



## Regulatory framework for the downstream natural gas sector in NZ

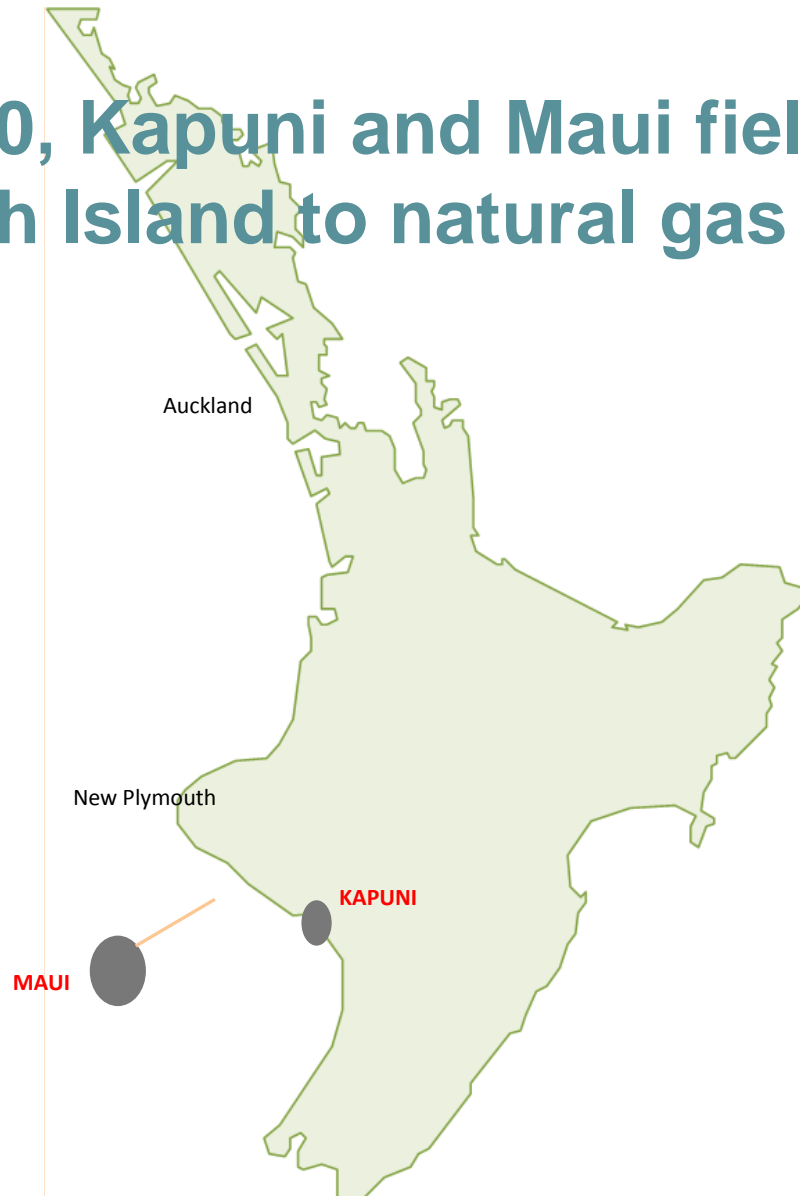
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August 2014

