much greater certainty to gas suppliers who may be able to increase supply rates during a contingency event.</p>
<p>Q15: Do you agree that the proposed scheme to calculate imbalances using existing industry processes is workable? If not, what adjustment would be required?</p>	<p>N/C</p>

<p>Q16: Do you agree with the proposal to have the contingency cash-out pool administered by the GIC? What period should be given to parties for payment of invoices issued by the contingency cash-out pool?</p>	<p>N/C</p>
<p>Q17: Do you agree with the proposed communications process shown in Figure 2?</p>	<p>Yes, although the information flow should generally be two way.</p>
<p>Q18: Given that any exposure under a service provider agreement is likely to be reflected in the price, do you agree that GCO liability under the service provider contract should be limited in the manner proposed?</p>	<p>Yes.</p>
<p>Q19: Do you agree with the proposed approach to allocating the costs associated with administering the outage and contingency management arrangements?</p>	<p>It would be simplest and appropriate to allocate costs in exactly the same manner that GIC administration costs are allocated.</p>