

Quarter ended 31 March 2014

## FROM THE CHIEF EXECUTIVE

Two current reports speak to key themes for the New Zealand gas industry – gas’s role in the context of climate change and our preparedness for commercialising a significant new gas find.

The recently-released United Nations Intergovernmental Panel on Climate Change (IPCC) report urging a move away from fossil fuels to renewable energy to avoid a ‘global warming catastrophe’ makes for sobering reading.

The findings of the IPCC Working Group<sup>1</sup> – which reflect analysis of 1,200 climate change scenarios, and the work of 235 authors, 180 expert contributors and 38 review editors from 57 countries – show that global emissions of greenhouse gases have risen to unprecedented levels despite a growing number of policies to reduce climate change. It is a call to move away from business as usual and is becoming increasingly influential for a range of public and private decision-makers.

I was given a first-hand example of the magnitude of the global challenges during a trip to Indonesia last month. Indonesia is working to improve its energy supply to meet growing demand, including by connecting citizens on around 7,000 inhabited islands to basic electricity supply. Indonesia’s policies include subsidies to promote energy affordability, promoting energy self-sufficiency and use of energy to support economic growth. This will see a much greater use of coal in electricity generation, which partly reflects the fact that Indonesia will not have enough gas to meet its own needs in future.

The IPCC report highlights that greenhouse gas emissions from energy supply can be reduced significantly by replacing current world average coal-fired power plants with modern, efficient natural gas combined-cycle power plants or combined heat and power plants, provided that natural gas is available and the fugitive emissions associated with natural gas extraction and supply are low or mitigated. In this way, natural gas can act as a bridge to lower-carbon fuels. The IPCC’s proviso is that gas itself should be eventually phased out.

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<sup>1</sup> Climate Change 2014: Mitigation of Climate Change, prepared by the Working Group III (WGIII) as a contribution to the Fifth Assessment Report of the IPCC. Available at <http://www.ipcc.ch/report/ar5/wg3/>

...from Page 1

Gas substitution for coal-fired generation and more harmful fossil fuels in other applications is already occurring in countries like the United States, enabled by “unconventional” shale gas which is contributing to what the International Energy Agency has referred to as the “golden age of gas”.

New Zealand is fortunate to be already among the world’s leaders in renewable electricity generation, thanks largely to its hydro and geothermal resources, and the expanding fleet of wind generators. But, for electricity supply security, and the diversity of New Zealand’s overall energy sufficiency, gas will continue to have an important role in this country’s energy supply mix for the foreseeable future.

Gas Industry Co has taken the consistent view that, as a fossil fuel, natural gas is part of the global debate on climate change, environmental sustainability and the resulting drive towards greener economies. Such considerations are part of Gas Industry Co’s strategy of “optimising the contribution of gas to New Zealand”. An important current example is in relation to Auckland City’s work in developing its new strategies, objectives and actions through a draft *Low Carbon Auckland Plan*. Gas Industry Co’s recent submission on this Plan, supported by a number of industry participants, acknowledged the Council’s goals around a “liveable low carbon future” and the importance of energy supply to that. However, we emphasised the crucial ongoing role of gas for the region’s homes and businesses. Gas can help achieve the Council’s goals, because it competes well against electricity in terms of price and carbon footprint on such key applications as domestic heating and hot water.

The ‘bridging’ role envisaged for gas, and its continuing importance in supporting New Zealand’s economic wellbeing, brings a sharper focus onto this country’s current gas resources, the potential for finding substantial new fields, and how the industry and the country would deal with a major new find. For example, would a large offshore South Island gas find be exported as LNG, or would national considerations support its delivery into the domestic market? Any exported New Zealand gas could become a contributor to the international efforts to reduce coal reliance.

There are, of course, no guarantees that there will be major new New Zealand discoveries; but with the intensive petroleum exploration efforts we are now witnessing – involving some 100 wells in the period of a year or so – the rewards of success can’t be discounted. Gas Industry Co believes it is important that the industry and its stakeholders are having conversations now in anticipation of either outcome, in order to stay ahead of the game.

Accordingly, Gas Industry Co has commissioned the second report referred to above from John Kidd of Woodward Partners. This examines commercialisation issues, opportunities and challenges in the event of a substantive gas-rich exploration success in New Zealand. It draws on recent international experience of significant gas finds and discussions with a number of industry stakeholders. Key challenges include whether an offshore gas discovery could be marketed domestically and how domestic prices could be impacted if the gas market became export-linked. John Kidd will launch and present his report at Gas Industry Co on 13 May, which stakeholders are welcome to attend.

Further work is in development on these issues at Gas Industry Co. Concept Consulting is updating the [December 2012 Gas Supply and Demand Report](#) – a scenarios based assessment looking out to 2027 - to refresh our understanding of how fundamental aspects of the industry are shaping two years later. In a follow-up study, Concept will look further at the “high case” scenario, coinciding with John Kidd’s discussion of a substantial new gas find. Concept’s focus will be on how the New Zealand market could develop to use such a find. New Zealand faced a similar challenge in the 1960s and 70s with the discovery of Maui at a time when we had only a tiny domestic market. But the opportunities and challenges in the 2020s will be very different.

Gas Industry Co will continue to take a lead in developing thinking around these issues.

Steve Bielby  
Chief Executive

## Industry Performance Highlights

This Quarterly Report includes Gas Industry Co’s regular *Industry Performance Report* (**page 8**). Highlights are:

- Consistent with patterns in previous years, switching has increased in the past three months. The switching rate for the 12 months to March 2014 is 17.8 percent.
- About 75 percent of switches are completed within seven business days.
- 46 percent of residential customer sites have switched retailer at least once in the past five years; 62 percent of small commercial and 70 percent of large commercial sites have switched at least once.
- Average annual unaccounted-for gas (UFG) is about 1.1 percent.
- Genesis remains the largest retailer by customer share; it is also the largest retailer in the residential customer market. Nova Energy has the largest share of commercial and industrial customers.
- The Herfindahl–Hirschman Index (HHI) for the gas market in all regions has become less concentrated in the past five years due to new retailers entering the market and smaller retailers increasing their market shares.
- Nova and OnGas continue to be the largest retailers by volume, reflecting their focus on the industrial and commercial sectors of the gas market. Nova also has a presence in the residential gas market.
- With the entry of Trustpower in late 2013, nine retailers are trading at a number of gas gates. About 98 percent of gas customers are connected to a gate where at least six retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.

## Final Recommendation supports MPOC Change Request

Gas Industry Co has confirmed its Draft Recommendation in support of a Maui Pipeline Operating Code (MPOC) Change Request, submitted by Maui Development Limited (MDL) on 14 February 2014 ([14 February MPOC Change Request](#)), relating primarily to MDL buying and selling gas to manage linepack as part of the system balancing process. Submissions on the Draft Recommendation closed on 11 April 2014 and Gas Industry Co's [Final Recommendation](#) was issued following the end of the Quarter.

The 14 February MPOC Change Request attracted nine submissions. These are summarised and analysed within the Draft Recommendation. The Change Request seeks to develop and clarify previous MPOC Change Requests, in particular concerning:

- trading hubs and notional welded points (5 October 2009 Change Request) that received Gas Industry Co support and is adopted into the MPOC;
- back-to-back balancing (13 October 2011 Change Request), supported by Gas Industry Co, but yet to be adopted into the MPOC; and
- the tidying of various provisions (17 February 2014 Change Request), supported by Gas Industry Co and adopted into the MPOC.

Gas Industry Co considers many of the 'edits' to the MPOC proposed in the Change Request are straightforward, but agreed with submitters that other proposed changes go beyond a 'tidy up'.

It notes unease among some submitters about access to the balancing gas market, MDL's scope to set the terms for the purchase and sale of balancing gas, the treatment of balancing gas as a distinct product, and a lack of discussion about the direction of balancing arrangements.

Gas Industry Co notes that, in considering the 14 February MPOC Change Request, it is not assessing the overall efficiency of balancing gas arrangements, but whether the incremental changes proposed would move those arrangements closer to, or away from, Government policy objectives. It considered the proposed changes would better meet the objectives of the Gas Act 1992.

The Draft Recommendation analysed submitter concerns, and invited further comment on a particular concern they had about the relationship between the MPOC principles, and MDL's terms and conditions, for buying and selling balancing gas. The Draft Recommendation notes that the 14 February MPOC Change Request has given new focus to other longstanding stakeholder concerns. Gas Industry Co does not consider these to arise from the 14 February MPOC Change Request, but is considering how best to respond in its role as the industry body.

The Draft Recommendation attracted five submissions. Having considered these, Gas Industry Co has determined that, although some of the edits proposed by the 14 February Change Request raised valid concerns, these were not sufficient for the Change Request to be rejected "particularly when seen in the context of ongoing changes to the MPOC balancing arrangements as the balancing arrangements continue to evolve."

## GTIP update

### **Gas Industry Expert Working Group**

The Expert Working Group convened to develop the gas industry's response to the [Panel of Expert Advisers'](#) (PEA) recommendations for improved transmission access arrangements, has presented its first [quarterly report](#) to Gas Industry Co.

The report, for the quarter ended 31 March 2014, records progress in a number of areas. The Working Group has developed a work plan to focus efforts and priorities, and agreed a set of guiding principles as well as evaluation criteria for considering solutions to the issues raised by the PEA. Work Plan progress references the completion by Vector of a physical capacity determination on the Vector transmission pipeline, which will be reviewed annually, some short-term information transparency improvements to OATIS<sup>2</sup>, and agreement in principle to improve the Vector Transmission Code (VTC) change request process.

The Working Group believes focus on congestion management – which it describes as a necessary component of any solution- is the most effective step to making progress on capacity allocation.

A [presentation of congestion management options](#) was presented by the Working Group to an industry stakeholder workshop on 14 April 2014. It will take account of stakeholder feedback when evolving the detail of congestion management arrangements. The intention is that, once congestion management arrangements are in place, other components of the allocation ‘puzzle’ can be addressed.

The Working Group has full participation from VTC signatories as well as ‘good’ participation from Maui Operating Code (MPOC) signatories, including Vector Limited and Maui Development Limited (MDL).

It was convened by the industry following an invitation from Gas Industry Co to Vector and MDL to lead the industry’s response to recommendations in the PEAs [Second Advice Report](#), which calls for closer harmony between the VTC and MPOC through a process of ‘evolutionary convergence’ to meet the characteristics of a well-functioning transmission market. The PEA was established to provide Gas Industry Co with advice on transmission capacity access and pricing under the [Gas Transmission Investment Programme \(GTIP\)](#).

Meanwhile, Gas Industry Co is continuing to develop a counterfactual regulatory solution. Having issued the Options Paper, [Transmission Access: Options for Improvement](#), in December 2013, Gas Industry Co convened a workshop on 12 February 2014 to discuss and refine options for addressing the problems described by the PEA. The Options Paper presented six high-level options for stakeholder feedback, and set out a number of initial changes that are common to all of the options.

The [Analysis of Submissions](#) issued in May 2014 reveals general support for the initial changes proposed, but wide ranging views on the six options. Most submitters suggest consideration is given to combinations of the options and one submitter proposed an entirely new option involving contract carriage of gas for large users, and common carriage arrangements for all other users.

Further exploratory work on the options is required and Gas Industry Co intends to conduct another workshop prior to developing a further Options Paper, for possible release in the third quarter of 2014.

### **Potential demand management role in transmission capacity efficiency**

A study commissioned by Gas Industry Co sees merit in pursuing demand management as a means of maximising efficient use of gas transmission pipeline capacity during periods of high demand.

The [Investigation of Possible Scale of Gas Demand Management on the Vector North System](#), undertaken by Wanganui-based JT Consulting and issued by Gas Industry Co on 5 March 2014, looks at the possible extent of demand management among large gas users on Vector Limited’s North Pipeline.

Demand management, involving incentives for users to interrupt or curtail gas usage at times of high demand, is a means of managing pipeline congestion and is promoted by the PEA. The availability of both firm and interruptible transmission services on the Vector and Maui transmission is a central element of the PEA’s Second Advice Report.

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<sup>2</sup> Open Access Transmission Information System

The JT Consulting study included interviews with representatives of 15 large gas consumers, covering 24 sites, on the North Pipeline. Respondents generally indicated some interest in the possibility of interrupting or curtailing gas usage at times of high demand in exchange for compensation. Such a programme would depend on a number of factors, including meaningful incentives and ease of participation.

In aggregate, interview respondents reported an ability to curtail almost 11 percent of their average daily gas consumption. Extrapolated over all large consumers, curtailment of around 5 percent of the largest peak usage on the Rotowaro-North pipeline appears possible. Excluding electricity generation, the average possible curtailment by consumers is estimated at over 37 percent.

Industry stakeholders are invited to comment on the study which, with other lines of investigation, will feed into ongoing industry and Gas Industry Co consideration of transmission services market design options.

### **Bridge Commitments update**

The [Bridge Commitments](#) are a series of commitments made by the majority of shippers and aimed at addressing concerns about competition on the North Pipeline in the shorter-term, while longer-term solutions are developed. They have been in place since August 2011.

Gas Industry Co understands that firm capacity on the North Pipeline has not been fully allocated for the gas year commencing on 1 October 2013. There were no capacity offers on the Gas Transmission Exchange (GTX) during the quarter, and Gas Industry Co has received no reports of capacity availability constraining retailers' ability to respond to competitive tenders. Together, these factors continue to suggest there is no current shortage of capacity on the North Pipeline and that capacity issues are not impeding customer switching and competition.

## **Guidelines on regional critical contingencies**

Gas Industry Co has issued [Guidelines for Determining Regional Critical Contingencies](#) to assist the Critical Contingency Operator (CCO) in making a determination under the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) on whether or not a regional contingency exists.

CCM Regulations provisions for contingency imbalances – which provide for the settlement of inadvertent trading of gas during a critical contingency – do not apply to a regional contingency. It is for the CCO to determine whether a regional contingency, as defined by the CCM Regulations, exists. Two key circumstances must be present:

- there is a substantial reduction to, or total loss of, the supply of gas to a part of the transmission system; and
- there is complete or partial isolation of that part of the transmission system from any significant source of supply.

The Guidelines take the form of a series of scenarios designed to help the CCO make a determination in a live critical contingency.

Amended CCM Regulations took effect as scheduled on 1 March 2014 and the new Critical Contingency Operator (CCO), New Plymouth-based Core Group, formerly commenced the role on the same date.

## **Second assessment of gas distribution contracts**

The Independent Assessor, Elwood Law, has conducted the second review of gas distributors' contracts with retailers against principles under the [Gas Distribution Contracts Oversight Scheme](#) (Distribution Scheme). The outcome of the 1 March 2014 assessment is expected to be reported in late May 2014 following consultation with distributors and retailers on the preliminary findings.

The first assessment, conducted on 1 February 2013, yielded a technical 'nil' overall alignment of distribution contracts with the Distribution Scheme principles, as distributors had taken longer than expected to develop revised contract arrangements. However, there were positive indications at that time of progress with contract revisions. The voluntary Distribution Scheme is aimed at ensuring that core terms and conditions of distribution contracts are clear and reasonable, promote market efficiency and ultimately enhance consumer outcomes.

