Amended FY2010 Levy for Gas Industry Co

Date issued: 2 March 2009
Submissions close: 13 March 2009

GAS INDUSTRY COMPANY LIMITED

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About Gas Industry Co.

Gas Industry Co was formed to be the co-regulator under the Gas Act.

As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

Authorship

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Submissions close: 13 March 2009

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Executive summary

In January 2009, Gas Industry Co released a paper entitled FY2010 Levy for Gas Industry Co (the Consultation Paper) and called for submissions from interested parties before making a recommendation to the Minister of Energy for the required levy regulations. The levy rates proposed in the Consultation Paper were:

- a retail levy of $7.91 per annum payable on each ICP, a 6.6% increase on the FY2009 rate of $7.42 per annum payable on each ICP;
- a wholesale levy of 1.77 cents per GJ of gas purchased directly from gas producers, a 1% reduction on the FY2009 rate of 1.79 cents per GJ; and
- a special one-off Gas (Downstream Reconciliation) Rules 2008 Establishment Costs Levy of $1,052,500, levied in proportion to allocated gas volumes.

Ten submissions were received. The overall tone of the submissions was such that Gas Industry Co did not feel it had the necessary level of industry support required to make an annual levy recommendation to the Minister.

Submissions asked Gas Industry Co to review its priorities in view of the cumulative effect of implementing five sets of rules in a short period and the economic downturn. This in essence involves two activities: looking at the arrangements the Company administers to make sure this work is done as cost effectively as possible and reviewing policy work on gas markets to ensure resources are allocated to the highest priority areas. Gas Industry Co has done both.

A particular challenge for the Company has been the costs of building the capability to deliver the approved gas governance arrangements and help the industry achieve compliance. This has been a key priority in the last 12 months and will be a focus in the next 12 months as well. The budget reflects this with approximately 45% of our operating costs related to the effective delivery of approved gas governance arrangements.

However we are mindful of the impact of our costs on the industry. Therefore we have cut approximately $527K from our estimated budget for FY2010. This is approximately 10% of our operating expenses, excluding the costs of service providers who have been appointed to deliver specific roles under the new rules and regulations. Longer term we are happy to engage with the industry on any other improvements which can be made to keep these costs as low as possible, which may involve changes to service levels or amendments to the framework under which we operate. The Company accepts we have to have an ongoing objective of ‘value for money’ market administration.

In the policy area we are still committed to a range of work which is designed to improve the fundamentals of gas markets in New Zealand but have decided to focus our efforts in the short term on the transmission access work stream, in particular balancing and interconnection. Inevitably this will mean that other policy work will shift further down the priority list. Gas Industry Co is keen to receive feedback on whether transmission access is the appropriate focus at this time. We also propose to have discussions with the Minister on his priorities areas of action given the dissatisfaction he has signalled with the current NZES.

As a result of this review the proposed levy rates for FY2010 are:

- a retail levy of $6.40 per annum payable on each ICP, a 14% decrease on the FY2009 rate of $7.42 per annum payable on each ICP;
- a wholesale levy of 1.67 cents per GJ of gas purchased directly from gas producers, a 7% reduction on the FY2009 rate of 1.79 cents per GJ; and
- a special one-off Gas (Downstream Reconciliation) Establishment Rules 2008 Costs Levy of $1,052,500, levied in proportion to allocated gas volumes.

The company needs to make an annual levy recommendation to the Minister of Energy by 30 March 2009 in order to be confident that new annual levy regulations will be in place before the start of the new financial year. This is of particular importance as the Company is forecasting substantially reduced cash reserves of $255K as at the end of June, primarily the result of the under recovery of the implementation costs of the downstream reconciliation rules in FY2009. To achieve this deadline, the timeframe for the second round of consultation needs to be considerably shortened.

Contents

1 Introduction

1.1 Background

Gas Industry Co is responsible for proposing arrangements to the Minister of Energy, which may include rules and regulations, in a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, and retail and consumer protection ('policy work'). The principal source of funding for policy work is through an annual levy on industry participants.

Where appropriate, Gas Industry Co is also involved in the implementation, administration, enforcement and review of approved gas governance arrangements ('market services work'). Funding for market services work comes partly from an annual levy on industry participants and partly from fees collected under the relevant rules or regulations ('market fees'). Gas Industry Co has elected to recover all its internal costs from the annual levy and to recover the costs of external service providers from market fees.