# Regulatory framework for the downstream natural gas sector in NZ

**Presentation covers:**

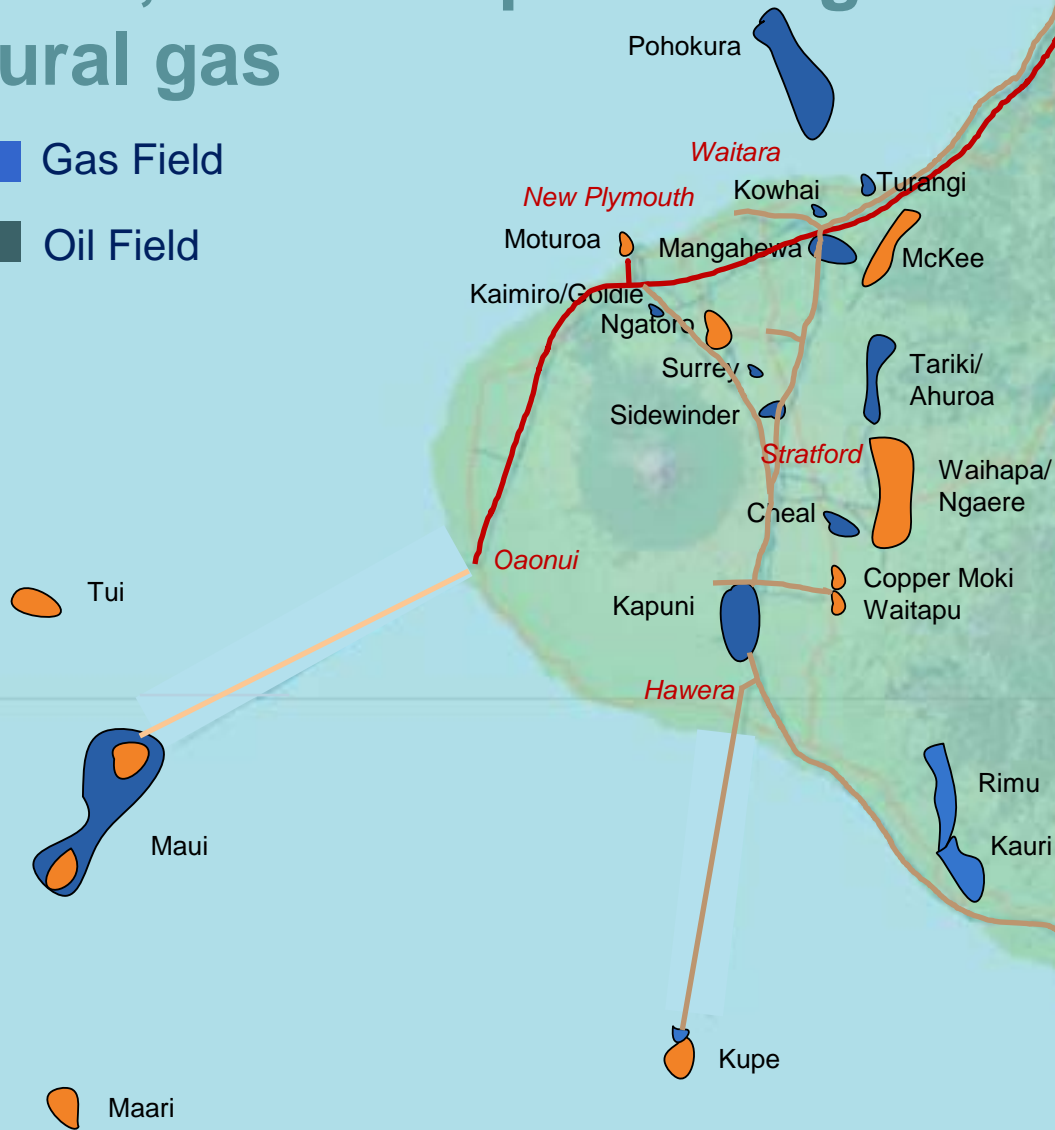
- 1. Key features of sector**
- 2. Regulatory/policy framework**
- 3. Gas Industry Company – the ‘co-regulatory model’**