## Support for Retail Contract Scheme changes

Submitters have generally supported changes to the [Retail Gas Contracts Oversight Scheme](#) (Retail Scheme) proposed by Gas Industry Co. The five submissions received are detailed in a [Summary of Submissions](#) issued on 3 April 2014.

All submitters agree with the proposed purpose and scope of the Retail Scheme and there is full, or a very high level of unanimity in support of other changes proposed following Gas Industry Co's review of the Retail Scheme's first three years of operation. In that time, retailers' alignment with the Retail Scheme contract benchmarks improved significantly from 'Moderate' to 'Substantial'.

Matters raised by submitters have been minor and Gas Industry Co considers the industry to be supportive of the proposed changes. These include a move from annual to three-yearly assessments, a requirement for annual confirmation from retailers as to whether they have amended their standard published contracts, and the introduction of a set of Reasonable Consumer Expectations. Since the end of the Quarter, Gas Industry Co has provided its final advice to the Minister of Energy and Resources.

## New Zealand Gas Story Update

The *New Zealand Gas Story* has been updated – [2<sup>nd</sup> edition, April 2014](#) – to incorporate the latest statistical information disclosed by gas distribution businesses under the new information disclosure regime administered by the Commerce Commission. Also incorporated are recent developments in the wholesale gas spot market, with the renaming of Transpower's EmTrade to emsTradepoint, and a joint initiative between Transpower and the ASX (Australian Stock Exchange) to develop a New Zealand Gas Futures contract based on the emsTradepoint gas spot market.

## Interconnection reporting

In December 2013 Gas Industry Co updated the Minister of Energy and Resources on the arrangements that allow for interconnection to gas transmission pipelines. The advice noted that Gas Industry Co had reviewed two physical interconnections to the Vector pipeline to see how well its new interconnection arrangements were working. There had been no recent interconnections to the Maui pipeline, but several are understood to be in train. Gas Industry Co expects to be in a position to report on all these interconnections by the end of June 2014.

In the meantime, and as a separate matter, Gas Industry Co proposes reporting to the Minister on its review of the 'interconnection' of the gas trading markets. During 2013, the New Zealand Exchange (NZX) and Energy Market Services (EMS – now emsTradepoint – a commercial business group within Transpower NZ) negotiated with MDL to enable 'interconnection' of their gas trading markets. Following negotiations over the period March to September 2013, NZX concluded an Interconnection Agreement with MDL, while EMS did not. EMS chose instead to establish its market to operate on the Vector pipeline, which it was able to do without negotiating an interconnection agreement with Vector. Gas Industry Co will examine whether any policy issues arise from these developments.



# Performance Measures Quarterly Report for the period ending 31 March 2014

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## 1 Summary

This Report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of these measures is to track the performance of the Gas (Switching Arrangements) Rules 2008 (the Switching Rules), the Gas (Downstream Reconciliation) Rules 2009 (the Reconciliation Rules), and the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), both in terms of activity related to these statutes and the competitive outcomes that they foster. The Report also tracks transmission balancing actions, as a means of informing Gas Industry Co's work on this issue.

Explanatory details about the charts can be found in the Appendix to this report.

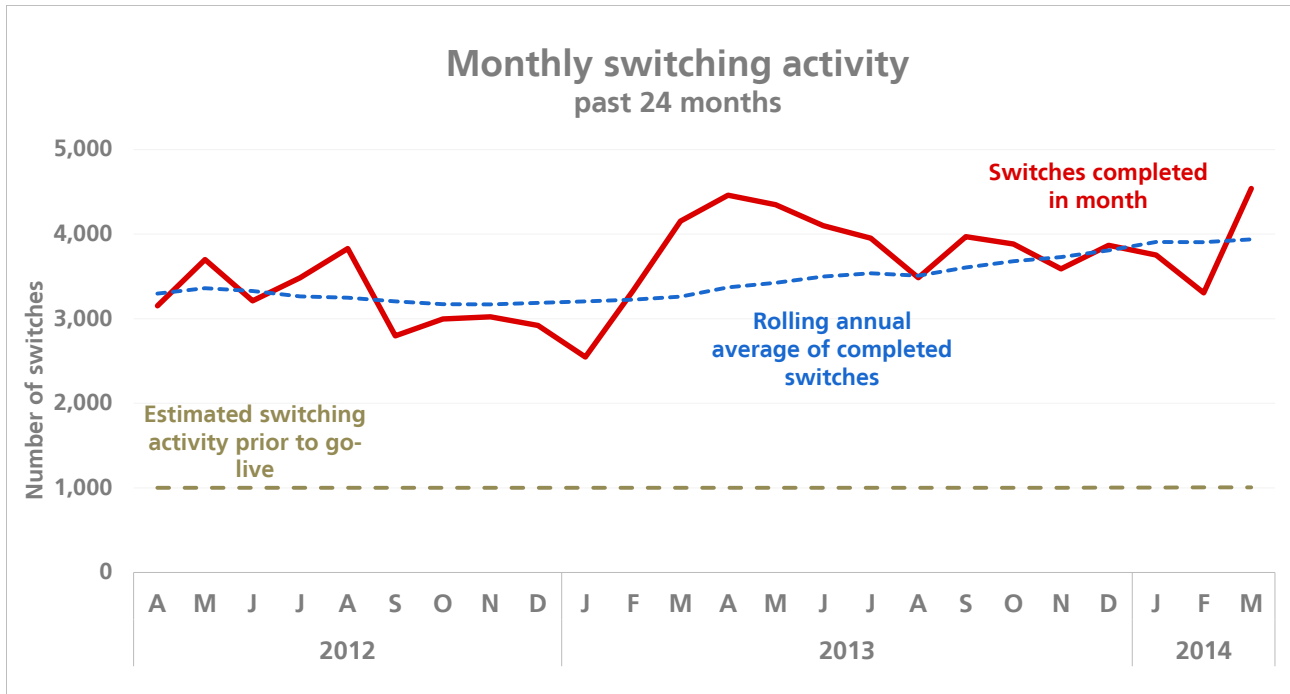
Highlights of the Report:

- Switching has increased in the past three months, consistent with patterns seen in other years. The switching rate for the 12 months to March 2014 is 17.8%.
- About 75% of switches are completed within seven business days.
- 46% of residential customer sites have switched retailer at least once in the past five years; 62% of small commercial and 70% of large commercial sites have switched at least once.
- Average annual unaccounted-for gas (UFG) is about 1.1%.
- Genesis is the largest retailer by customer share; it is also the largest retailer in the residential customer market. Nova Energy has the largest share of commercial and industrial customers.
- In all regions, the gas retail market has become less concentrated in the past five years, as measured by the Herfindahl–Hirschman Index (HHI), due to new retailers entering the market and smaller retailers increasing their market shares.
- In terms of market share by gas volumes, Nova and OnGas are the largest retailers, reflecting their focus on the industrial and commercial sectors of the gas market (although Nova also has a presence in the residential gas market).
- Due to the entry of Trustpower late in 2013, there are now a number of gas gates where nine retailers actively trade. About 98% of gas customers are connected to a gate where least six retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.



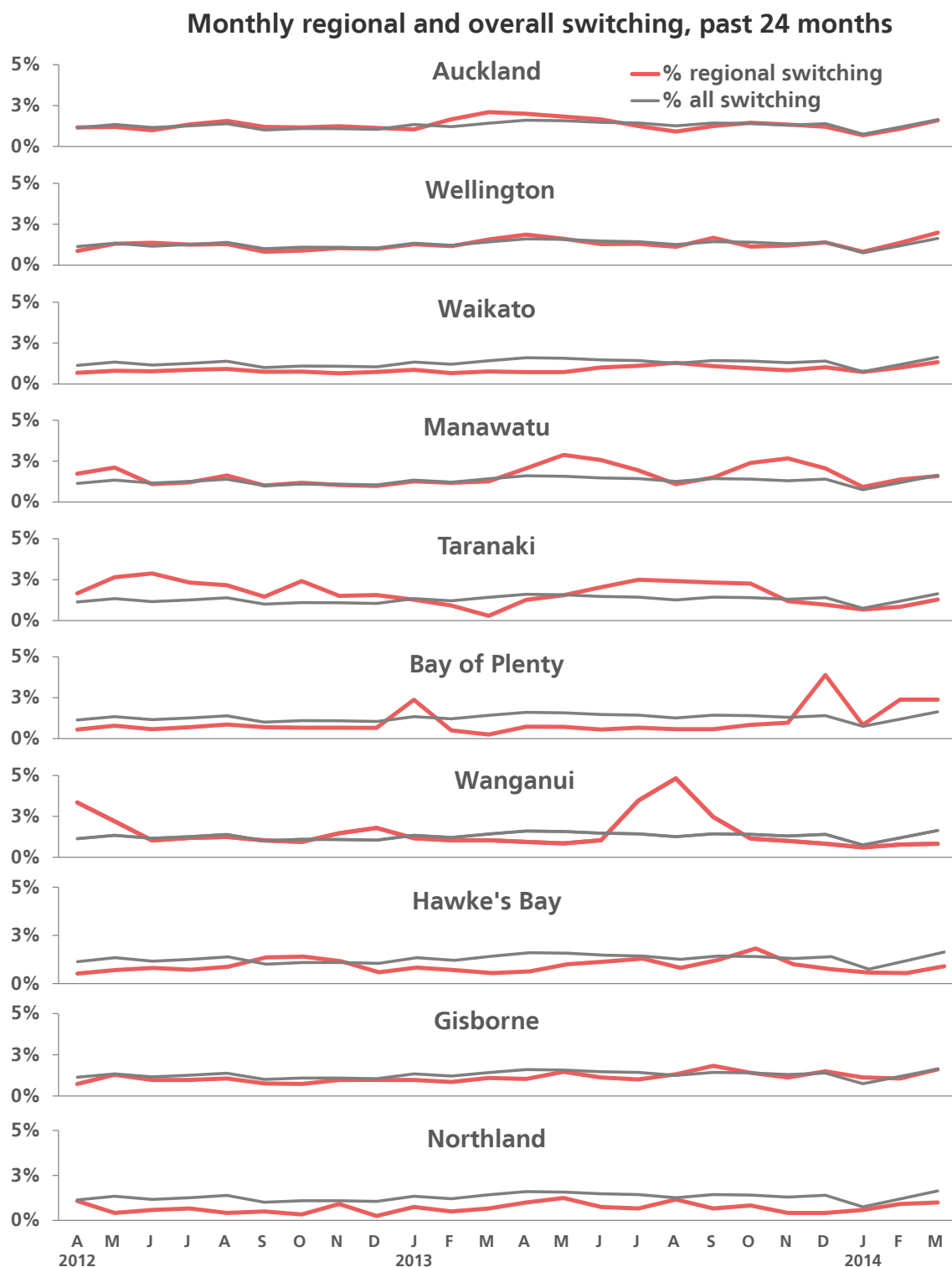
## 2 Switching performance measures

Chart 1: Monthly switching activity



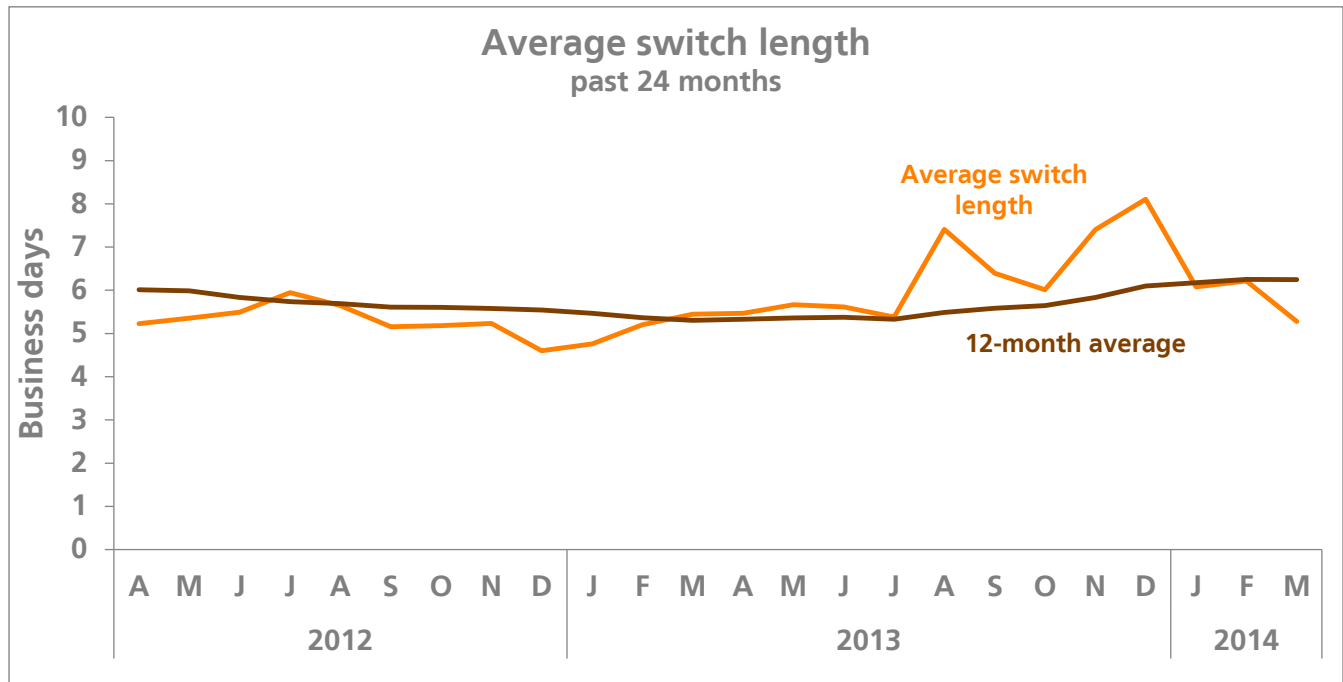
- The uptick in switching in the past three months is consistent with previous years' switching patterns.
- The churn rate for the 12 months to March 2014 is 17.8%.

Chart 2: Regional switching activity



- Higher than average switching rates in Bay of Plenty and Wanganui appear to be the result of targeted retailer campaigns.