Section 43ZZB of the Act enables Gas Industry Co to recommend to the Minister of Energy that levy regulations be made each year requiring industry participants to pay an annual levy to Gas Industry Co. The annual levy is to recover the estimated costs of Gas Industry Co exercising its functions as the industry body under Section 43ZZC of the Act. The proposed annual levy is based on Gas Industry Co's policy work programme, its market services work, including statutory roles under various approved gas governance arrangements, and budget.

The provision for recovering market fees is through Section 43S of the Act, which deals with a number of supplementary issues including exemptions, provision of information, appointment of service providers and funding by participants. The consultation on market fees occurs at the point of issuing the respective statements of proposal and is informed by the cost and benefit assessment at that time.

In January 2009, Gas Industry Co released a Consultation Paper on the FY2010 Annual Levy and called for submissions from interested parties before making a recommendation to the Minister of Energy for the required annual levy regulations. Submissions closed on 5 February 2009. Ten submissions were received. The overall tone of the submissions was such that Gas Industry Co did not feel it had the necessary level of industry support required to make an annual levy recommendation to the Minister.

Consequently, the Company has decided to review its Indicative Work Programme and associated budget for FY2010 with a view to revising the proposed annual levy.

This amended Consultation Paper address the concerns raised by Industry and presents an alternative annual levy proposal for FY2010.

2 Call for Submissions

Gas Industry Co invites submissions on the proposed annual levy and the associated issues set out in this paper. Specific matters on which submissions are sought are set out in each section of the paper, and a suggested format for submissions is set out in the template in Appendix A.

Submissions can be made by registering on Gas Industry Co's website, downloading the submission template, and uploading your submission. All submissions will be published on this website after the closing date. All submissions remain editable up to closure date. One hard copy of the submission should be posted to:

Peter Davies
Gas Industry Co
PO Box 10-646
Wellington 6143
New Zealand

Please note that because of severe time constraints, the closing time for submissions is 4pm on Friday 13 March 2009. Submissions received after this date will not be able to be considered as Board papers need to be completed by 17 March 2009. Early submissions are welcome.

Gas Industry Co values openness and transparency and therefore submissions will be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

3 General Issues Raised in Submissions

A Consultation Paper on the FY2010 annual levy was issued to stakeholders on 16 January 2009, with submissions sought by a closing date of 5 February 2009. Stakeholder workshops were held on Wednesday 21 and Wednesday 28 January 2009, to explain the proposals and to answer any questions prior to stakeholders preparing submissions.

There were ten submissions in response to the Consultation Paper. A summary of these submissions is set out in Appendix B. Gas Industry Co's analysis of these submissions and responses is set out below.

3.1 Impact of General Economic Situation

What the submissions said

The most prevalent general comment made in the submissions was the FY2010 annual levy should reflect the general economic downturn and international financial crisis. This was further elaborated upon with comments to the effect that Gas Industry Co needed to be cognisant of the changing economic environment that participants operate in and the increasing expectation that expenditure of all types needs to be restrained.

Gas Industry Co response

Prior to the Consultation Paper being released, Gas Industry Co had already implemented significant expenditure controls. This initiative was originally associated with funding the unbudgeted expenditure arising from the implementation of the Gas (Downstream Reconciliation) Rules 2008. However, it became an ongoing process of examining all expenditure against the objective of delivering value-for-money for stakeholders as the general economic situation worsened during the course of the financial year.

Nevertheless, Gas Industry Co is aware that in response to current economic circumstances, most organisations are conducting extensive reviews of their expenditure to identify where savings can be made. The Company has now conducted a further review and identified some additional initiatives that would reduce the annual levy burden on the industry by approximately $527K. These initiatives include a reduction in expenditure, particularly overhead costs, and a deferral of some work stream activity, pending agreement with the Minister.

Gas Industry Co has sought to identify areas of cost savings that could be made without permanently affecting either its market administration activities or policy development capability. In this regard, its budgeted corporate costs have been trimmed through a combination of reductions in staff costs, scaling back discretionary activities such as communications, and the postponement of planned development work such as enhancements to the company website and financial system. Gas Industry Co has found this exercise difficult, given the Company's unique governance arrangements, including its Gas and Companies Act reporting requirements.