# From 1970, Kapuni and Maui fields opened NZ's North Island to natural gas

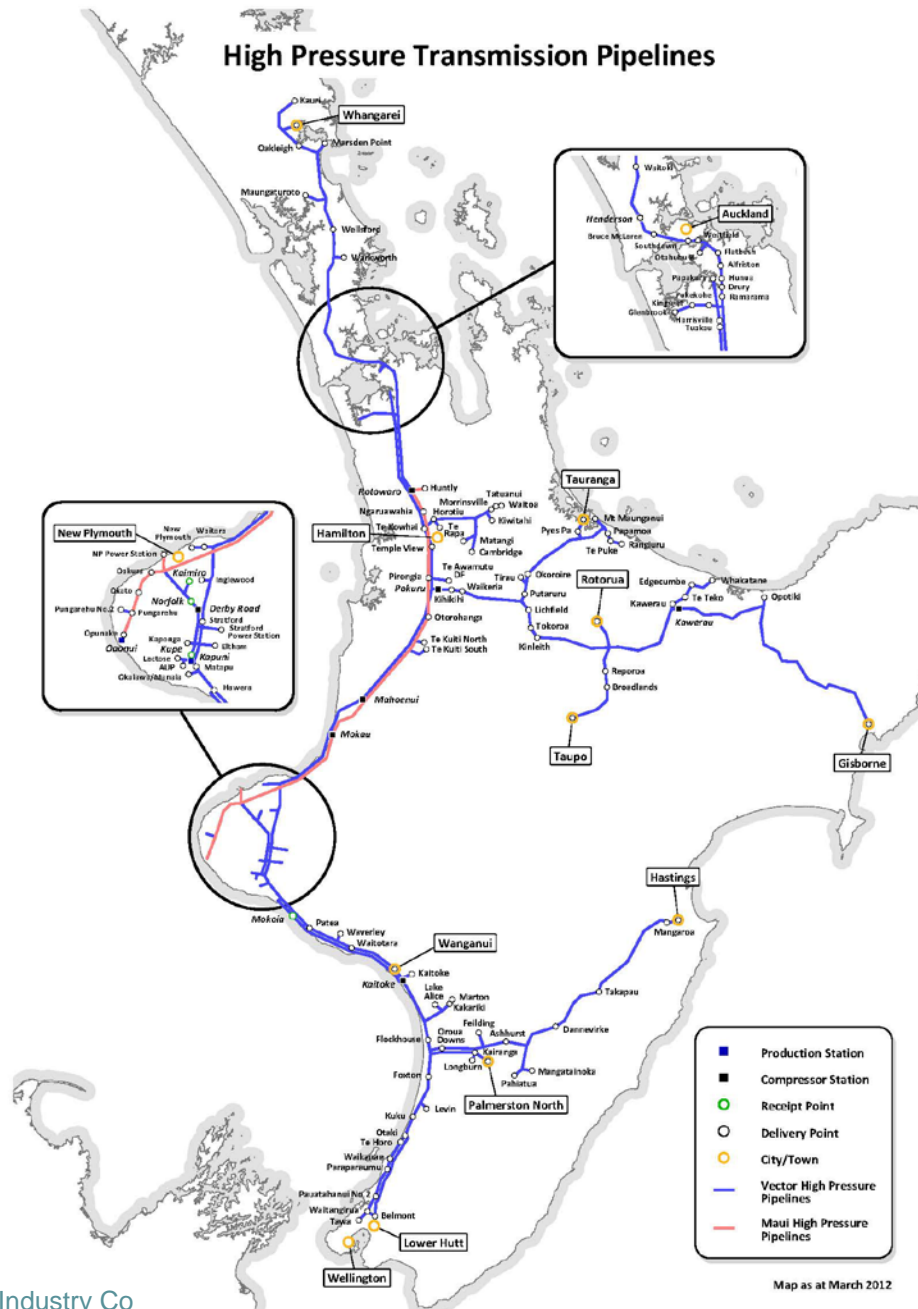


# In 2014, 15 fields producing natural gas

-  Gas Field
-  Oil Field



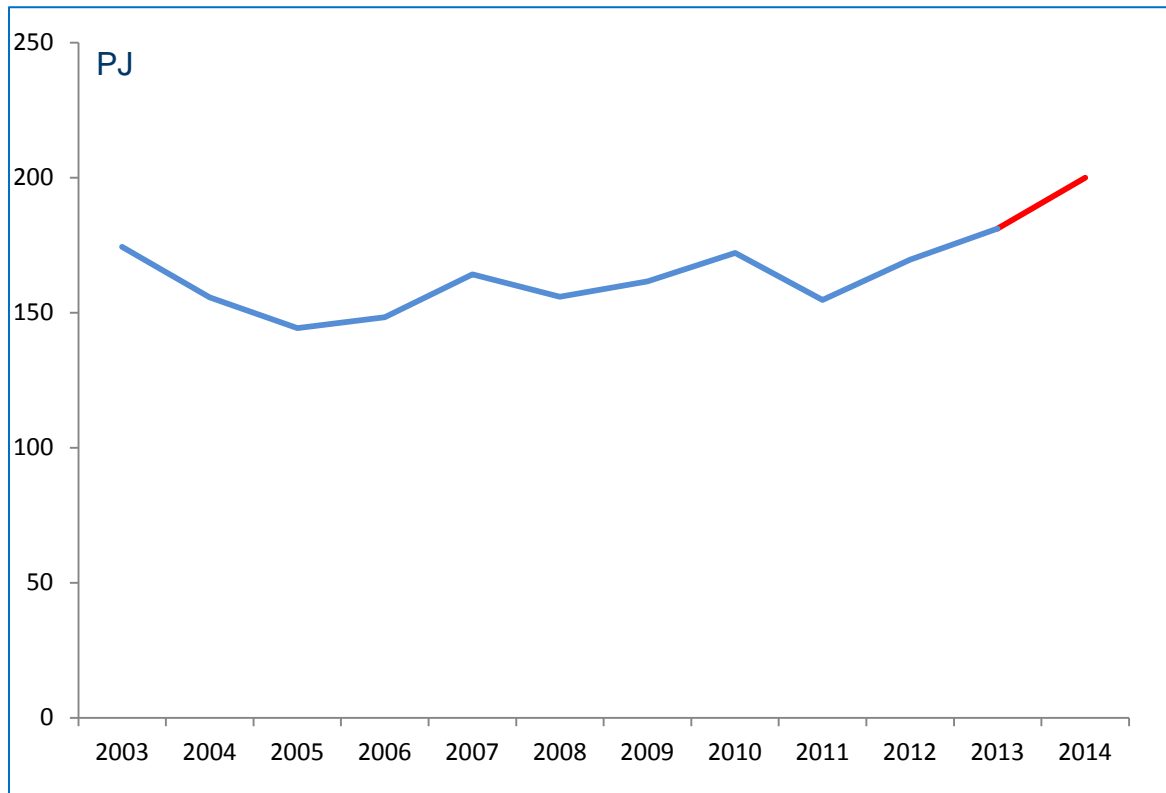
## High Pressure Transmission Pipelines



Two privately-owned open access transmission systems service NZs North Island