Chart 3: Time to process switches



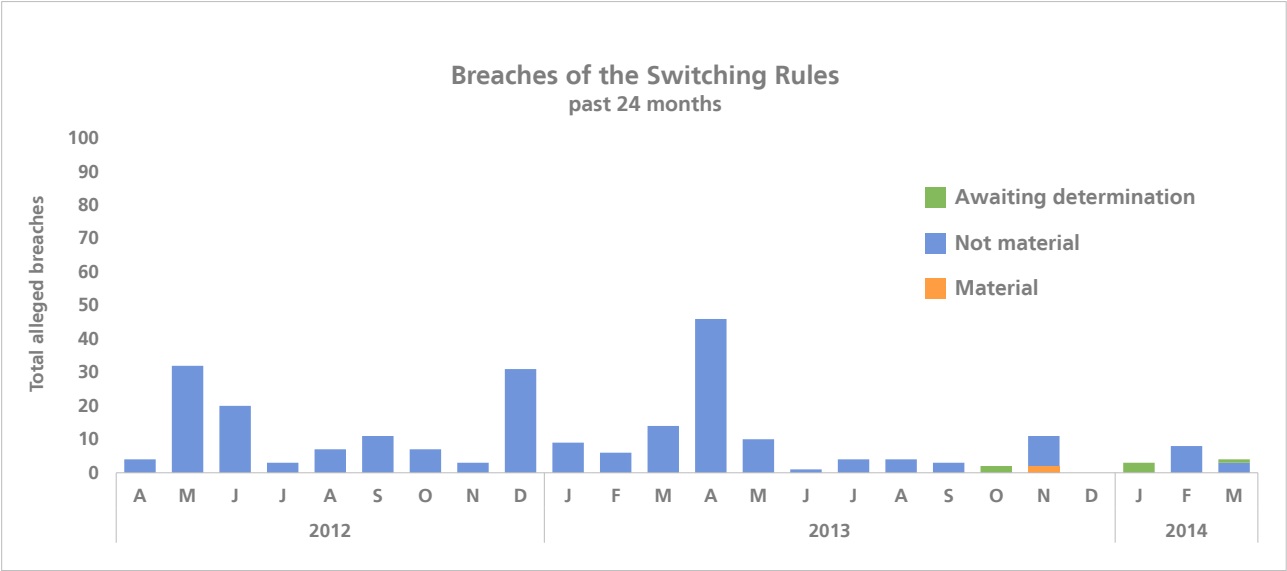
- Average switching time stands at about 6.3 days.
- The spikes in switching time in the second half of 2013 may be related to changes in the electricity registry and electricity retailers' systems, which could have had a follow-on effect on gas switching for dual-fuel retailers.

**Chart 4: Distribution of switching length**



- About 75% of switches are completed within seven business days.

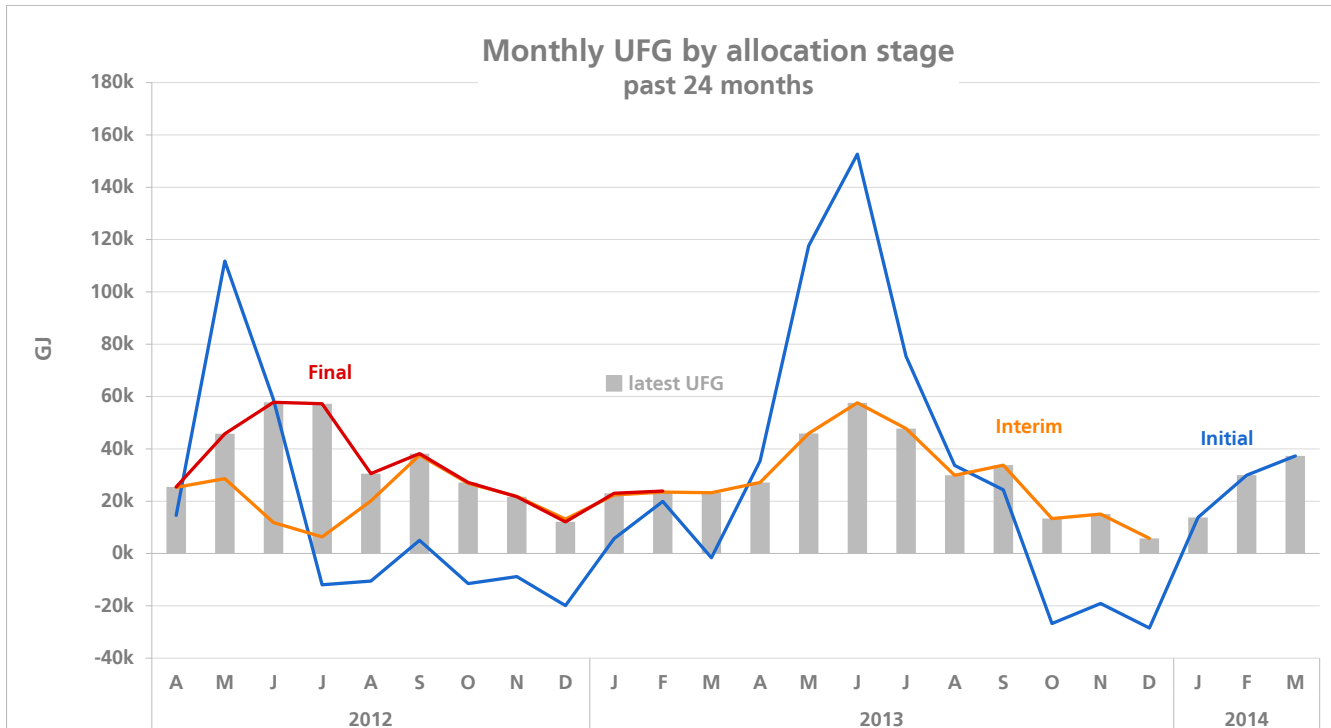
Chart 5: Number and severity of breaches of the Switching Rules



- There were 15 breaches of the Switching Rules alleged in the past quarter.

### 3 Allocation and reconciliation performance measures

Chart 6: Volumes of unaccounted-for gas (UFG)



- UFG was relatively low in the past three months, consistent with usual summer patterns.

Chart 7: Percentage of UFG

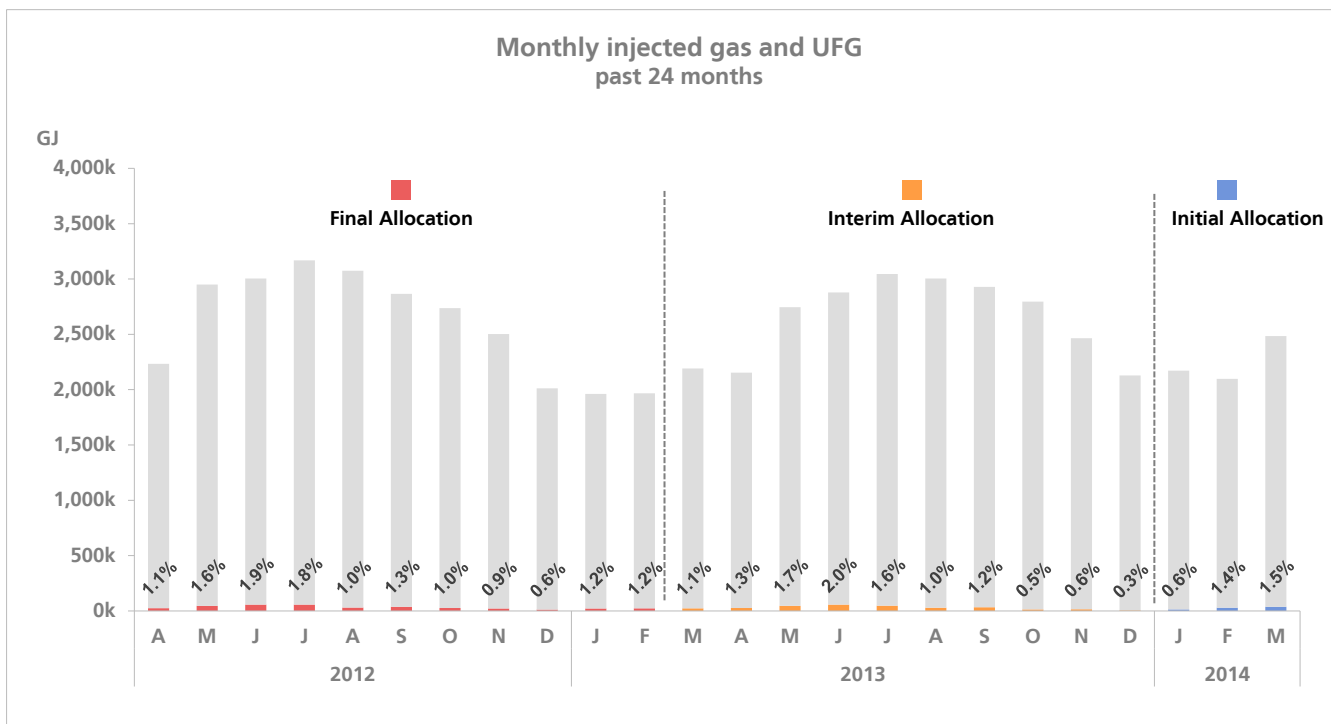
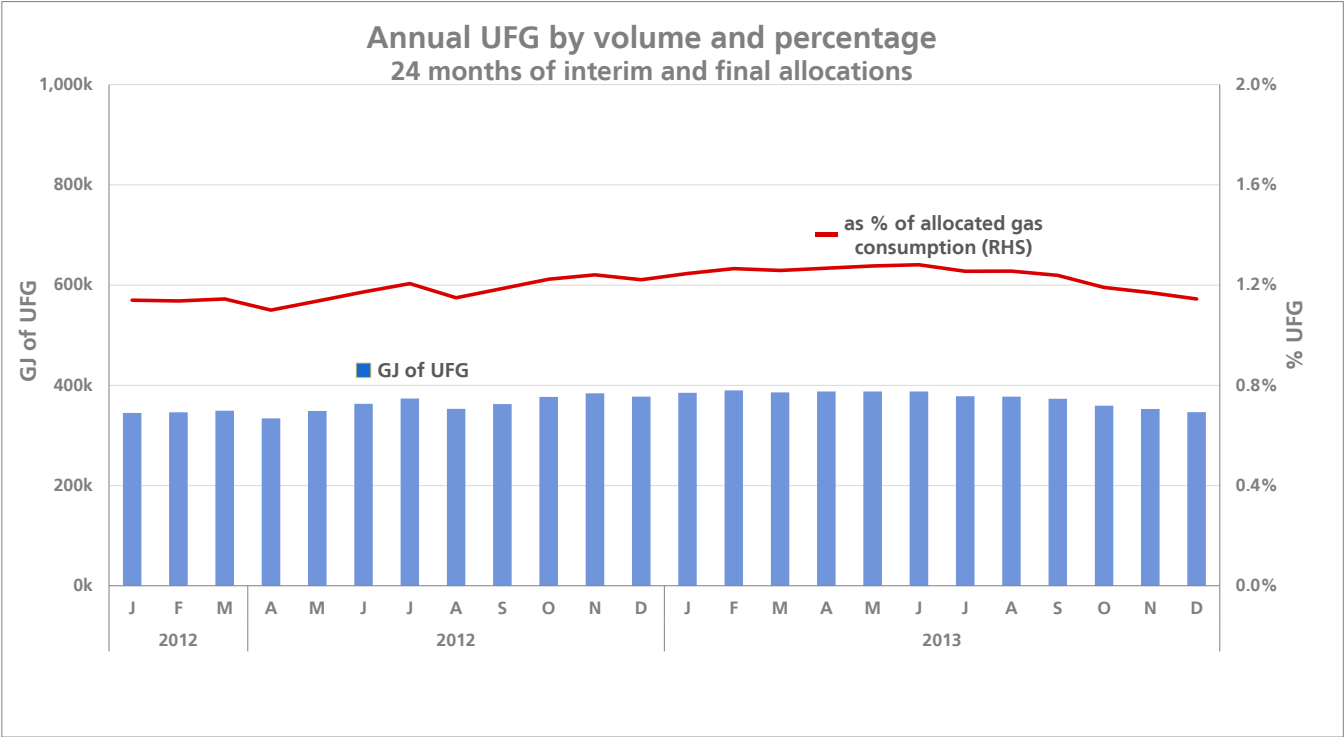


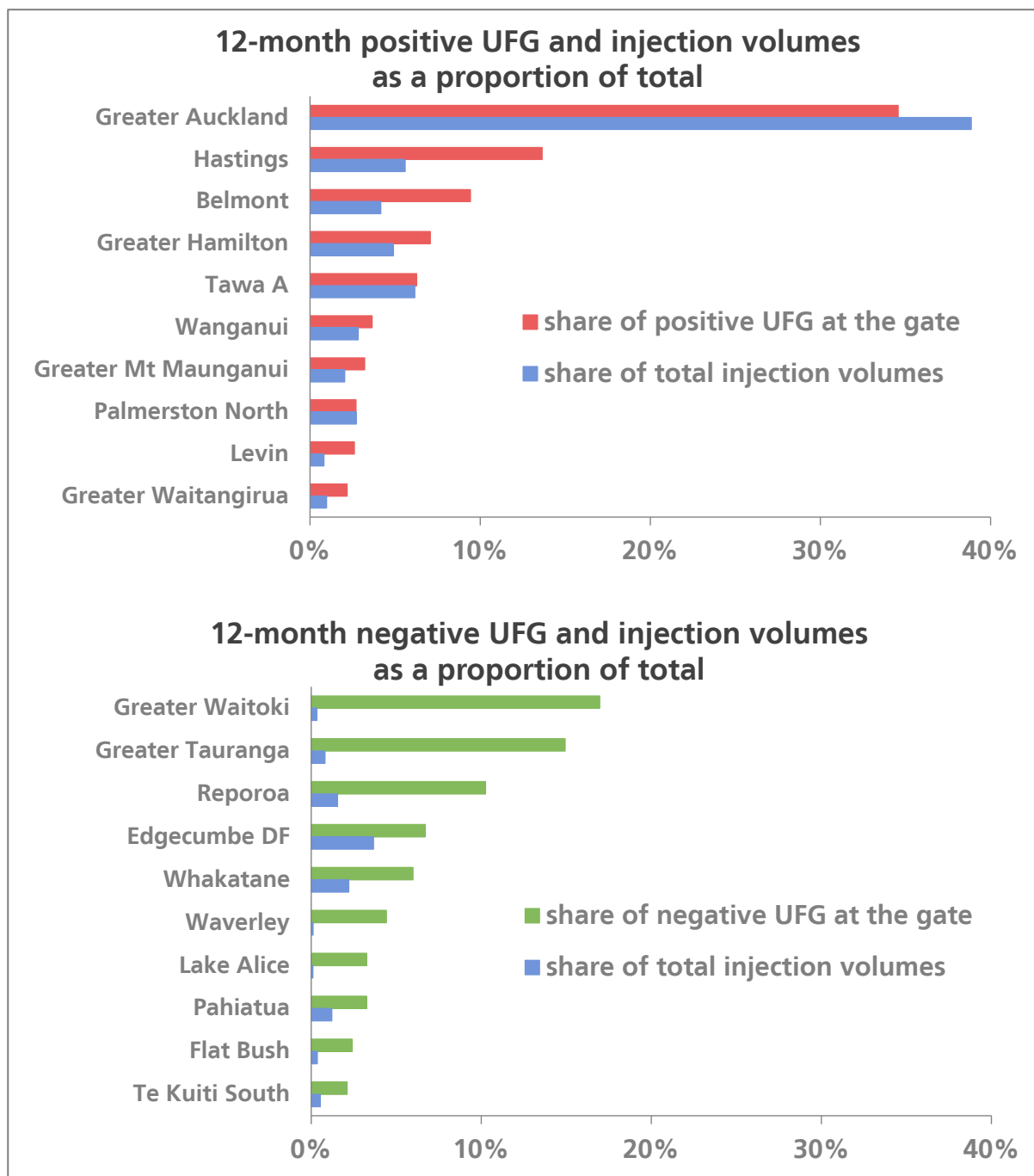
Chart 8: Rolling 12-month UFG



- Annual UFG stands at about 1.1%, using interim and final allocation data.