3.2 GPS Reprioritising

What the submissions said

A common comment made in submissions was that Gas Industry Co should investigate a cut back on its indicative work program in FY2010, either through a re-prioritisation of its planned work programme or a renegotiation of the Government Policy Statement on Gas Governance (GPS) deliverables with the Minister of Energy. With only a few exceptions, submitters did not share the same views on which items should be deferred.

Gas Industry Co response

Gas Industry Co's legal obligation is to make recommendations to the Minister of Energy to meet the Government's objectives for the gas sector, as detailed in the Gas Act 1992, the GPS and its constitution. Gas Industry Co intends to engage with the new Government on its objectives and desired outcomes for the gas industry and re-prioritise the Company's work programme in response to that. In the meantime, Gas Industry Co will require funding to continue its market services activities and its priority policy work. The revised budget takes submitters' views into account by seeking to defer work from the FY2010 programme which has not begun or is in its formative stages and to afford a lower priority to some current work programmes.

In particular, the revised budget provides a lower priority to projects such as the direct use of gas and distribution access and a medium priority to further work on retail contracts. In addition, we have scaled back the strategic priority of developing a framework for monitoring industry performance to concentrate primarily on developing indicators to measure the impact of approved gas governance arrangements. These proposals will need to be approved by the Minister as part of our annual Strategic Plan process.

3.3 Levy Structure and Market Fees

What the submissions said

The majority of submissions had no comment on the proposal to retain the existing levy structure which allocates the policy work and market services work into two separate levies: a retail levy which is allocated on a per ICP basis and a wholesale levy which is allocated on a per GJ basis. However one respondent suggested altering the levy structure to include a charge to Gas Pipeline Businesses.

A number of respondents answered this question by suggesting a change in the levy structure so that market fees form part of the annual levy. Some industry participants consider it is misleading and meaningless to isolate the annual levy from market fees, primarily because both costs ultimately impact on the consumer. One respondent considered the introduction of market fees had materially altered the levy structure. Another suggested that if all retail costs were included in the retail levy it would be easier to pass these costs on to customers. Another suggested the imposition of market fees might be outside the powers in the Gas Act.

Gas Industry Co response

The Company has previously considered introducing a separate annual levy on pipeline companies, but elected not to pursue it as it considered the levy would be passed onto shippers and end up being paid by the same people, and in the same proportions, as the current wholesale levy.

Gas Industry Co wants the costs of the new gas governance arrangements to be obvious. Industry has previously emphasised the importance of the Company being transparent about the total costs of its activities, which is why both sets of fees were disclosed in the Consultation Paper.

However, the inclusion of market fees in the Consultation Paper led some submitters to believe those fees are open to further consideration. This is not correct. The arrangements for setting and collecting market fees are specific to the respective rules and regulations and include similar checks and balances to those undertaken in developing the annual levy, including the requirement to consult with affected parties and to publish information about expected costs.

Market fees exist primarily to allow Gas Industry Co to enter into service provider contracts with terms exceeding one year. Having market fees gives the Company and potential service providers' confidence to enter into long-term contracts with each other. The Company believes that long-term arrangements, such as the five-year contract for the registry operator, result in lower overall costs for the industry, as they remove a significant element of risk from the service providers' viewpoint.

Gas Industry Co has no view about whether it is necessary for retailers to list out all of their input costs on invoices to their customers.

3.4 Focus on Costs

What the submissions said

Most submitters were looking for evidence that the Company's proposed activities would provide clear, tangible benefits to the industry. Two submissions made extensive comment on their analysis of the total increase, including items outside the annual levy, such as market fees. Other submissions emphasised the need for Gas Industry Co to be demonstrating value for money.

Gas Industry Co response

Gas Industry Co accepts that an unavoidable consequence of the new gas governance arrangements coming into effect is that the total funding requirement (ie levies plus market fees) payable to Gas Industry Co has increased relative to the previous year. The costs associated with the new arrangements and recovered by Gas Industry Co are easily identified and completely transparent. The benefits arising from these arrangements however (including costs savings incurred by individual companies), are not as readily identifiable.

Levy payers are reminded that Gas Industry Co is required to undertake an assessment of the costs and benefits associated with its proposal when making each recommendation to the Minister. As a general rule, a policy recommendation will only be made when the net present value of the costs are exceeded by the benefits. Therefore, the ongoing gas governance arrangements are expected to deliver cost savings and not increase costs. In preparing its assessments of the costs and benefits, Gas Industry Co relies on savings estimates quantified by industry participants. Gas Industry Co also relies on competition to ensure those benefits flow down to consumers.