# The NZ market is around 200PJ of gas a year (190 bcf); no export/import

**Net Gas Production in the Past Decade**

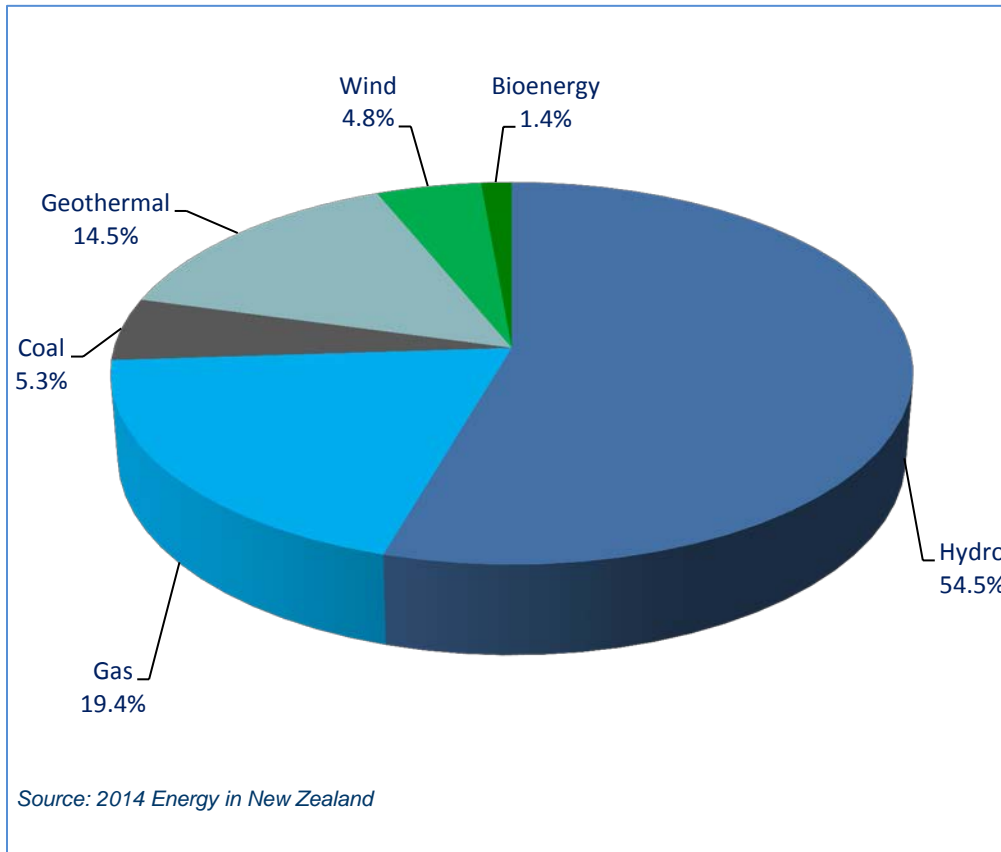


# Gas underpins electricity supply security through thermal generation



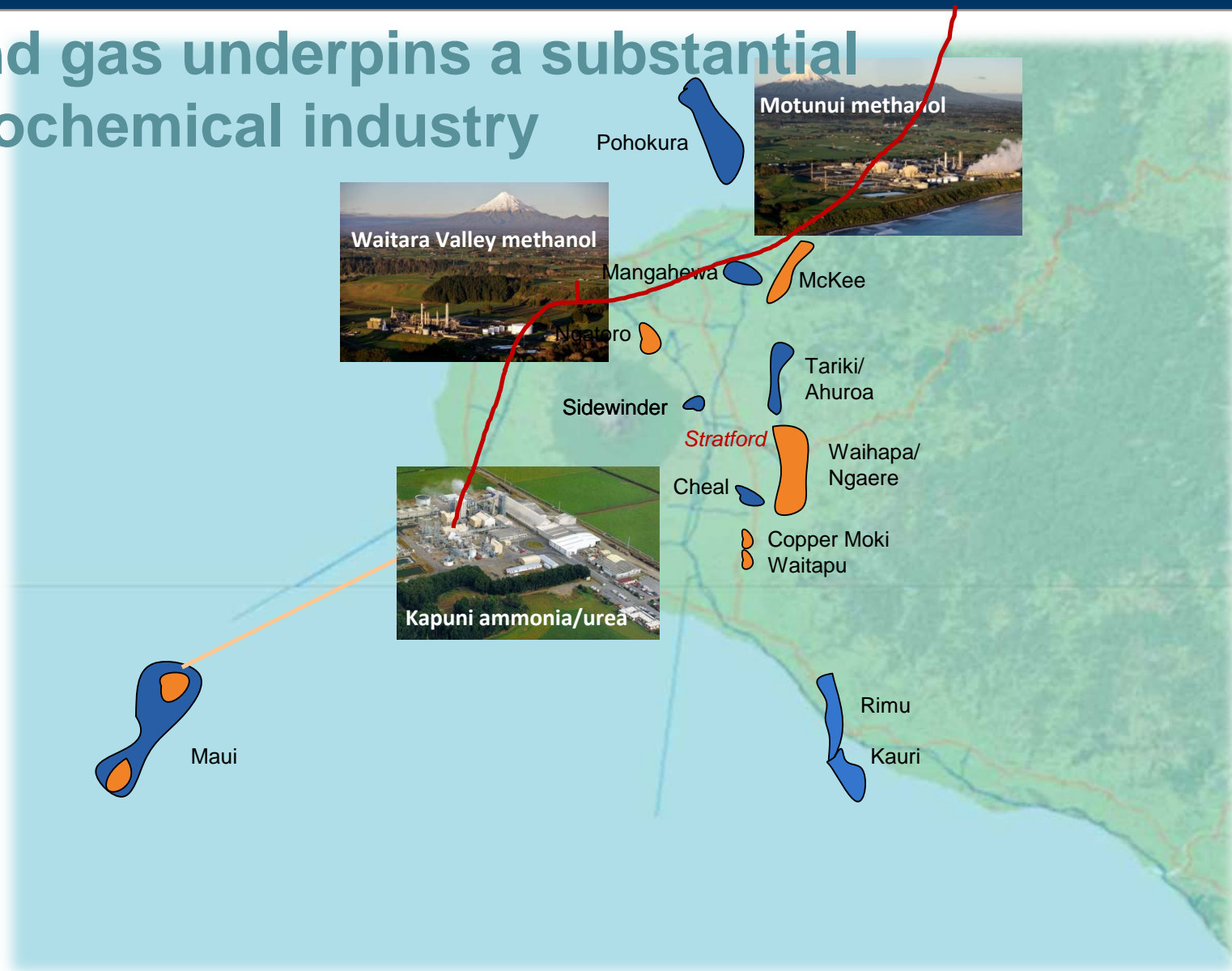
# 19% of electricity generation is gas-fired