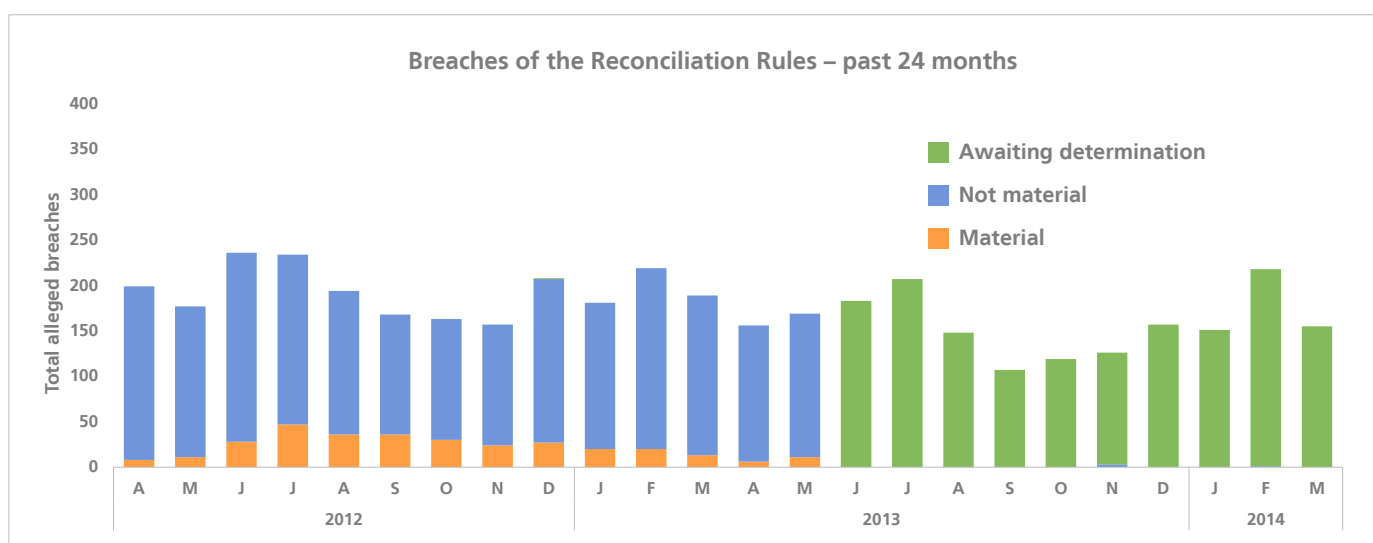
Chart 9: Gas gates where UFG is the highest



- These charts show the gates that experience the largest share of total UFG, compared to their share of total gas gate deliveries at shared gas gates. These charts use 12 months of the most recent interim and final allocation data available: in this case, January to December 2013.
- The 10 gates shown in the top chart account for 85% – about 364,000 GJ – of the positive UFG experienced over the past 12 months.

- The 10 gates shown in the bottom chart account for about 70% (about 58,000 GJ) of the negative UFG experienced in the past 12 months. Six of the gas gates shown – Edgecumbe DF, Waverley, Whakatane, Reporoa, Pahiatua, and Te Kuiti South – have been determined to be global one-month gates, since, among other things, they have a high proportion of industrial load. The global one-month methodology assigns a share of the actual UFG experienced in a month to industrial consumers, in contrast to the usual calculation method, which assigns industrial load an annual average amount of UFG. Use of this methodology commenced with the October 2013 consumption month.

**Chart 10: Number and severity of breaches of the Reconciliation Rules**



- Over 90% of alleged breaches of the Reconciliation Rules in the past year have occurred in relation to rule 37 – the rule that requires initial consumption information submitted by retailers to be within a percentage of accuracy of the consumption information submitted for the final allocation.
- It has proven efficient for the market investigator to attempt to reach settlements in yearly batches of rule 37 breaches. The previous batch, encompassing material breaches alleged from June 2012 to May 2013, was settled in August 2013.

## Audits commissioned

### Event audits

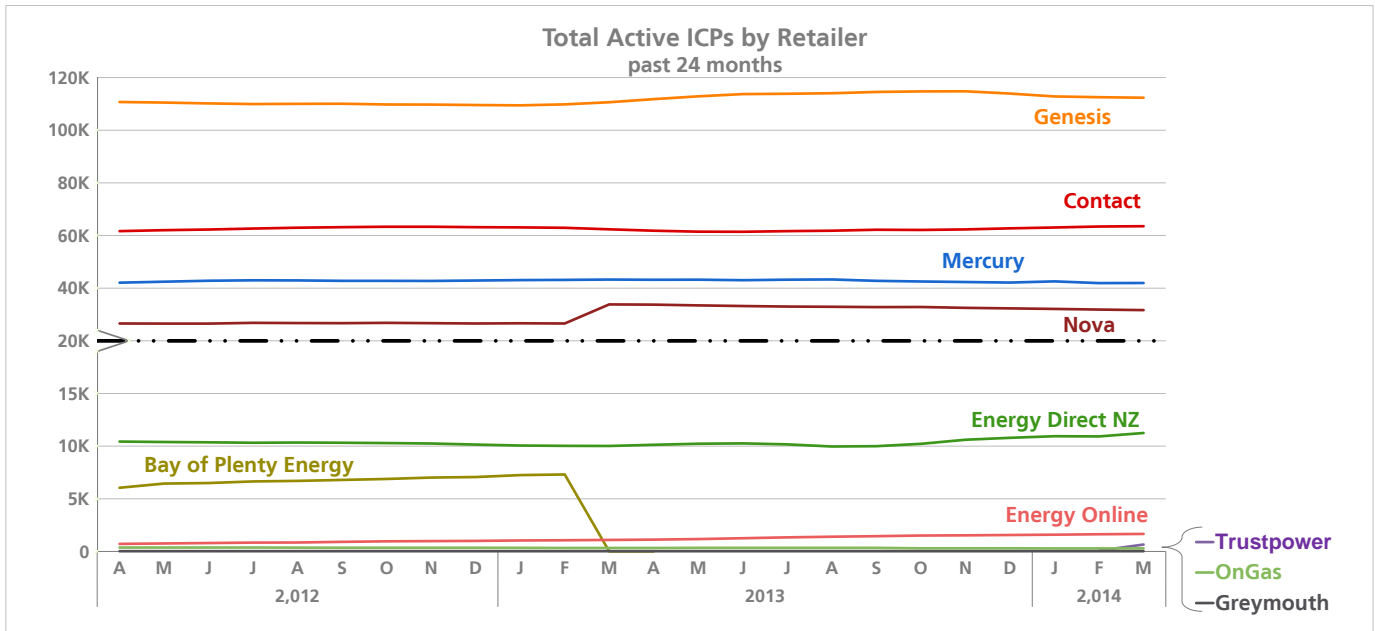
There have been no incidents requiring that event audits be commissioned in the past quarter.

### Performance audits

A second round of retailer performance audits has been commissioned under the Reconciliation Rules, but none are complete as of this writing.

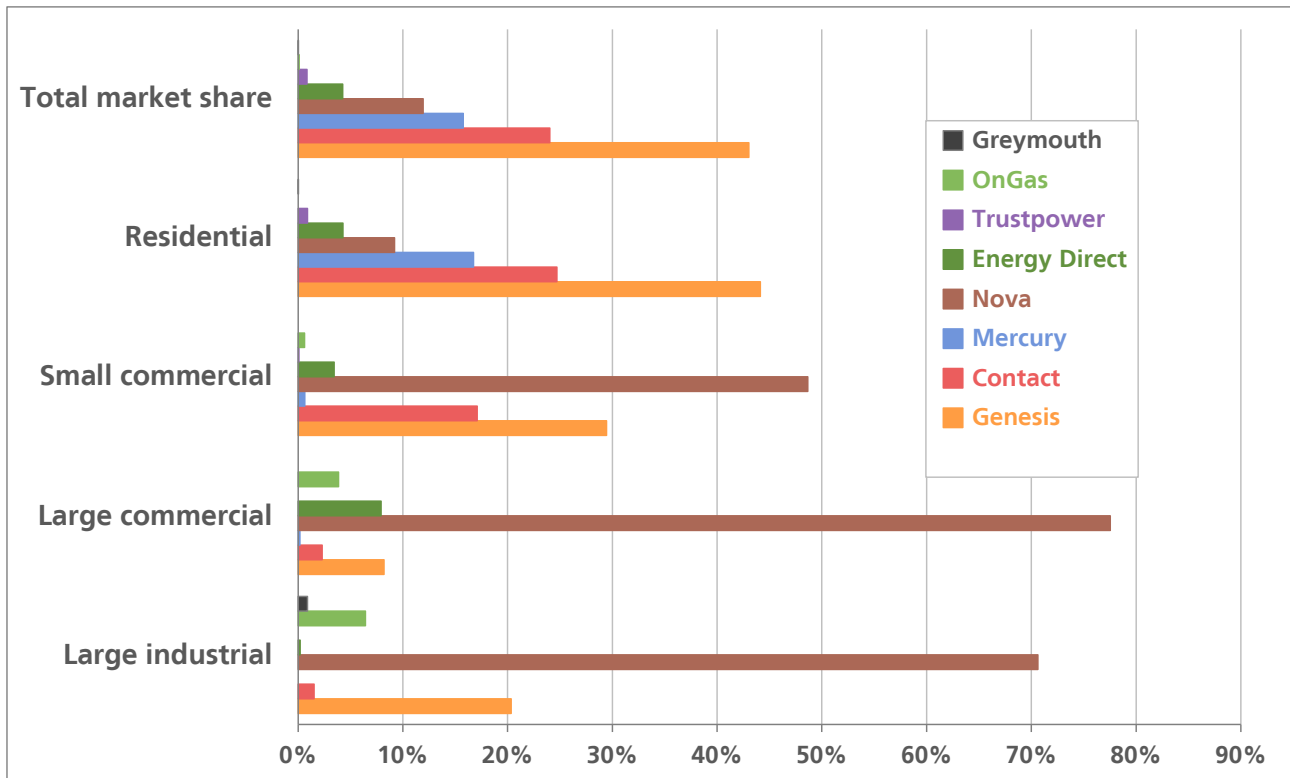
## 4 Market competition performance measures

Chart 11: Market share of ICPs by retailer



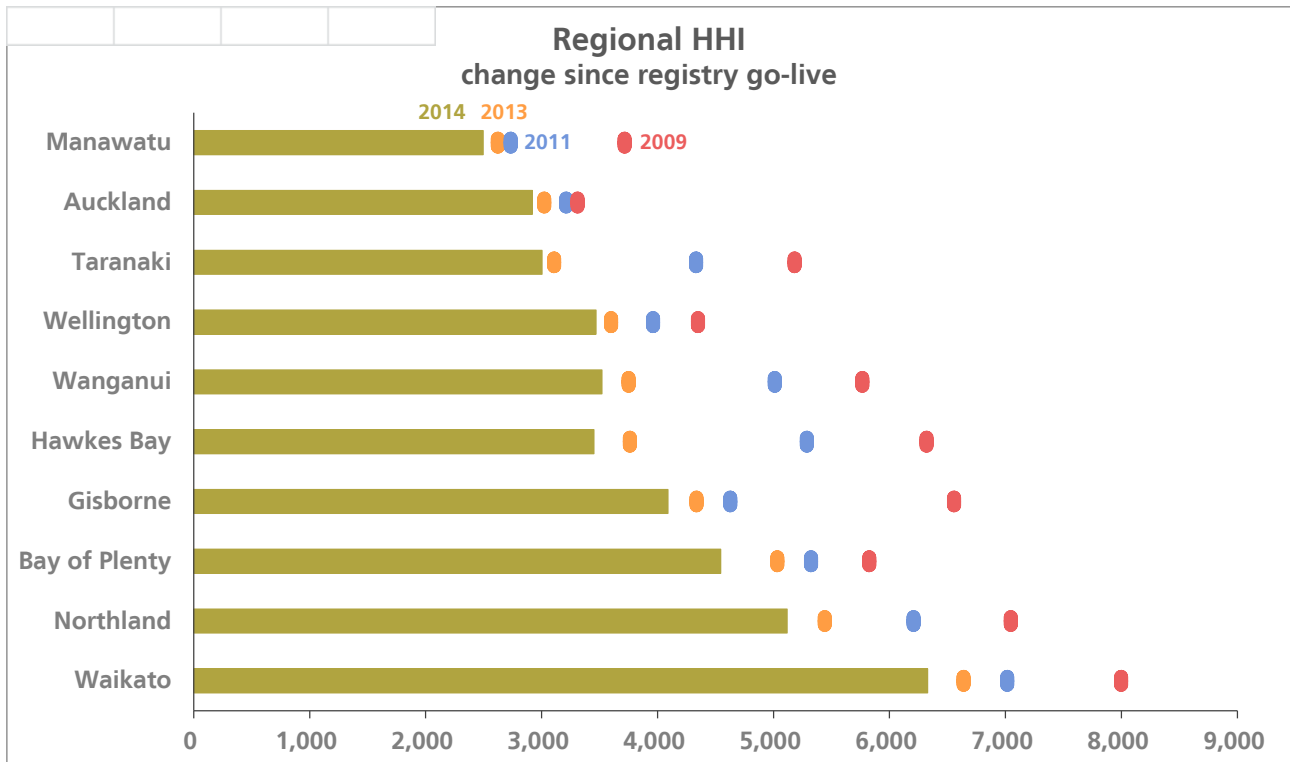
- In November 2013, Trustpower entered the retail gas market under its own brand, following the company's acquisition of Energy Direct in July 2013.
- There are now 10 distinct retail brands, owned by eight different retail companies (Energy Online is owned by Genesis Energy).