Therefore, although costs are being imposed, they bring benefits. Appendix C reviews the cost benefit assumptions of some of the existing governance arrangements.

4 Amended Work Programme

This section describes the nature and intended scope of Gas Industry Co's operations for FY2010, divided into policy development, market services and corporate support.

4.1 Policy Development

In the policy area, Gas Industry Co is committed to a range of work designed to improve the fundamentals of gas markets in New Zealand, but proposes to focus its efforts in the short term on the transmission access work stream, in particular balancing and interconnection. It will also progress work on consumer issues as a medium priority, particularly the joint project with the Electricity Commission on the approval of a dual fuel consumer complaints scheme. This prioritisation and the deferral of other work programmes results in a reduction of the budget.

Gas Industry Co also proposes to discuss priorities with the Minister, given the dissatisfaction he has signalled with the current NZES. However the financial impact of any changes is uncertain. The FY2010 budget will therefore maintain a provision for additional tasks or revised priorities the Government may request as a result of potential changes to existing policies, such as the NZES or GPS.

Subject	Activities and Milestones	Estimated costs
Policy Priorities	• Complete recommendations to Minister on policy priorities areas in accordance with published policy process. The policy priorities are:	
	o Pipeline Balancing; and	$421,275
	o Interconnection.	$76,150
	• Progress work on Consumer Issues, including the complaints resolution scheme.	$73,974
	• Engage with industry and Government to ascertain views on an amended GPS and commence any agreed priorities.	$129,422
	Total	**$700,821**

4.2 Market Services

With a range of gas governance arrangements now in place, Gas Industry Co's role becomes predominantly one of a market service provider to the gas industry. The specific nature of these activities, in relation to each of the approved arrangements, is listed in the table below.

Gas Industry Co also undertakes a significant amount of work across the retail, wholesale and pipeline work areas which may best be termed 'facilitative'. Examples of this work include: the Maui pipeline over-pressure forums; transmission code change roles; and various seed papers and forums in respect of the transition to the new contingency arrangements.

These facilitative roles are funded from the Gas Industry Co annual levy and this seems appropriate because:

- the benefits often are spread more widely than those who may be directly involved;
- individually, the pieces of work are relatively small and the administrative costs involved in recovering fees would be unnecessarily burdensome; and
- funding from the annual levy overcomes any free-riding issues (provided Gas Industry Co does not get involved in work which is only for the benefit of a very few participants).

Feedback from industry participants indicates that these roles are valued and that Gas Industry Co is viewed as the appropriate body to undertake them. Accordingly, the budget includes allowances for the cost of these roles. The alternative would be for Gas Industry Co to either withdraw from these roles or to begin charging industry participants directly for undertaking such work (eg by recovering costs under the MPOC and VTC arrangements).

Approved Gas Governance Arrangement	**Description of Market Administration Role**	**Estimated direct cost**
Gas (Downstream Reconciliation) Rules 2008	Monitoring the allocation agent in accordance with the service provider agreement. Carry out functions assigned to the Company by the rules, such as determining fees and accuracy standards for mass market consumption information, producing profile guidelines, and determining customer designations. The Company will also need to make decisions on exemptions and assist with enforcement, market education and administration. In the plan year, it will also need to establish a framework for a review of the effectiveness of the new arrangements and progress any rule changes resulting from that review or industry requests.	$1,258,554

Approved Gas Governance Arrangement	**Description of Market Administration Role**	**Estimated direct cost**
Gas (Switching Arrangements) Rules 2008	Monitoring services provided by the Registry Operator in accordance with the service provider contracts, processing system change requests, co-ordinating system upgrades and testing, database and administrative assistance in enforcement matters, market education and other administrative activities. In the plan year it will also need to establish a framework for a review of the effectiveness of the new arrangements and progress any rule changes resulting from that review or industry requests.	$557,053
Gas Governance (Compliance) Regulations 2008	Receive and process allegations of breaches of approved arrangements in accordance with Compliance Regulations including making decisions on materiality. Oversee operation of investigator and Rulings Panel. Review effectiveness of arrangements and make changes as necessary.	$312,809
Gas (Processing Facilities Information Disclosure) Rules 2008	Ensure all disclosures are kept up to date, report to the Minister on access seekers and, in the event of non-disclosure, assist in any enforcement actions.	$15,649
Gas Governance (Critical Contingency Management) Regulations 2008	Manage the critical contingency operator in accordance with the service provider contract, approve any amendments to critical contingency management plans, market education and other operational matters, assist in any enforcement actions, administer the process of payments and receipts for contingency imbalances following a critical contingency, undertake review of arrangements in event of any contingency. In the plan year it will also need to establish a framework for a review of the effectiveness of the new arrangements and progress any rule changes resulting from that review or industry requests.	$886,039
Wholesale Market (Trial)	The activity is expected to include overseeing the operation of a market trial and then evaluating the results.	$141,292
Other Market Services	Industry facilitation roles including MPOC/VTC changes	$365,833
Total		**$3,537,229**