**Electricity Generation by Energy Type 2013 (41,876 GWh – 151PJ)**



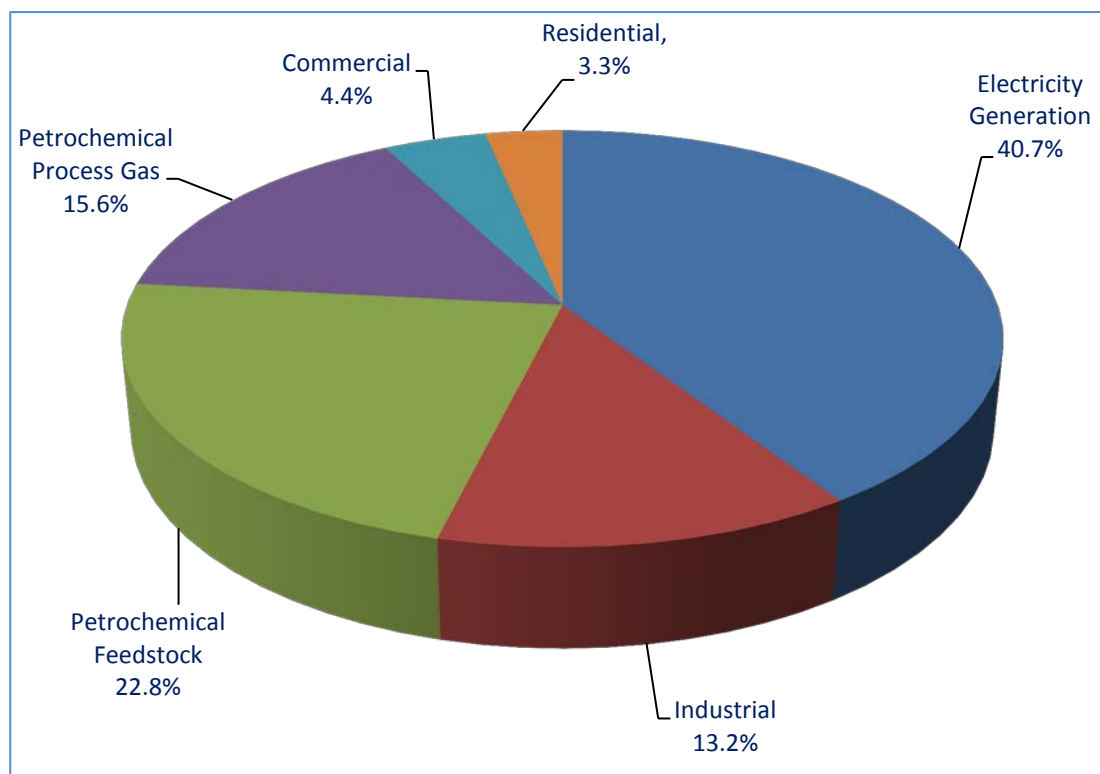


# ...and gas underpins a substantial petrochemical industry



# 80% of NZ gas is used in electricity generation and petrochemicals - 250,000 households use just 3.3% of gas

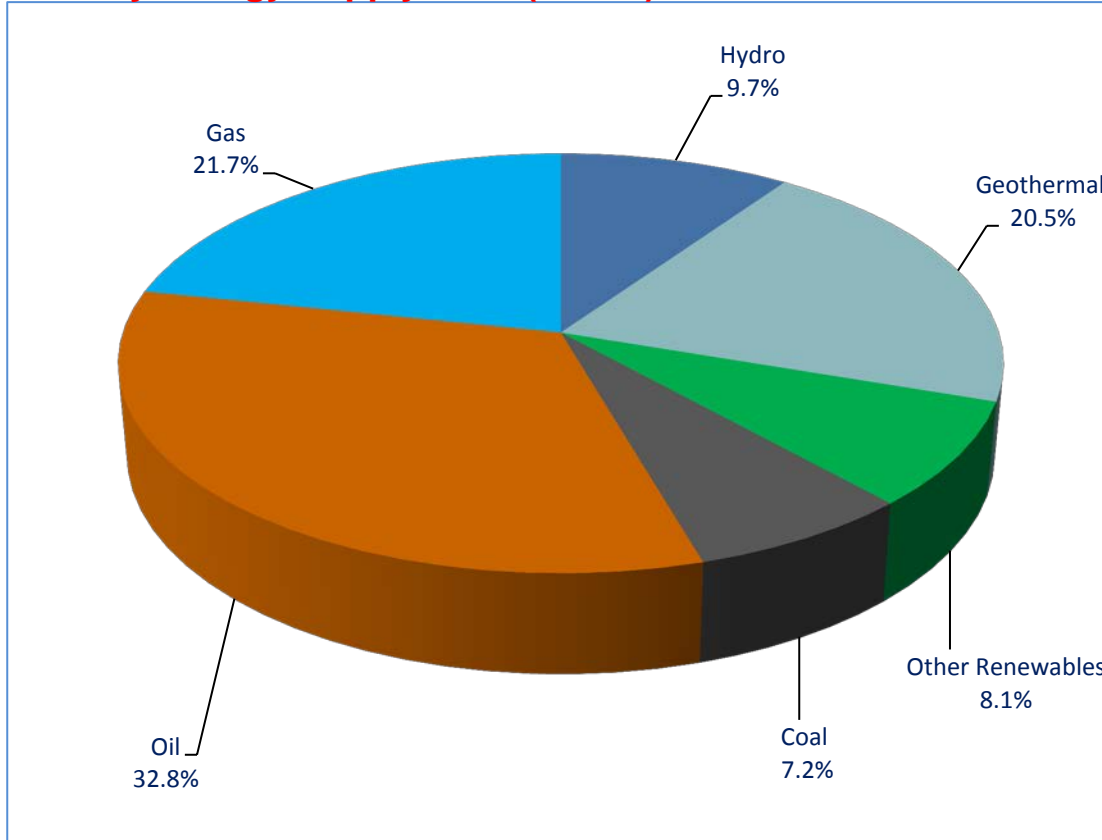
## Consumer Gas Use 2013 (174PJ)