Chart 12: Market share by customer segment



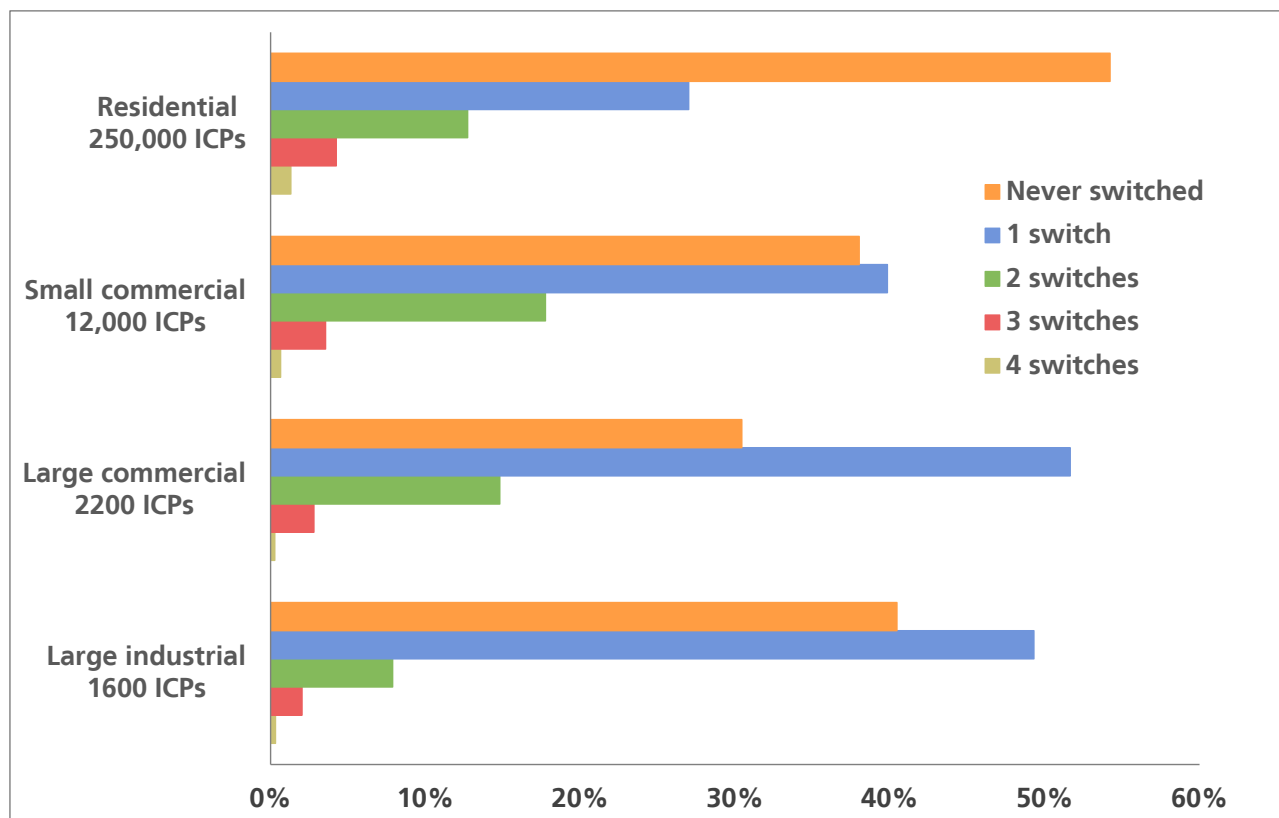
- Charts 11 and 12 show that Genesis has the largest share of customers overall and is the largest retailer in the residential customer market.
- Nova Energy has the largest share of commercial and industrial customers.

Chart 13: Herfindahl–Hirschman Index (HHI)



- Regional gas markets have become steadily less concentrated since registry go-live.
- The HHI has decreased in all regions since 2009, indicating that the retail market is becoming less concentrated.

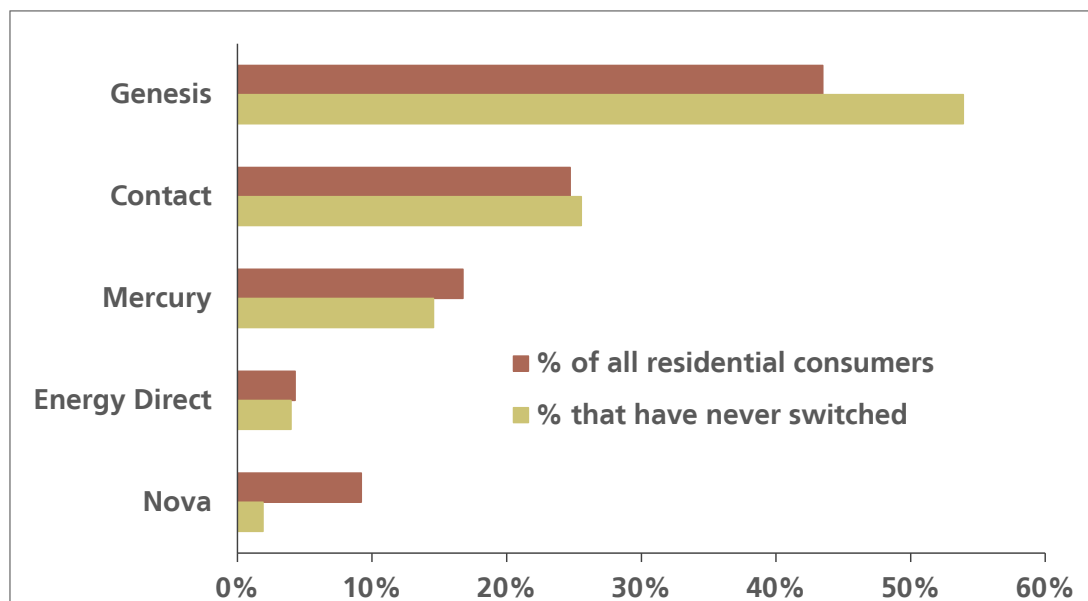
Chart 14: Switching by customer sites since 2008



- 46% of residential customer sites
- 62% of small commercial sites
- 70% of large commercial sites; and
- 60% of large industrial sites

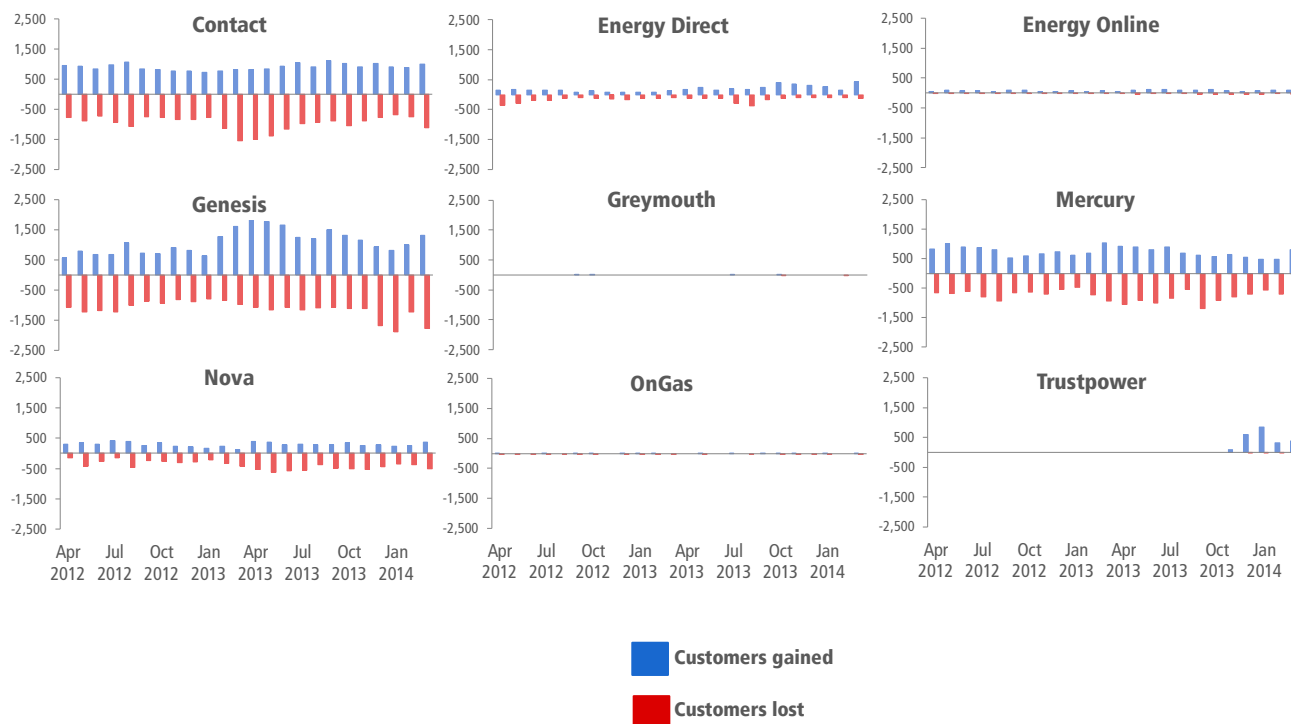
have switched retailer at least once in the past five years (since March 2009).

**Chart 15: Residential customer sites that have never switched**



- Of the 54% of residential consumer sites that have not switched retailer in the past five years, over half are Genesis customers – a proportion larger than Genesis’s market share of residential customers.

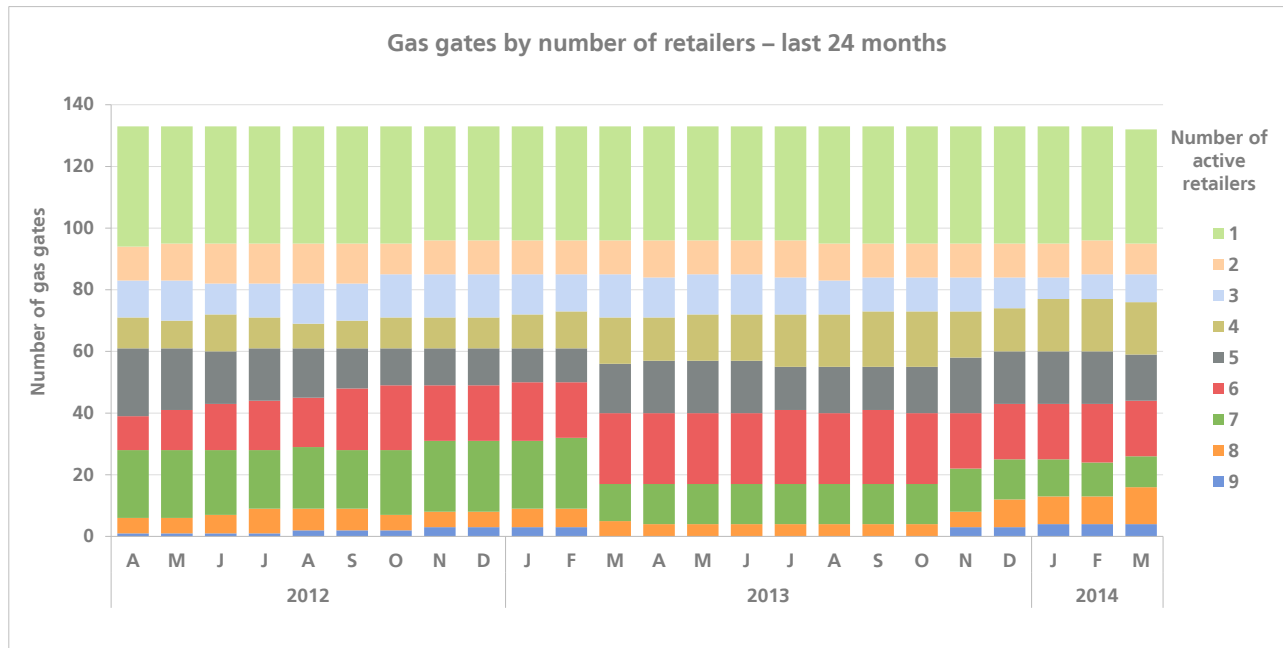
**Chart 16: Switching activity by retailer**



- Although market shares have been relatively stable over time, there is a lot of underlying switching activity.

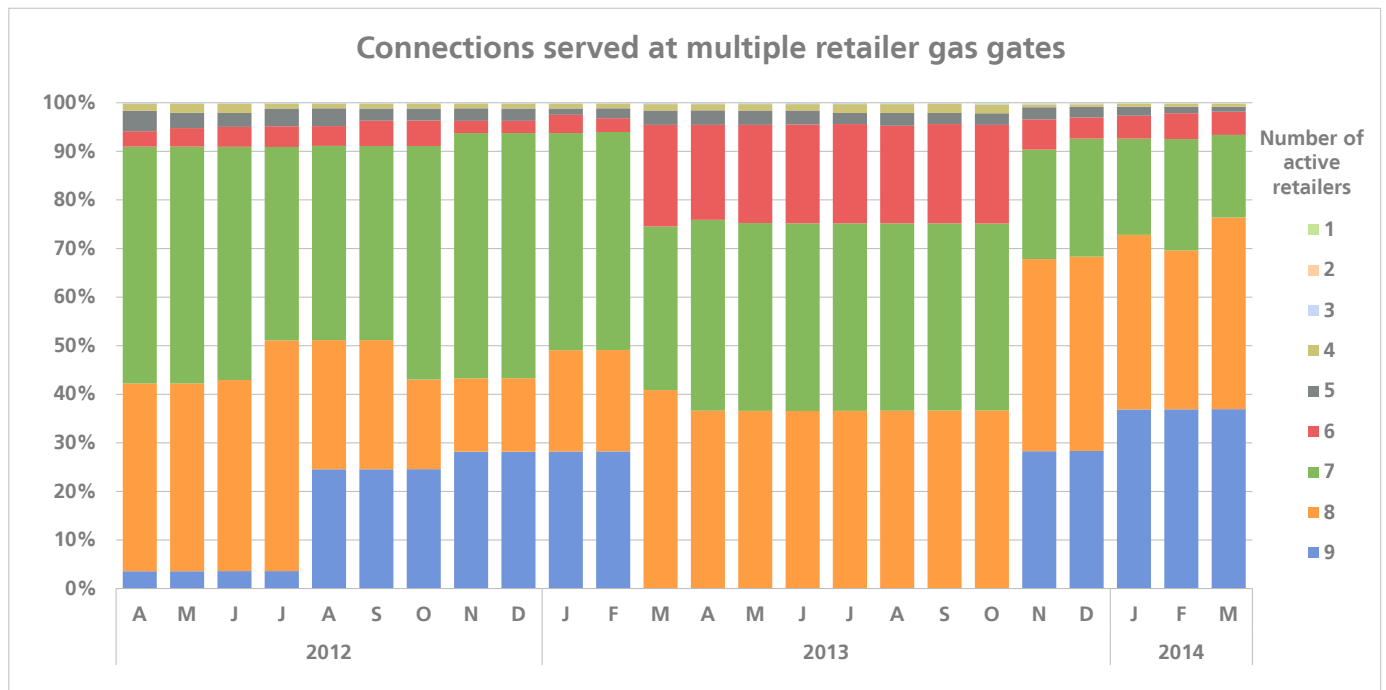


**Chart 17: Gas gates by number of retailers**



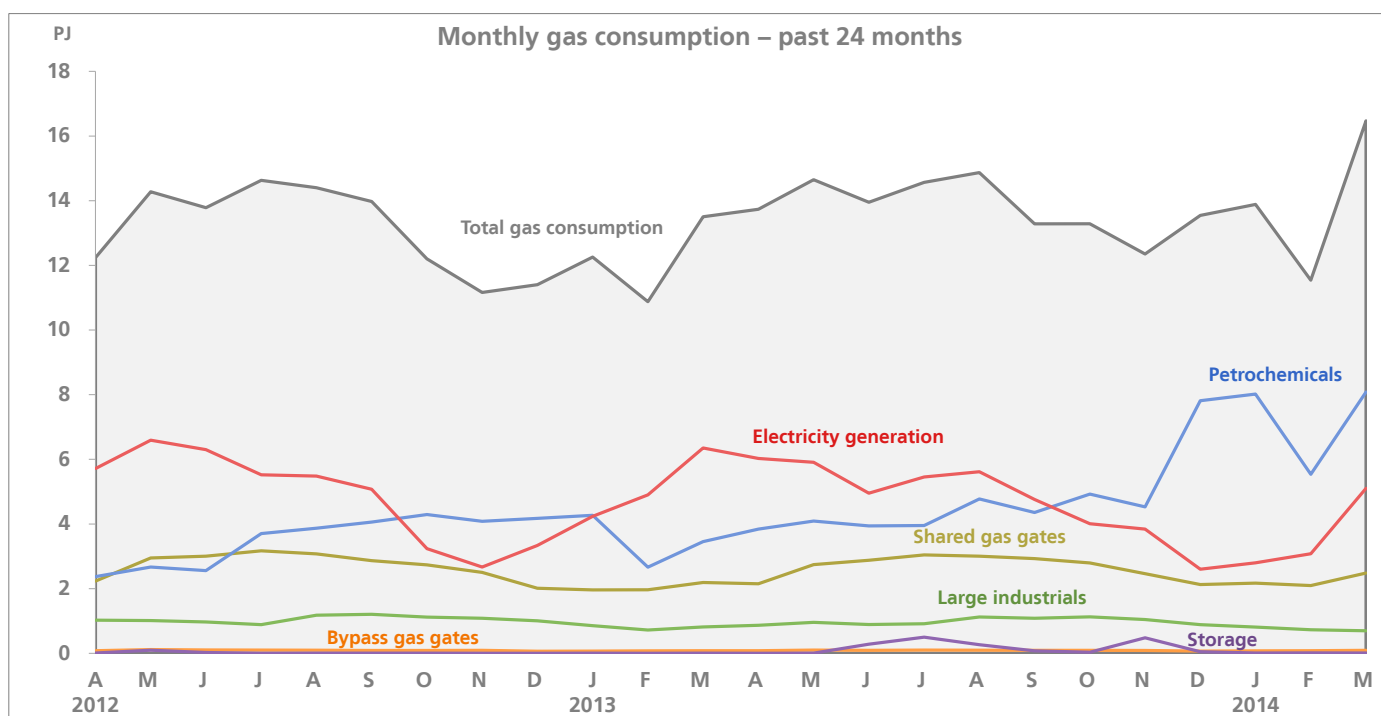
- Trustpower's entry into the retail gas market means that there are now nine retailers active at some gas gates.