4.3 Corporate support

Over the last 12 months Gas Industry Co has been steadily building its capability to meet its new statutory requirements and the needs of its stakeholders who expect a high level of transparency and corporate accountability. Currently its 'Corporate' cost component includes the costs of stakeholder communications and internal governance, the support functions of finance, human resources, project management, IT infrastructure, administrative support, and other overheads such as premises and depreciation. It also includes non-work stream-related legal advice and corporate governance services. The Company intends to constantly review the nature and extent of the corporate support function in order to ensure it is being provided in the most efficient and cost-effective manner.

	Estimated FY2010
Board	$327,342
Corporate	$1,983,490
Legal	$171,087
Total	**$2,481,919**

Q1: Do you consider we have correctly identified the policy priorities for FY2010?

Q2: Do you agree that it is necessary for the FY2010 annual levy to fund the roles under the approved gas governance arrangements?

Q3: Do you agree we need to review the effectiveness of rule changes and make changes to those rules where appropriate?

Q4: Do you agree the industry facilitative roles described above are valuable and that it is appropriate to budget for, and use, levy funds in this manner?

5 Specific Issues Raised in Submissions

5.1 One-off Downstream Reconciliation Establishment Fee

What the submissions said

While there was no disagreement with the need to recover these costs, there was significant disagreement with the proposal to recover the establishment costs of the Gas (Downstream Reconciliation) Rules 2008 by way of a one-off Special Purpose Levy.

Most of the objections relate to the undesirability of imposing a capital cost on the industry in one hit, rather than spreading that costs over the life of the system. Others objected to the proposed allocation methodology and suggested an ICP based levy would be more equitable.

Gas Industry Co response

Gas Industry Co agrees it would be preferable if the costs associated with implementing the Gas (Downstream Reconciliation) Rules 2008 could be spread over the duration of the service provider contract. Unfortunately, the Company was not able to negotiate such an arrangement with the selected service provider in this instance, in the timeframe available. Given its reliance on an annual funding agreement, Gas Industry Co is not in a position to underwrite long-term contracts for the industry.

We believe some the matters raised in submissions could be adequately dealt with as matters of internal policy for the companies concerned.

5.2 Definition of 'gas producer'

What the submissions said

In its submission Contact Energy expressed concern that the definition of 'gas producer' as defined in the Gas Act and incorporated into the annual levy regulations created some uncertainty around the point of time at which the wholesale levy is payable.

Gas Industry Co response

The Gas Act defines a 'gas producer' as a 'person who supplies gas that is transmitted on gas transmission or distribution pipelines'. This was a new definition added at the time the Act was amended in 2004 to add Part 4A - presumably because it was intended that upstream gas producers should be covered by the provisions of that Part of the Act but not the other parts. The levy regulations require that the wholesale levy is payable on every 'gigajoule of gas that was purchased by [an] industry participant directly from gas producers during the previous month'. Contact Energy suggests that the definition of gas producer means that the levy could be payable at any point where gas is 'purchased' on the gas supply chain. For example, the levy could be payable where the gas is purchased by a gas retailer from a gas wholesaler because the gas wholesaler could be defined as a person who is 'supplying gas that is transmitted on a gas transmission or distribution pipeline'.

Gas Industry Co does not believe that this is the intended effect. The ordinary meaning of the term 'gas producer' is a person who produces gas from a gas field. The proviso in the definition that the gas must be transmitted on a gas transmission or distribution pipeline excludes, for example, gas which is flared or used as fuel in the production station. Further, a 'gas producer' is distinguished in the Gas Act from a ‘gas wholesaler’ and a ‘gas retailer’ who are clearly intended to be persons operating downstream of the person who produces the gas from a gas field (although they may be subsidiaries of the gas producer as is made clear in the definition of gas wholesaler).