Source: 2014 Energy in New Zealand  
Petrochemical usage accounts for 38.4% of total

# Gas provides 21% of NZ's primary energy

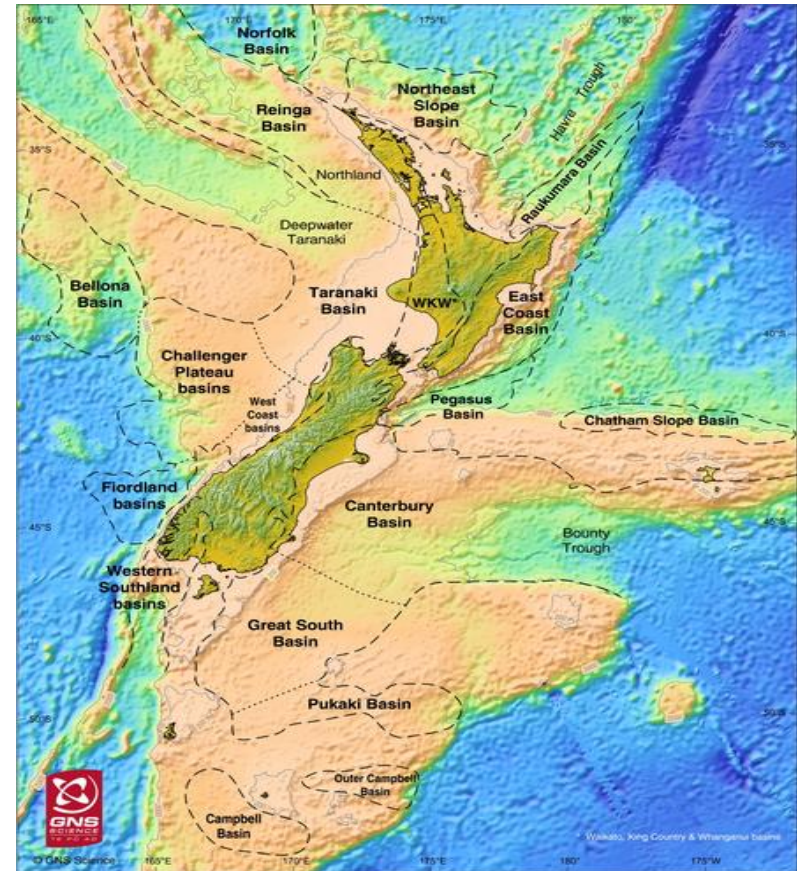
## Primary Energy Supply 2013 (854PJ)



Source: 2014 Energy in New Zealand

# New Zealand is still under-explored

- NZ has one of the world's biggest Exclusive Economic Zone (EEZ).
- 18 sedimentary basins – including the currently sole producing region Taranaki – are considered to be under-explored.
- Government promoting development/investment (Petroleum Action Plan)
- Fraser Institute, Canada, ranks New Zealand 20<sup>th</sup> most attractive jurisdiction for oil/gas investment worldwide – and most attractive in the Oceania region.