**Chart 18: Connections served by multiple retailers**



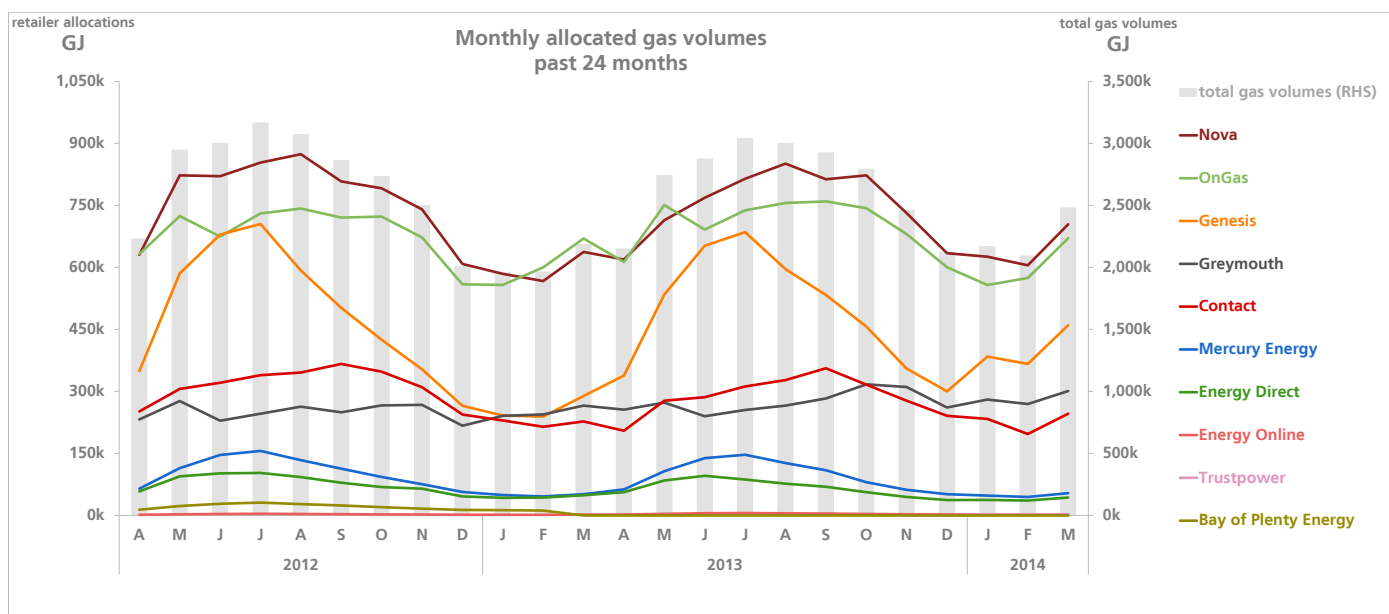
- Over 98% of gas customers are connected to a gate where least six retailers trade.

**Chart 19: Total gas volumes**



- Gas used for petrochemicals has increased since the end of last year due to the restart of Methanex's Waitara Valley plant and increased capacity at its Motunui site.

**Chart 20: Allocated gas volumes**



- The data are from a mix of allocation stages: Final through February 2013; Interim for March 2013 through December 2013; and Initial for January 2014 through March 2014.

Chart 21: Balancing gas volumes

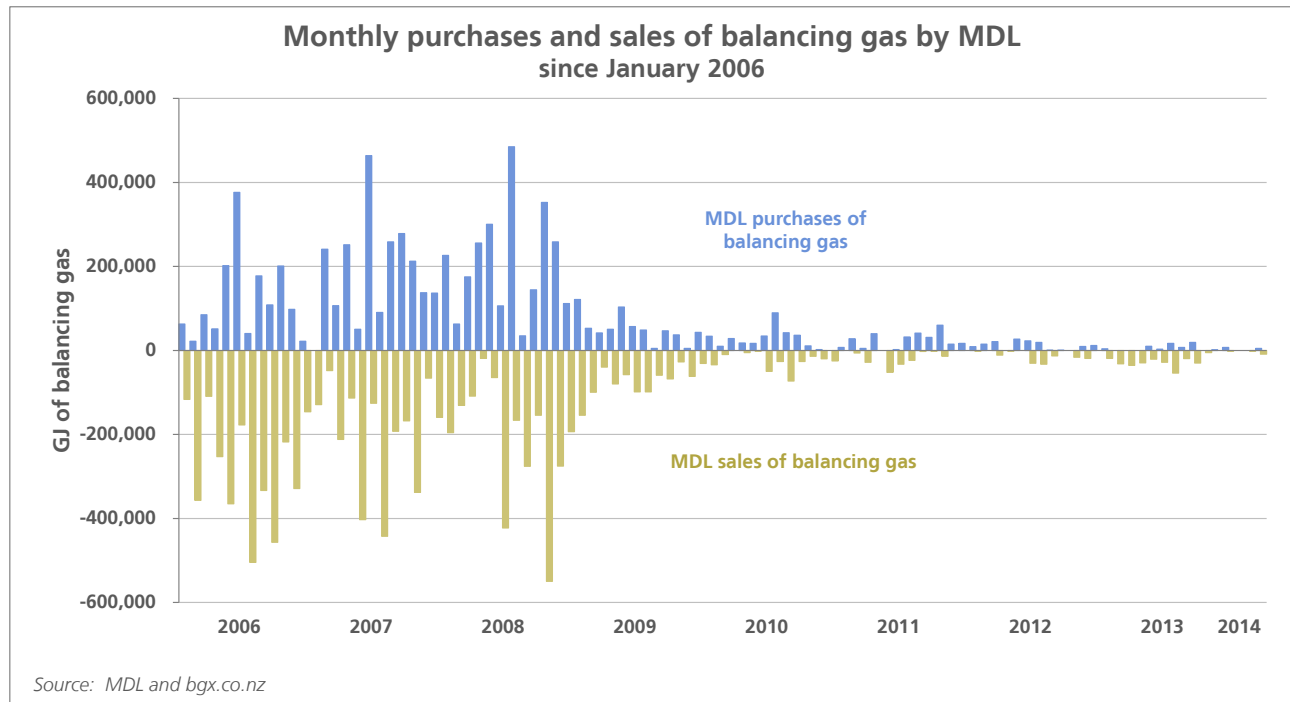
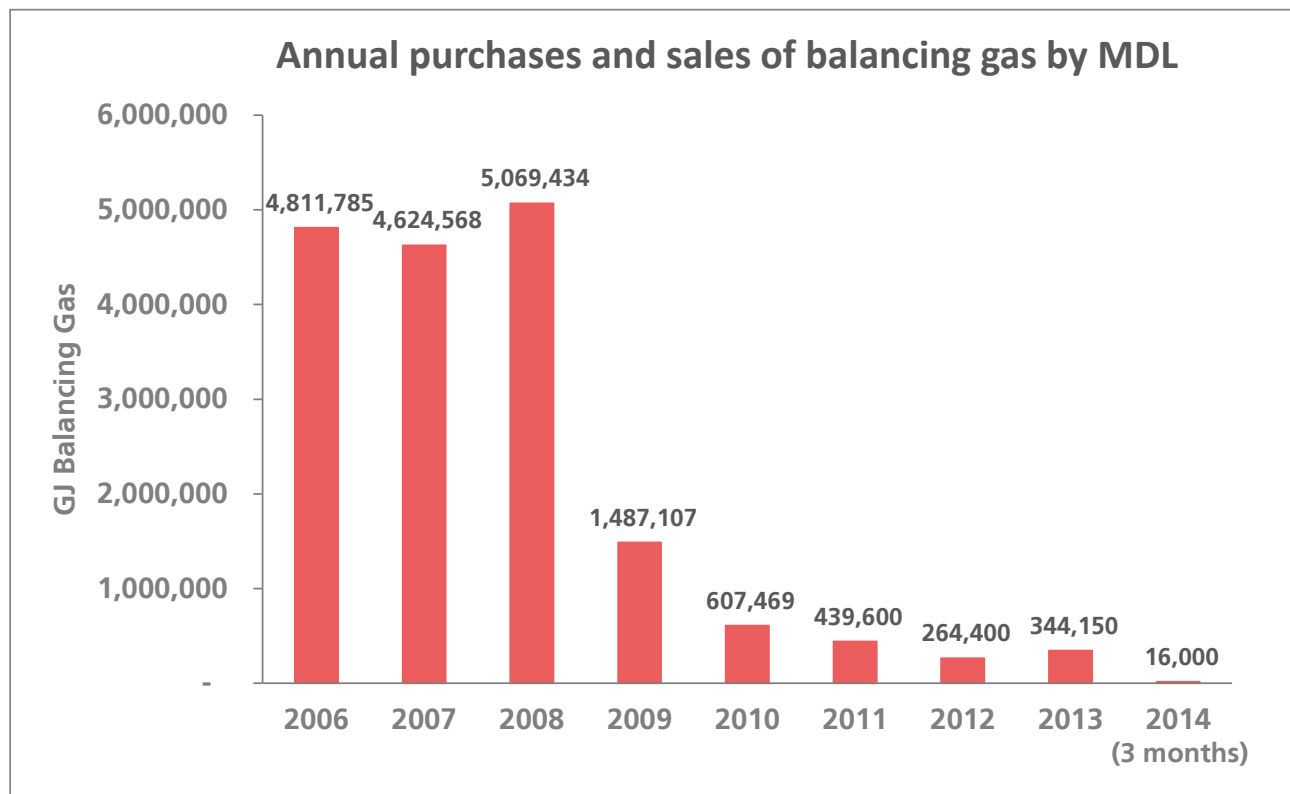


Chart 22: Annual volumes of balancing gas



- On average, balancing gas volumes purchased by MDL have decreased 93% from pre-2009 levels.

## **5 Critical Contingency Management performance measures**

Core Group took over as the Critical Contingency Operator on 28 February 2014. On 1 March 2014, amendments to the Critical Contingency Management Regulations took effect.

There were no critical contingencies in the previous quarter.

# Glossary

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|                                  |  |
|----------------------------------|--|
| Critical contingency             | A state of emergency on the transmission system characterised by falling or extremely low gas pressures. In such situations, the critical contingency operator has the authority to require consumers to stop using gas in order to balance the system, as set out in the Gas Governance (Critical Contingency Management) Regulations 2008.   |
| Direct connect consumers         | Large industrial consumers who are supplied gas directly from the transmission system via a dedicated gas gate.  |
| Distribution system              | System of lower pressure pipelines conveying gas from the transmission system to customer sites.   |
| Gas gate                         | A place where gas leaves the transmission system. Gas gates can (most commonly) lead to distribution systems, which supply a number of different customers. Some gas gates are direct connects, meaning that they supply a single large industrial customer. A few gas gates supply private gas networks, which supply the customers of a single retailer.   |
| Herfindahl–Hirschman Index (HHI) | Measure of market concentration. Generally, markets in which the HHI is between 1,500 and 2,500 are considered moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated. For more information, see the Appendix.  |
| ICP                              | Installation Control Point: the point where a customer installation is connected to the distribution system. Used to describe a customer site.   |
| Move switch                      | A switch where the retailer supplying gas to a consumer site is changed to another retailer at the request of an incoming tenant or homeowner.   |
| Reconciliation                   | The processes by which the volume of gas leaving the transmission system is allocated on a gate-by-gate basis to retailers with customers at those gates; governed by the Gas (Downstream Reconciliation) Rules 2008. Reconciliation is done on a monthly basis, and each consumption month is calculated three times: in the month immediately after consumption month ( <i>initial allocation</i> ); four months after consumption month ( <i>interim allocation</i> ); and 13 months after consumption month ( <i>final allocation</i> ). |

|                           |  |
|---------------------------|--|
| Registry                  | Database of information on customer sites, including metering information, associated gas gate, and responsible retailer. Used to facilitate efficient and accurate switching.   |
| Standard switch           | A switch where a gas customer decides to switch the retailer that supplies their existing location.  |
| Switching                 | The processes by which the retailer supplying a customer site is changed to another retailer, governed by the Gas (Switching Arrangements) Rules 2008.   |
| Transmission system       | System of high pressure pipelines that convey gas from gas processing facilities to a distribution system or to a direct connect customer.   |
| Unaccounted-for gas (UFG) | The difference between the amount of gas leaving the transmission system and retailers' estimates of their consumers' consumption. It is made up of technical losses on the system, metering inaccuracies, and retailer estimation errors. For more information, see the Appendix. |

# Appendix – Explanatory notes

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## 1 Introduction

This appendix provides context and additional information about the industry performance measures contained in the body of the report. Section numbering is consistent with the main report.

## 2 Switching performance measures

All of the switching charts include only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the gas registry. The charts also exclude bulk transfers of customers associated with events such as retailer amalgamation or the purchase of a retail customer base. Specifically, the charts exclude the transfer of E-Gas customers to Nova Energy in November 2010 and the amalgamation of Auckland Gas (June 2011) and Bay of Plenty Energy (March 2013) with Nova Energy.