Gas Industry Co’s intention is that the wholesale levy is only payable once in respect of any gas purchased from a producer and injected into the transmission system. This is the case even where that gas may be ‘traded’ more than once before it is received by the end user. It is intended that the levy should be payable by the purchaser at the initial point of purchase in the chain of downstream transactions. That is, the levy is payable at the point where the gas is purchased from the person who ‘produced’ the gas - whether it is purchased by a gas wholesaler (which may be a subsidiary of the gas producer), gas retailer or end user. The levy is not payable at the point where a gas retailer purchases the gas from a gas wholesaler, or an end user purchases the gas from a gas wholesaler or gas retailer. It is, however, payable where an end user purchases gas directly from a gas producer.

Contact Energy points to two particular circumstances which may cause difficulties under the levy regulations. The first is where a gas producer is selling gas to a related party such as a subsidiary which is acting as a wholesaler or retailer in the gas market. Contact suggests in those circumstances there may not be a ‘purchase’ for the purposes of the levy regulations.

The definition of 'gas wholesaler' includes any person any subsidiary of which is a gas wholesaler. It appears that the purpose of this definition was to ensure that gas producers with subsidiaries which act as gas wholesalers are covered by the provisions of the Act. That definition preceded the addition of the definition of gas producer in 2004. Gas Industry Co’s intention is that the levy should be payable on 'purchases' of gas from gas producers and their subsidiaries which act as gas wholesalers or retailers - whatever form those transactions may take. Gas Industry Co therefore proposes to amend the levy regulations to make it clear that the levy is payable where a gas producer is supplying gas to a related party which is operating as a gas wholesaler or gas retailer, including making it clear from which gas producer that gas has been purchased.

Contact Energy also suggests that the levy regulations need to clarify whether the levy is payable on gas purchased from gas storage facilities such as the facility that Contact Energy is establishing at the Ahuroa field.

It is not Gas Industry Co's intention that the levy should be payable on purchases from a gas storage facility as the levy will have already been paid when the gas was first produced and injected into the transmission system, for transport to the storage facility. Gas Industry Co therefore proposes to amend the levy regulations to provide that the wholesale levy is not payable on purchases from gas storage facilities.

5.3 Allocation of Downstream Reconciliation Ongoing Costs

What the submissions said

In its submission, Vector acknowledges the one-off development cost of the Gas (Downstream Reconciliation) Rules 2008 will need to be recovered but strongly believes the proposed recovery mechanism does not reflect the causer pays principle. More specifically, it believes the cost should fall on the mass market or, non time-of-use ('non-TOU') ICPs, which in its opinion drive the work-load of the reconciliation agent and who are principally responsible for UFG.

Gas Industry Co response

Gas Industry Co considers it would be very difficult to deviate from the formula contained in current rules as:

- it is consistent with existing rules on the allocation of the ongoing costs involved in Downstream Reconciliation;
- it is consistent with an assumption that the allocation of ongoing costs reflects the respective utility of the system to users; and
- it replicates the method likely to have been used if provision had been made for the recovery of the development costs in the current rules.

Gas Industry Co note that Vector have submitted an exemption application requesting a change in the Gas (Downstream Reconciliation) Rules 2008 cost allocation formula, and consider this the more appropriate approach to take with addressing this particular issue.