# Regulatory framework for NZ downstream gas sector

***NZ may be small, but with that comes virtues of simplicity.....***

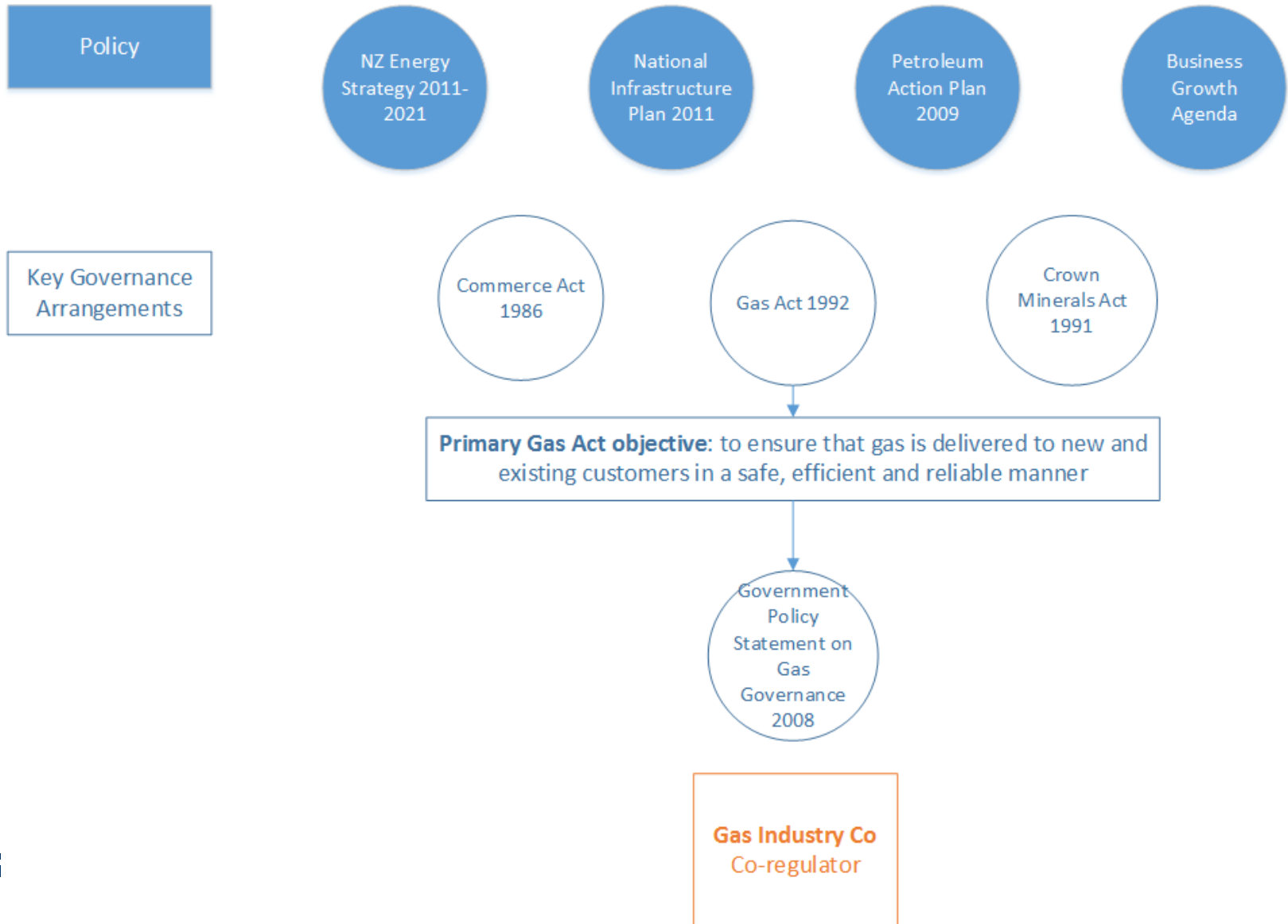
# NZ Government policy supports gas sector development

Government policies and legislation designed to:

- Find and develop petroleum resources in a sustainable manner for the benefit of all New Zealanders.
- Ensure resilient infrastructure.
- Regulate returns of natural monopoly activities.
- Ensure gas is delivered in a safe, efficient, reliable and environmentally sustainable manner.
- Protect consumer interests.



# Regulation falls out of policy...





## Gas Industry Co – the ‘co-regulatory model’

- Formed 2004 as a *co-regulator* of the downstream gas sector under Gas Act 1992
- Government/industry compact:
  - Healthy domestic gas market underpins Government energy policy and upstream investment
  - Industry wanted right-sized regulatory framework for small gas NZ gas industry
  - In return, industry needs to maintain Government confidence that greater intervention not warranted

# Gas Industry Co role

- GIC is the '**industry body**' under Part 4A Gas Act; Government Policy Statement on Gas Governance 2008
- As '**co-regulator**', GIC must:
  - consult
  - consider non-regulatory and regulatory options and
  - obtain Minister's approval for any proposed regulation
- GIC's principal objective is to develop governance arrangements that:  
*'ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner'*
- Other objectives:
  - **Barriers to competition** in the gas industry are minimised
  - **Incentives for investment** in gas processing facilities, transmission, and distribution are maintained or enhanced
  - Delivered **gas costs and prices** are subject to sustained downward pressure

## Gas Industry Co Governance

- Statutory establishes “industry body” as special purpose company
- Governed by Board of Directors:
  - Independent Chair and majority of Independent Directors
  - Remaining Directors – senior industry CEOs
- Shareholders – industry participants
- Funding – market fees and levy (set in regulations)
- Required to consult on proposed strategy, work programme and funding (published in annual Statement of Intent)
  - High levels of industry support for work programme and costs

# Result is a mix of regulatory and non-regulatory arrangements

Rules/regulations establish platform for downstream industry:

- Switching arrangements
- Downstream reconciliation
- Critical contingency management
- Compliance

# Result is a mix of regulatory and non-regulatory arrangements

Non-regulatory arrangements can also work well – e.g. “name and shame”:

- Gas Retail Contracts Oversight Scheme
- Gas Distribution Contracts Oversight Scheme
- Interconnection Guidelines
- Information Gathering Protocol
- Bridge Commitments (transmission capacity allocation)

# The co-regulatory model seems to work...

**After 10 years.....**

## **Customer choice/competition**

- 98% of consumers have a choice of at least 6 retailers
- Churn has tripled to around 17% / annum
- Switching time down to 7 business days (previously weeks / months)

## **Efficiency**

- Annual unaccounted-for gas (UFG) down to 1.1% (nearly halved)

