

Tricia Jennings
Project Manager, Gas DPP reset 2017
Regulation Branch
Commerce Commission
PO Box 2351
Wellington
(via email to regulation.branch@comcom.govt.nz)

31 March 2017

Dear Tricia

RE: Submission Gas DPP 2017-Gilbert Stream.

1. This submission is on behalf of the Major Gas Users Group (MGUG). It is in response to the Commission's updated draft decision to bring First Gas Transmission Gilbert Stream project into First Gas' ARR capex category as an additional expenditure allowance. Nothing in this submission is confidential.
2. MGUG supports the Commission's decision and the purpose of this submission is to provide further evidence to Strata's findings on industry consultation (Q1.2) and economic impact of pipeline failure (Q1.4)¹.

Industry Consultation

3. MGUG can confirm that First Gas (FG) provided an overview of its risk management approach to AMP development with particular reference to geo-hazard risks on the Maui pipeline including White Cliffs and Gilbert Stream. The presentations were given by FG at MGUG's quarterly meetings on 28 July 2016 and 22 November 2016 in Wellington.² FG attendance and presentations were at MGUG's invitation as part of a general update on topical items of interest that form part of a regular agenda for the quarterly meetings.
4. FG explained its approach to risk identification, the monitoring that it was doing on land movement and erosion and why Gilbert Stream was a more immediate priority than White Cliffs remediation.
5. MGUG considered FG's approach to Gilbert Stream to be prudent and justified within the context of consumer concerns for security and reliability of gas delivery.

¹ Gas DPP reset 2017 Strata recommendations following additional First Gas evidence 21 March 2017.pdf

² FG also presented to MGUG on its approach to geohazard risk as recently 23 March 2017.

Economic Impacts

6. MGUG supports the conclusions on the likely economic impact of a pipeline failure at Gilbert Stream and that a suitable comparison is provided by the actual failure that occurred at Pukearuhe in October 2011 which prompted the MBIE study on quantification of broader potential economic impacts.
7. We appreciate Strata's preference for a probability based risk assessment to quantify costs against benefits in order to arrive at a business case justification of the expenditure. However we would submit that the decision to invest \$8.6 million to safeguard a possible economic loss of between one to two orders of magnitude greater than the investment can be made on a "balance of probability" argument – i.e. the decision is justified if the probability of failure is greater than between 3-10%. In Gilbert Stream's case failure in the short term, in our opinion, seems more likely than not (greater than 50%). To the extent that this investment mitigates not just against economic loss but also avoids unquantified household disruption and facility health, safety and environmental risks we are satisfied that the project is likely to be justified.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R Hale', with a stylized, cursive script.

Richard Hale/Len Houwers
Hale & Twomey Ltd/Arete Consulting Ltd
Secretariat for the Major Gas Users Group