### Chart 1: Monthly switching activity

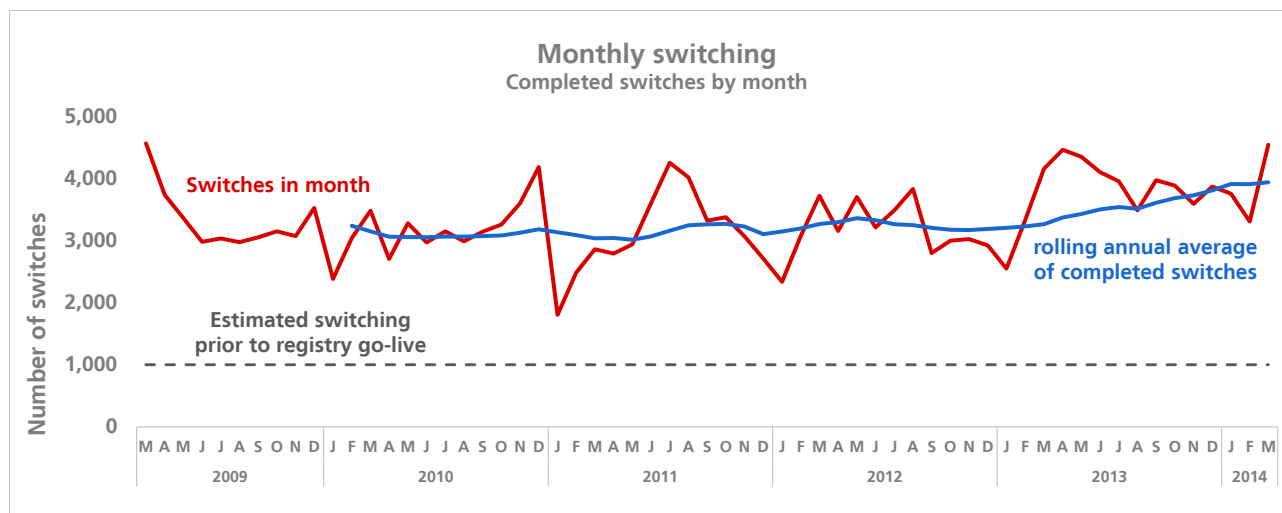
Prior to the gas registry going live in March 2009, there were approximately 1,000 switches per month, and the annual churn rate was approximately 4.8%.

Since registry go-live, switching rates have more than tripled to an average of between 3,000 and 4,000 per month. The churn rate (defined as the number of switches in 12 months divided by the total number of gas consumers) has varied in that time from 14% to nearly 18%. By comparison, electricity switching rates vary from about 16% to about 20%.

For context, the chart below shows customer switching trends since March 2009, when the registry went live.



**Chart A- 1: Monthly switching since March 2009**



**Chart 2: Regional switching activity**

These charts compare regional switching rates with total switching rates. The grey line is the same in all the charts and shows the number of switches in a month as a percentage of active customer sites (that is, customer sites that either have a contract with a retailer or that recently had a contracted consumer but is temporarily vacant) across all North Island gas consumers. The data include both move switches (where a property is switched at the request of an incoming tenant or homeowner) and standard switches (where a gas customer decides to switch the retailer that supplies their existing location). As that grey line shows, monthly switching generally involves between about 0.7% and 1.6% of total North Island gas customers in a month.

The red line in each chart shows the number of switches in that region as a percentage of ICPs in that region. Auckland and Wellington switching rates tend to be similar to the North Island rates, since a large proportion of gas customers are located in those regions. Differences emerge in the smaller regions.

**Chart 3: Time to process switches**

The time to process switches has fallen markedly since the commencement of the Switching Rules and the associated inception of the gas registry. Prior to those events, switching could take weeks or months to complete. Once the registry went live, switching times dropped to about 10 days, and since then, switching times have dropped further, to an average of about five or six business days.

**Chart 4: Distribution of switching length**

These charts show the distribution of switching length since the start of the gas registry by calendar year. Since the start of the registry, switches have tended more and more to occur either in zero or one day; or in seven days. Switches taking zero to two business days generally are move switches (where a property is switched at the request of an incoming tenant or homeowner), while the majority

of switches taking seven business days are standard switches (where a gas customer simply decides to switch the retailer that supplies their existing location). The Switching Rules stipulate that, for a standard switch, the new retailer can request a switch date that is not less than seven business days after the inception of the switch, and in most cases this request must be honoured by the existing retailer. This provision may explain the large proportion of switches being completed in seven business days.

#### **Chart 5: Number and severity of breaches of the Switching Rules**

Most breaches of the Switching Rules are alleged by the registry operator. In the first year after the inception of the Switching Rules, there were about 450 switching breaches alleged per month. Since then, the number of breaches alleged has declined by two orders of magnitude.

### **3 Allocation and reconciliation performance measures**

#### **Chart 6: Volumes of unaccounted-for gas (UFG)**

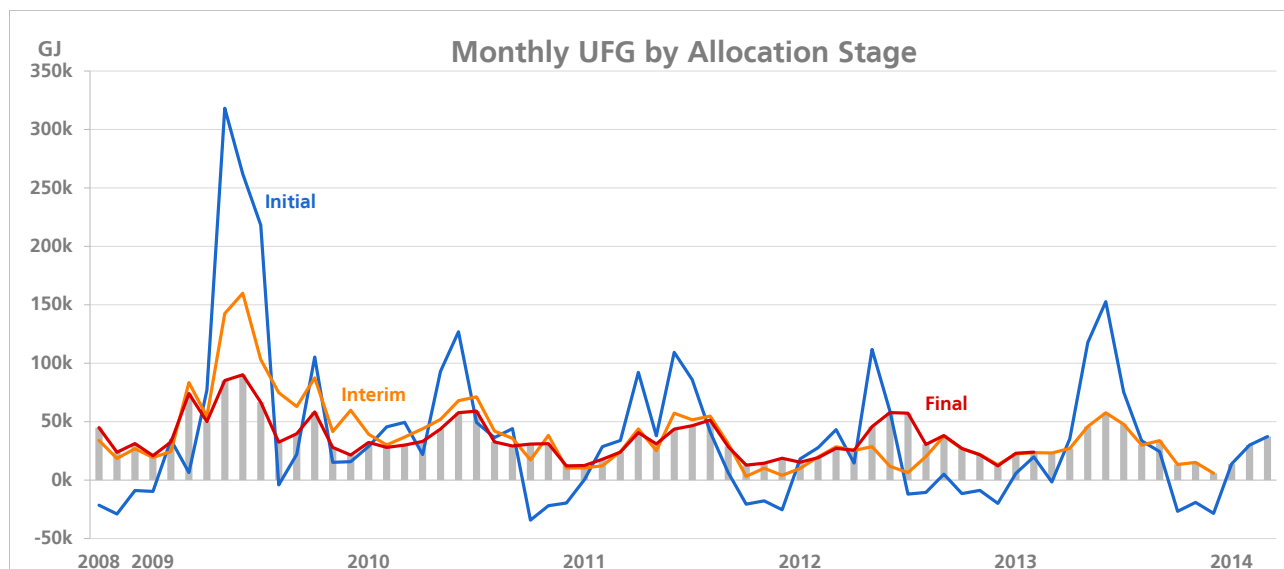
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. UFG imposes a cost on the market: it is gas that retailers are allocated and must pay for, but cannot sell. Tracking UFG is a way of monitoring these costs and the efficiency of the retail market. This transparency should assist the industry to take steps to reduce UFG where it is efficient to do so.

The chart compares total UFG quantities by consumption month and allocation stage (initial, interim or final). The grey bars show UFG based on the most recent data available.

Changes in UFG from one allocation stage to another are largely due to mass market retailers' consumption submissions becoming more accurate at later allocation stages. UFG tends to be most extreme at the initial allocation stage: in summer, UFG tends to be negative due to retailers' overestimations of customer consumption; and in winter, UFG tends to be positive due to retailers underestimating consumption. Generally, UFG volumes diminish considerably from the initial to the interim allocation stages. The final allocation stage reflects further minor adjustments to retailers' data, which can result in slightly more or less UFG, as shown by the orange and red lines in the chart below.

For context, the chart below shows UFG trends since October 2008, when the Reconciliation Rules went into effect.

**Chart A- 2: UFG since October 2008**



**Chart 7: Percentage of UFG**

This chart shows the amount of UFG in comparison with the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, while the coloured bars show UFG volumes, by allocation stage. The labels show the percent of UFG as a proportion of total allocated gas.

**Chart 8: Rolling 12-month UFG**

Another way to think about UFG is the amount recorded over a 12-month period. This chart shows rolling 12-month UFG figures, both as a GJ total and as a percentage of gas consumed. That is, each data point shows the amount of UFG recorded for that month and the preceding 11 months. As initial data are often inaccurate, the chart includes only consumption months for which interim or final data are available. The figures in the chart are based on the best data available at the time of publication.

For the first year after the Reconciliation Rules came into effect, annual UFG was about 2%. Average UFG now stands at about 1.1%.

**Chart 9: Gas gates where UFG is the highest**

These charts show the gates with the largest volumes of positive and negative UFG over 12 months, according to the most recent final and interim data.

The first chart shows the 10 gas gates that had the highest volume of UFG, in terms of the percentage of total positive UFG experienced over the same time period. As a comparison, the chart also includes the percentage of total gate injections each gate represents; that is, the proportion of total gas consumption that is drawn from those gates.

The second chart shows negative UFG compared with gate injections.

#### **Chart 10: Number and severity of breaches of the Reconciliation Rules**

Most breaches of the Reconciliation Rules are alleged by the allocation agent. Over 90% of alleged breaches of the Reconciliation Rules in the past year relate to rule 37 – the rule that requires initial consumption information submitted by retailers to be within a percentage of accuracy of the consumption information submitted for the final allocation. It has proven efficient for the market investigator to attempt to reach settlements in yearly batches of rule 37 breaches.

## **4 Market competition performance measures**

#### **Chart 11: Market share of ICPs by retailer**

This chart shows the number of active contracted customer sites associated with each retailer over the past two years, as recorded by the gas registry.

#### **Chart 12: Market share by customer segment**

This chart shows market share by customer type, as shown in the gas registry. Note that, because of the small size of its customer base, Energy Online's customer share is combined with its parent company, Genesis.

#### **Chart 13: Herfindahl–Hirschman Index**

The Herfindahl–Hirschman Index (HHI) is one way of measuring market concentration by using size and number of competing firms. The index ranges from 0 to 10,000. A low score indicates a low level of market concentration, which arises when there are a large number of small firms in the market, each with a small proportion of market share. Conversely, an HHI score of 10,000 represents a market with a single retailer. The measure is used because market concentration is often inversely related to market competition; that is, the more retailers there are, and the more that market share is spread among them, the greater the competition for customers is thought to be.

As a point of reference, the United States Department of Justice considers markets in which the HHI is between 1,500 and 2,500 to be moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated.<sup>3</sup>

The bars in the chart shows the HHI of the retail gas market as at January 2014; for comparison, the HHI for 2009, 2011, and 2013 are also shown. In all regions, the HHI has decreased, indicating that the retail gas markets in these regions have become less concentrated.

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<sup>3</sup> <http://www.justice.gov/atr/public/guidelines/hhi.html> accessed 1 May 2014.

Until 1992, when the new Gas Act disestablished local exclusive franchise areas, gas retailing occurred through local vertically-integrated monopolies. With the consequent onset of retail competition, these former monopoly providers became 'incumbents', subject to competing retailers vying for customers in their areas. (A similar change occurred in the electricity sector). In most regions, there is still a dominant retailer, but the decrease in HHI shows that they have become less dominant in the past four years. With the introduction of the Switching Rules, new retailers have entered the market and smaller retailers have increased their market share.

#### **Chart 14: Switching by customer sites since 2008**

This chart shows the proportion of active contracted customer sites by the number of times they have switched in the past five years, broken down by customer type as shown in the registry.

#### **Chart 15: Residential customer sites that have never switched**

This chart shows, for the residential customer sites that have not switched retailer in the past year, the proportion served by each retailer, compared to that retailer's market share of residential customers.

#### **Chart 16: Switching activity by retailer**

This chart shows the numbers of ICPs gained and lost by retailers over the past two years. The blue bars show the number of customers gained by the retailer each month, and the red bars show the numbers of customers lost.

As shown by these charts, although the net changes in number of customer ICPs may not change significantly from month to month for some retailers, there is a lot of underlying switching activity, particularly for the mass market retailers Contact, Genesis, and Mercury.

#### **Chart 17: Gas gates by number of retailers**

This chart shows, by month, numbers of gas gates by the number of active retailers. In this case, an active retailer means a retailer that has at least one active contracted ICP at that gas gate. About 32 gas gates are direct connect gates, meaning that they serve only one customer, generally a large industrial customer, and can have only one retailer active at that gate.

The majority of gas gates – 100 at last count – serve multiple customers. The greater the number of retailers that trade at a gas gate, the greater is the potential competition for customers.

#### **Chart 18: Connections served by multiple retailers**

This chart plots the proportion of gas customers who are served from the gas gates in the chart above; that is, customers served at gas gates where multiple retailers trade. This chart shows, for example, that while all nine retailers are active at only a handful of gas gates, those gates tend to be the largest ones, since about 37% of all gas customers are connected at these gates.

This chart shows the March 2013 step change caused by the amalgamation of Bay of Plenty with Nova and the entry into the gas retail market by Trustpower in November 2013.

#### **Chart 19: Total gas volumes**

This chart shows the total amount of gas consumed over the past two years by all gas users. The top grey line shows total consumption; the coloured lines provide a breakdown by type of use.

- The red line shows the seasonal peaks and troughs in gas used for thermal electricity generation.
- Consumption for petrochemicals is shown in blue.
- The tan line shows the amount of gas used by customers connected to shared gas gates. This represents the majority of commercial and residential customers. There is a seasonality trend to the consumption, higher in winter and lower in summer.
- The green line represents volumes of gas used by large industrials, including steel, wood products, dairy processing, and oil refining.
- The purple line shows the volumes of gas going to storage.
- The orange line represents gas used by consumers connected to the private pipelines owned by Nova.

Gas used by consumers connected to distribution pipelines is allocated by retailer and shown in the next chart.

#### **Chart 20: Allocated gas volumes**

This chart shows the gas volumes allocated to retailers at shared gas gates over the past two years, i.e. gas gates connected to a network that supplies multiple customers. This includes gas consumed by industrial, commercial, and residential customers, but it excludes gas volumes from direct connect gas gates; that is, from gas gates that supply a single customer directly from the transmission system. For this reason, gas volumes supplied through direct connect gas gates to such industrial sites as thermal power stations, the oil refinery, and paper and chemical factories are not included in the chart.

The grey bars in the chart show total volumes of allocated gas (using the right-hand scale); company volumes are denoted by coloured lines and use the left-hand scale. The bars show the seasonality of gas consumption: higher in winter and lower in summer, and many of the retailers show similar patterns in their allocated volumes. Nova Energy is the largest retailer by allocated volumes, followed by OnGas. Genesis, the third largest retailer by volume, has a load profile that peaks in winter and troughs during the summer. Contact, Mercury, and Energy Direct all show similar – but less pronounced – winter peaking patterns. Greymouth's share of allocated gas, in contrast, is relatively steady throughout the year, reflecting its position as largely a supplier to industrial loads.