## **Transparency**

- Customer numbers and volume market shares published
- Switching gains / losses readily available
- Market information routinely reported by media

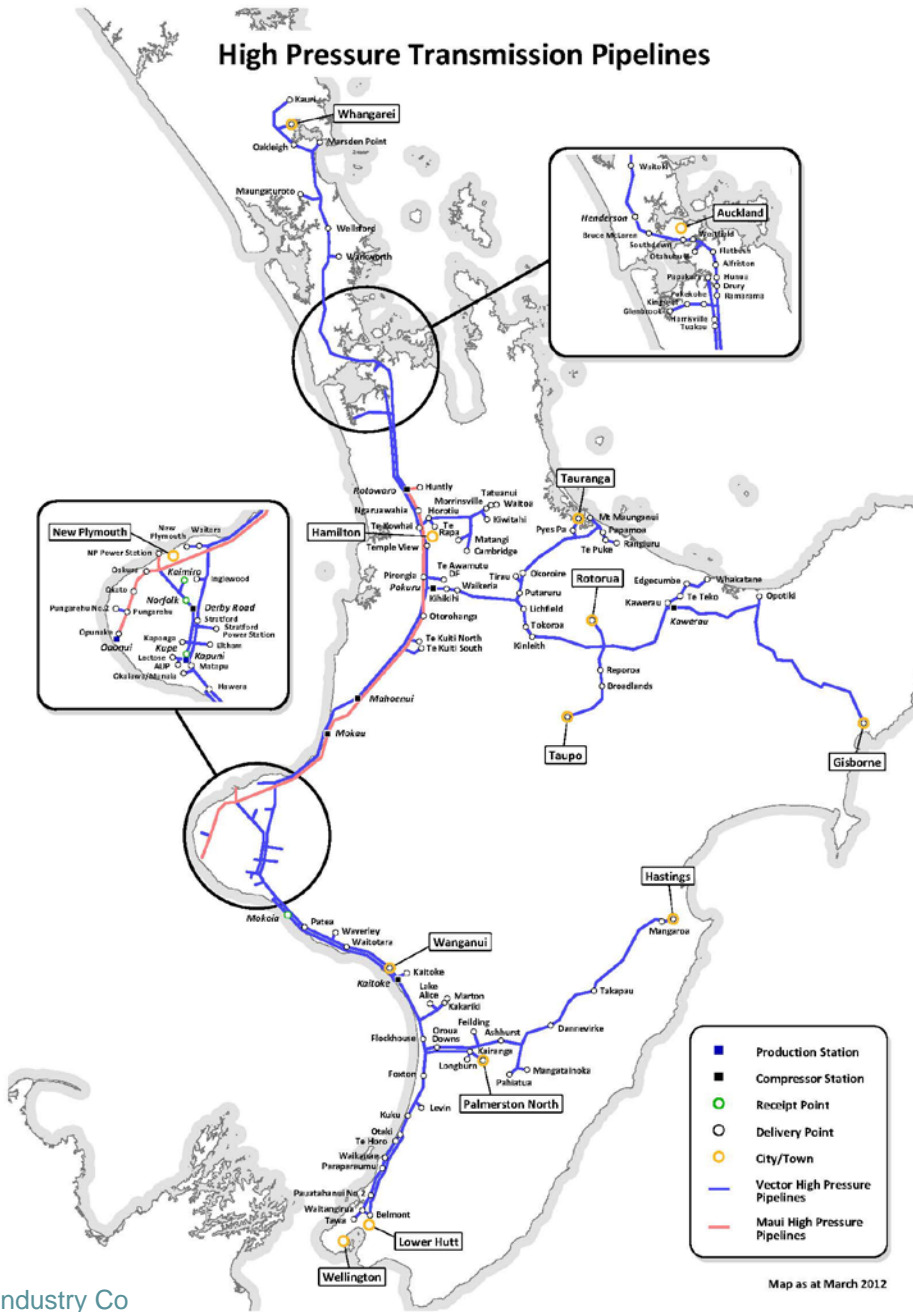
## **Consumer voice**

- Formal complaints process (Electricity & Gas Complaints Commission)

## **Compliance/Standards**

- High level compliance across all rules/regulations

# High Pressure Transmission Pipelines



## Case Study: gas transmission governance

# Case study: gas transmission governance

- Two open access transmission systems governed by:
  - multi-lateral codes (open access/allocation)
  - economic regulation (price/quality regime)
  - technical regulation (to international standards)
- 2009: contractual congestion concerns for key Auckland market
- 2011: peaky demand in Auckland



# Case study: gas transmission governance

- In 2010, industry asked GIC to lead a project
- Panel of industry experts met for two years (2011-13):
  - confirmed need to optimise existing pipelines; not invest in more pipelines
  - recommended industry-led “evolutionary convergence” of existing transmission codes rather than regulation
  - Proposed key principles/elements
- GIC has handed the issues to an industry working group
- GIC is developing ‘regulatory counterfactual’ if group fails to progress

## Concluding Comments

- NZ gas market is tiny, but has all key features
- Co-regulatory model seems to be working after 10 years
- Wouldn't fit all markets/jurisdictions
- But there is no single successful model for regulation...
- ...and we need to be open to what works in different circumstances
- Co-regulation speaks to how regulators engage industry/investors successfully