MAJOR GAS USERS GROUP

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30 June 2016

Dear James

RE: DPP Quality Measures for GTBs

This note is a follow up to the Wellington meeting on 24 May 2016 discussing potential quality measures for Gas Transmission Businesses (GTB) as part of the Commerce Commission's work on DPP reset. Although the Commission did not specifically request formal submissions on possible quality measures, meeting participants were encouraged to forward any ideas that might assist the Commission develop a draft determination for quality measures.

There appears to be wide industry support for a GTB quality measure that focuses on security and reliability. To that end the Gas Industry Company (GIC) has also developed a discussion paper on the topic and requested that submissions be received by 10 June. MGUG has made such a submission which we attach for your background information.

MGUG is conscious there are a number of measures that constitute the broader topic of security and reliability and these are reported under various disclosures including under the Information Disclosure Regulations. It is not our intent to duplicate these or impose additional burdens on suppliers by suggesting activities they wouldn't otherwise be naturally undertaking as a Reasonable and Prudent Operator.

From an end user perspective (and for other stakeholders, including the GTBs themselves), we believe a relevant and critical measure for reliability should be one that captures impacts of unreliability that are *material* or critical to all stakeholders including wider public and economy impacts. The most easily captured measure of ultimate failure of reliability is whether a failure of pipeline integrity management led to a Critical Contingency Management (CCM) event triggering supply curtailment. The CCM regulations already establish definitions of CCM and provide an unambiguous measure to link into the DPP reporting.

By itself counting the number of CCM events related to pipeline failure is not an indicator of materiality. Consumer impacts will vary by location, duration, season, and whether the event was planned or unplanned. For example a complete multi-day unplanned outage on both the Maui and Vector pipelines during the winter will have a different impact to a planned similar duration event at the end of the Bay of Plenty line.

Our suggestion therefore is that suitable lagging measures for reliability encompass both the concept of criticality as defined by a CCM event, and its overall impact measured by duration and scale.

The following lagging measures are proposed in the table below, and our reasoning for the metrics is as follows:

1. Supply curtailment due to asset failures is undesirable and should be managed to avoid. Hence target is 0.
2. If there is a curtailment, the impact of curtailment should be managed to be as low as reasonably practical (from a wider stakeholder perspective). For transmission system or substantial subsystem failures affecting whole regions and important industries 48 hrs is a suggested duration limit. A key principle in setting this limit is to balance the wider stakeholder costs of failure (including impacts to the wider economy resulting from a failure) with the investment that the supplier might need to make on behalf of stakeholders in terms of prevention and mitigation. This would need some discussion as to what constitutes efficient investment for the industry as a whole.

	Lagging Indicators	**Target**	**Comment**
1.	# CCM supply curtailment and potential curtailment (near miss) events caused by pipeline integrity failures.	0 pa	Common measure to address consequential losses (economic, environmental, social) across a range of stakeholders
2.	Duration of CCM supply curtailment with wide system or substantial subsystem impacts caused by pipeline integrity failures. (Significant Event)	<48 hrs	Continuous curtailment period should not exceed 48 hrs. NB this encourages consideration of temporary repairs for unplanned events in order to allow for a planned shutdown period at a time that causes least disruption to other stakeholders.

These lagging indicators measure impact of failure. More importantly, assurance that these incidents are altogether avoided, is through the management systems provided by the Supplier, particularly in their Asset Management Program. For the purposes of seeking an assurance as well as a desire to keep the reporting simple MGUG would propose the following as leading indicators.

	Leading Indicators	**Target**	**Comment**
1.	Pipeline Integrity Management Plan Score Card compliance	100%	Scorecard details below this table
2.	Planned time to repair for Significant Risk Event	<48 hrs	Measured by the schedule of the contingency repair plans. (see further explanation below)

Pipeline Integrity Management Plan (PIMP) Scorecard

The PIMP is assumed to be part of the operator's annual Asset Management Plan (AMP). We would propose that a scorecard measure would be based on the following components:

Risk identification

- Supplier seeks and includes external stakeholder input in its risk identification process in each AMP/ PIMP update.
- Supplier has publicly disclosed a list of significant integrity threats and locations (Significant threats include those that have the potential to lead to supply disruption/ curtailment)
- The number of integrity threats classified as extreme or high (i.e. classed as unacceptable under the risk management framework) on Supplier risk register[1] = 0

Risk Treatment

- Supplier has matched significant threats with description of risk treatment controls and has publicly disclosed these. (see for example Table 3 ASME B31.8S)
- Supplier's program compliance with identified controls to prevent, detect, and mitigate significant risks = 100%

Audit

- % adherence to internal/ external audit schedule = 100% (with audit type and frequency disclosed in the PIMP)
- The number major audit non-conformance identified and not rectified in accordance with audit schedule (e.g. immediately) = 0

The planned time to repair a significant risk event is a complementary measure and requires contingency repair plans to be in place by the Supplier in order to ensure that actual repair times will meet the limits of the lagging indicator. These plans should be a routine part of the AMP and therefore auditable.

We would be pleased to explain these points further should you wish to seek further clarifications.

Yours sincerely

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Secretariat for the Major Gas Users Group

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[1] In context, an unacceptable risk would be one that causes a CCM event with greater than 48hr or 120hr duration.