## 5 Balancing gas

The volume of gas in a pipeline relates to the gas pressure in the pipeline and needs to be maintained below the safe operating pressure limit for the pipeline and above the minimum required to maintain the supply of gas to consumers. Pipeline pressures will rise or fall as parties who inject gas into the pipeline over- or under-inject and as parties who receive gas from the pipeline under- or over-take relative to their respective scheduled volumes. When a transmission owner, or operator, manages the gas inventory in a pipeline, it is referred to as *secondary* or *residual balancing*. Maui Development Limited (MDL) buys and sells balancing gas in order to manage gas volumes and thus maintain gas pressure within safety and operational limits.

Prior to 2008, secondary balancing services were essentially free to holders of legacy Maui gas contracts, but changes implemented at the end of 2008 to the Maui Pipeline Operating Code, together with the arrangements in the Vector Transmission Code, mean that the costs associated with secondary balancing are generally recovered from pipeline users. In 2009, MDL instituted the Balancing Gas Exchange, an online platform that displays pipeline balance conditions and enables parties physically interconnected to the Maui pipeline to post offers to buy and sell balancing gas. These two changes appear to have provided gas transmission customers with an incentive to self-balance and greater information on which to base their balancing decisions.

The outcome is the significantly reduced volumes of gas needed to be purchased or sold by MDL to balance the Maui pipeline since 2009.

### **Chart 21: Balancing gas volumes**

This chart shows the purchases and sales of balancing gas by MDL by month since January 2006.

### **Chart 22: Annual volumes of balancing gas**

This chart uses the same data as chart 21, but the data are shown as annual volumes of total purchases and sales.



# Strategic Progress: Quarterly Report 1 January – 31 March 2014

This report provides an update of progress towards Gas Industry Co's strategic goals. These reflect the Government's objectives and outcomes for the gas industry, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, as implemented through the Company's FY2014-2016 Statement of Intent.

| Project  | Rationale   | Activity   | Status  |
|--|---|--|---|
| <b>Strategic Goal: Efficient Use of, and timely investment in infrastructure</b> |   |  |   |
| <b>Transmission Pipeline Balancing</b>   | <ul style="list-style-type: none"> <li>Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul> | <ul style="list-style-type: none"> <li>Assess balancing market developments.</li> <li>Provide advice to Minister on balancing market developments as appropriate. Formal balancing update provided to Minister on 16 April 2013</li> </ul>   | <ul style="list-style-type: none"> <li>Way open for implementation of back-to-back balancing following GIC Final Recommendations supporting changes to MPOC and VTC. Implementation in the hands of MDL and Vector and is awaited</li> </ul>  |
| <b>Interconnection</b>   | <ul style="list-style-type: none"> <li>Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul>     | <ul style="list-style-type: none"> <li>Monitor two new interconnection arrangements on each open access transmission pipeline (Vector, MDL).</li> <li>Review transmission pipeline interconnections and consult on any issues by the end of 2013.</li> <li>Investigate the extent, if any, of issues relating to access to private pipelines.</li> </ul> | <ul style="list-style-type: none"> <li>Cheal and Sidewinder field (both TAG) interconnections reviewed (both on the Vector system); no issues identified.</li> <li>Reviews of physical and wholesale market interconnections to the Maui pipeline to be completed.</li> </ul>   |
| <b>Access to Processing Facilities</b>   | <ul style="list-style-type: none"> <li>Statutory Role under Gas (Processing Facilities Information Disclosure) Rules 2008.</li> </ul>   | <ul style="list-style-type: none"> <li>Collect, monitor, and publish disclosed information.</li> <li>Recommend to Minister by 27 June 2013 as to continuance, amendment, or expiry of these Rules.</li> </ul>  | <ul style="list-style-type: none"> <li>All disclosures received and published on Gas Industry Co website.</li> <li>Minister has accepted GIC recommendation that regulated access to gas processing facilities is not necessary. The Gas (Processing Facilities Information Disclosure) Rules 2008 will expire in June 2014.</li> </ul> |

| Project  | Rationale   | Activity  | Status  |
|--|---|---|---|
| <b>Strategic Goal: Build efficient, competitive, and confident gas markets</b> |   |   |   |
| <b>Rule Changes</b>  | <ul style="list-style-type: none"> <li>Improved industry governance through regular review of existing arrangements and recommending changes where appropriate.</li> </ul>  | <ul style="list-style-type: none"> <li>Maintain rule change registers.</li> <li>Review industry feedback on options paper on Reconciliation Rules review.</li> <li>Consult on Statement(s) of Proposal for changes to Reconciliation Rules.</li> <li>Review effectiveness of the Gas Governance (Critical Contingency Management) Regulations 2008 following any events/exercises.</li> <li>Consult on proposed changes to the Compliance Regulations.</li> </ul> | <ul style="list-style-type: none"> <li>Work continues on phase 2 changes to the Reconciliation Rules dealing with allocation methodologies Phase 1 amendments took effect on 1 June 2013.</li> <li>CCM Regulations changes took effect 1 March 2014.</li> <li>Compliance Regulations changes took effect 1 March 2014. Guidelines relating to changes on reporting obligations under the Switching Rules expected to be issued for stakeholder comment in April.</li> </ul> |
| <b>Gas Quality</b>   | <ul style="list-style-type: none"> <li>Maintain an acceptable standard of gas quality.</li> <li>Ensure costs of gas quality incident are met efficiently.</li> <li>Achieve improved transparency on gas quality incidents.</li> </ul> | <ul style="list-style-type: none"> <li>Ongoing review of industry arrangements for managing gas quality.</li> <li>Consider options for improving gas quality arrangements.</li> </ul>   | <ul style="list-style-type: none"> <li>GIC in liaison with industry working group is developing a Gas Quality Protocol aimed at giving stakeholders an understanding of how gas quality is managed and of the availability of information about gas quality.</li> <li></li> </ul>   |
| <b>Insolvent Retailer Arrangements</b>   | <ul style="list-style-type: none"> <li>Following recommendation to revoke 2010 temporary Insolvent Retailer Regulations, consider whether generic regulatory solution is required to address retailer insolvency.</li> </ul>          | <ul style="list-style-type: none"> <li>Prepare Issues and options paper for industry consultation.</li> </ul>   | <ul style="list-style-type: none"> <li>Minister has accepted GIC recommendation that permanent backstop regulations are not necessary.</li> <li>Preparing Statement of Proposal on drafting instructions for backup regulations.</li> </ul>   |

| Project                            | Rationale   | Activity   | Status   |
|------------------------------------|---|--|--|
| <b>Gas Distribution Principles</b> | <ul style="list-style-type: none"> <li>• Improved industry outcomes. Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</li> <li>• Ensure consistency in distribution services arrangements.</li> </ul> | <ul style="list-style-type: none"> <li>• Monitor and report annually to Minister on status of distribution arrangements.</li> <li>• Develop and publish distribution contract Principles.</li> <li>• Encourage publication of network services agreements.</li> <li>• First assessment of contracts conducted as at 1 February 2013. Arrangements not progressed as well as expected, but positive indication from industry as to completion.</li> </ul> | <ul style="list-style-type: none"> <li>• Second assessment of contracts conducted on 1 March. Independent Assessor has prepared preliminary report for consultation prior to issuing final report</li> </ul> |

| Project                             | Rationale  | Activity  | Status  |
|-------------------------------------|--|---|---|
| <b>Transmission Change Requests</b> | <ul style="list-style-type: none"> <li>• Contractual role pursuant to MoUs with MDL and Vector.</li> <li>• Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines.</li> </ul>                 | <ul style="list-style-type: none"> <li>• Process MPOC change requests and VTC change request appeals as they are received in accordance with respective Memorandum of Understanding (MoU).</li> </ul> | <ul style="list-style-type: none"> <li>• GIC Final Recommendation supports VTC change request appeal (dated 27 November 2012) on balancing processes, peaking charges, and disputed invoices. Supplementary note published addressing matters outside GIC's role as appeals body in the VTC.</li> <li>• Final Recommendation on 10 June 2013 supports MPOC change request (dated 28 March 2013) seeking a number of minor and technical amendments.</li> <li>• VTC change appeal (dated 31 July 2012) relating to prudential security withdrawn by Vector.</li> <li>• GIC Final Recommendation on 28 February 2013 supports MPOC change request on nomination time.</li> <li>• GIC Final Recommendation finds against Contact Energy's single issue VTC Appeal confirming the Draft Recommendation of May 2013.</li> <li>• GIC Final Recommendation issued May 2014 supports MDL MPOC Change Request on balancing-relating amendments.</li> </ul> |
| <b>Compliance</b>                   | <ul style="list-style-type: none"> <li>• Statutory role under the Compliance Regulations.</li> <li>• Improved industry operations through provision of a compliance and dispute resolution process for industry participants.</li> </ul> | <ul style="list-style-type: none"> <li>• Oversight of Gas Governance (Compliance) Regulations 2008.</li> </ul>  | <ul style="list-style-type: none"> <li>• Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations.</li> <li>• Breach activity has been low; a positive indicator of industry compliance.</li> </ul>  |

| Project                 | Rationale  | Activity   | Status  |
|-------------------------|--|--|---|
| <b>Customer Issues</b>  | <ul style="list-style-type: none"> <li>Enhanced consumer benefits through complaints process for small gas customers.</li> </ul>   | <ul style="list-style-type: none"> <li>Liaise with the Electricity &amp; Gas Complaints Commission (the approved complaints scheme), and other relevant regulators to remain aware of consumer complaint issues.</li> </ul>                                      | <ul style="list-style-type: none"> <li>Regular liaison with Electricity &amp; Gas Complaints Commission and other relevant regulators. Gas-related inquiries and complaints statistics included in Gas Industry Co Annual Report.</li> </ul>  |
| <b>Retail Contracts</b> | <ul style="list-style-type: none"> <li>Enhanced consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small users.</li> </ul> | <ul style="list-style-type: none"> <li>Administer the Retail Gas Contracts Oversight Scheme.</li> <li>Annual assessment of alignment of retail contracts with contract Benchmarks.</li> <li>Report to Minister on the results of the 2012 assessment.</li> </ul> | <ul style="list-style-type: none"> <li>Third assessment (published in November 2012) increases retailers' overall rating from 'moderate' to 'substantial' alignment with the benchmarks.</li> <li>Gas Industry Co advised the Minister of deferral of the 2013 assessment pending a Scheme review.</li> <li>Submissions on Consultation Paper generally support continuation of the Scheme, with modifications, rather than replacement with regulated regime.</li> <li>Statement of Proposal for scheme modifications issued 6 January 2014. Submissions closed 17 February, submissions analysis issued on 3 April, and final advice sent to Minister.</li> </ul> |

| Project                               | Rationale  | Activity   | Status   |
|---------------------------------------|--|--|--|
| <b>Transmission Pipeline Capacity</b> | <ul style="list-style-type: none"> <li>• Improved consumer outcomes by addressing short and long-term competition issues arising from the North Pipeline capacity constraint.</li> <li>• Enhanced industry/consumer outcomes by improved level, and quality, of information on which to base business/energy use decisions.</li> </ul> | <ul style="list-style-type: none"> <li>• Address by regulatory and/or non-regulatory options any lessening of competition due to transmission constraints.</li> <li>• Implement the Gas Transmission Investment Programme (GTIP).</li> <li>• Improve the quality and availability of pipeline security standards and supply/demand information.</li> <li>• Promote changes to commercial and regulatory arrangements so the GTIP objectives can be met.</li> </ul> | <ul style="list-style-type: none"> <li>• Submissions analysis on PEA's Second Advice and GIC's companion GTIP status update report acknowledged good GTIP progress, but divided on what direction the project should now take. On GIC's invitation Transmission System Owners are leading industry initiatives in accordance with PEA's future path proposals. In parallel, GIC is continuing with policy development which, depending on industry progress, may lead to Statement of Proposal.</li> <li>• Study report on demand management potential to help manage pipeline congestion issued March 2014.</li> <li>• Analysis of submissions on GIC's counterfactual transmission access Options Paper issued May 2014.</li> <li>• Continued monitoring of information provided by signatories to the 'Bridge Commitments', designed to address short-term issues.</li> <li>• Continued monitoring of Gas Transmission Exchange (GTX) - one of the seven Bridge Commitments.</li> </ul> |

| Project  | Rationale  | Activity  | Status  |
|--|--|---|---|
| <b>Strategic Goal: Deliver effectively on accountabilities</b> |  |   |   |
| <b>Downstream Reconciliation</b>                               | <ul style="list-style-type: none"> <li>• Statutory role under Reconciliation Rules.</li> <li>• Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs.</li> </ul> | <ul style="list-style-type: none"> <li>• Oversight of Gas (Downstream Reconciliation) Rules 2008.</li> </ul>  | <ul style="list-style-type: none"> <li>• Gas reconciliations being performed each month.</li> <li>• Long-term UFG has flattened out at approximately 1%.</li> </ul>             |
| <b>Switching and Registry</b>                                  | <ul style="list-style-type: none"> <li>• Statutory Role under Switching Rules 2008.</li> <li>• Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers.</li> </ul>                         | <ul style="list-style-type: none"> <li>• Oversight of Gas (Switching Arrangements) Rules 2008.</li> </ul>   | <ul style="list-style-type: none"> <li>• Customer switching facilitated through rules and registry processes.</li> <li>• Switching statistics report issued monthly.</li> </ul> |
| <b>Performance Measures</b>                                    | <ul style="list-style-type: none"> <li>• Improved industry and consumer outcomes through the provision of public information on industry performance.</li> <li>• Monitor the effectiveness of governance arrangements.</li> </ul>  | <ul style="list-style-type: none"> <li>• Determine and publish information on each gas governance arrangement that has been implemented.</li> </ul> | <ul style="list-style-type: none"> <li>• Performance measures computed and reported quarterly.</li> </ul>   |

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| <b>Industry Facilitation</b>           | <ul style="list-style-type: none"> <li>• Facilitate nexus between industry and Government.</li> <li>• Maintain informed industry participants and other stakeholders.</li> </ul>   | <ul style="list-style-type: none"> <li>• Facilitate, influence and communicate with the industry and Government.</li> <li>• Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry.</li> </ul>           | <ul style="list-style-type: none"> <li>• 2<sup>nd</sup> annual edition of the NZ Gas Story issued December 2013. Distribution chapter being updated with information from latest distributor disclosures under the Commerce Commission regime.</li> <li>• Regular liaison with MBIE, Electricity Authority, and other relevant regulators.</li> </ul>   |
| <b>Critical Contingency Management</b> | <ul style="list-style-type: none"> <li>• Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008.</li> <li>• Improved industry outcomes through increased market confidence in industry's ability to manage critical events.</li> </ul> | <ul style="list-style-type: none"> <li>• Manage Critical Contingency Operator (CCO) via service provider agreement.</li> <li>• Review effectiveness of the Regulations following any events/exercises.</li> <li>• Operate critical contingency pool following an event.</li> </ul> | <ul style="list-style-type: none"> <li>• New CCO (Core Group) assumed role on 1 March 2014.</li> <li>• CCO activities monitored and reviewed quarterly.</li> <li>• Guidelines for determining regional critical contingencies issued 28 February 2014.</li> <li>• Industry stakeholder workshop on new CCM Regulation provisions for contingency event information disclosure held on 12 March 2014.</li> </ul> |