6 Budget

6.1 FY2010 budget

Table 1: FY2010 Budget Analysis

	Direct External	Direct Salaries	Direct Total	Overhead	Market Fees	Total
Retail Work Programme Costs						
Downstream Reconciliation	904,000	148,396	1,052,396	275,249	(904,000)	423,645
Switching	300,000	165,804	465,804	227,722	(300,000)	393,527
Industry Performance	25,000	12,506	37,506	39,788		77,294
Retail & Consumer Issues	102,500	110,693	213,193	229,994		443,187
GPS	50,000	14,711	64,711	51,430		116,141
Rule Changes	130,000	30,124	160,124	133,718		293,842
Compliance	169,120	39,575	208,695	81,563	(169,120)	121,138
Total Retail Work Programme Costs	**1,680,620**	**521,809**	**2,202,429**	**1,039,464**	**(1,373,120)**	**1,868,773**
Wholesale Work Programme Costs						
Critical Contingency Management	600,000	151,041	751,041	157,799	(600,000)	308,839
Wholesale Market	-	118,148	118,148	124,162		242,309
Industry Performance	25,000	12,506	37,506	39,788		77,294
Wholesale Issues	135,000	-	135,000	138,861		273,861
Gas Processing	-	13,085	13,085	13,752		26,837
GPS	50,000	14,711	64,711	51,430		116,141
Balancing	260,000	161,275	421,275	436,921		858,196
Interconnection	30,000	46,150	76,150	79,357		155,507
MPOC / VTC	145,000	97,327	242,327	251,428		493,755
Other	55,000	68,506	123,506	128,566		252,072
Compliance	42,280	10,594	52,874	20,391	(42,280)	30,985
Total Wholesale Work Programme Cost	**1,342,280**	**693,343**	**2,035,623**	**1,442,454**	**(642,280)**	**2,835,797**
Total Work Programme Costs	**3,022,900**	**1,215,152**	**4,238,052**	**2,481,918**	**(2,015,400)**	**4,704,570**

6.2 Sources of funding

The tables below sets out the expected source of funding (annual levy or market fees) for each of the four work areas for FY2010.

Table 2: FY2010 Funding Sources

Work Area		Recovery Mechanism	Costs
Policy work	Retail markets	• Costs recovered from Retail levies.	$138,685
Policy work	Wholesale markets	• Costs recovered from Wholesale levies.	$64,712
Policy work	Pipeline access	• Costs recovered from Wholesale levies.	$497,425
Business as usual	Market Services	• One-off levy is proposed for establishment costs of Gas (Downstream Reconciliation) Rules 2008.	$1,052,500
		• Existing rules and regulations provide for recovery of costs of service providers and external consultants from market fees.	$2,015,400
		• Annual retail levy for Gas Industry Co retail costs. • Annual wholesale levy for Gas Industry Co wholesale costs.	$1,521,829
	Corporate	• Costs recovered from annual levy in proportion to direct costs of the aggregated expenditure on wholesale and retail projects.	$2,481,919
			$7,772,470

Table 3: FY2010 Funding Sources

Source of funds	Amount ($000)
Annual Levies:	
• Wholesale levy	$2,835,797
• Retail levy	$1,868,773
Subtotal	**$4,704,570**
Market fees	$2,015,400
Subtotal	**$6,719,970**
Gas (Downstream Reconciliation) Rules 2008 Establishment Costs Levy	$1,052,500
Total Funding	**$7,772,470**

6.3 Comparison of FY2010 costs with previous years

Table 4 presents a comparison of the retail revenue requirements for FY2009 and FY2010 on an annualised basis. It shows an overall decrease in the retail revenue requirement of $564,795 (12%).

Two significant items of expenditure are one-offs – the establishment costs of $1,075K for the switching and $1,053K for the reconciliation rules. The reconciliation establishment costs were incurred in FY2009 but will be recovered in FY2010 under the proposals previously described. Other items of increase are of a permanent nature and relate to the step change in the Company's activities as it takes on new market services work.

Table 4: Gas Industry Co - Retail Funding Comparison

Source of Income	FY2009	FY2010	Comment
Retail Funding Requirement	$1,951,389	$1,868,774	FY2010 now includes all GIC internal costs of market administration.
Market fee for Switching & Registry establishment costs	$1,075,360	0	
One-off annual levy for Downstream Reconciliation establishment costs	0	$1,052,500	
Ongoing Market Fees	$1,603,891†	$1,345,090	FY2009 included a portion of GIC direct costs which are now part of the levy.
Gross Retail Revenue Requirement	**$4,630,640**	**4,266,364**	
less over-recoveries and interest	($95,612)	($296,131)	Proportionate share of Industry Advances Reserve as at FY2008.
Net Retail Funding Comparison	**4,535,028**	**$3,970,233**	

† Estimated per annum basis. Estimated costs for FY2009 are $1,097,188

Table 5 presents a comparison of the wholesale revenues for FY2009 and FY2010 on an annualised basis. It shows an overall decrease in the wholesale revenue requirement of $127,903 (4%).

Table 5: Gas Industry Co - Wholesale Revenue Comparison

Source of Income	FY2009	FY2010	Comment
Wholesale Revenue Requirement	$3,028,388	$2,835,797	FY2010 now includes all GIC internal costs of market administration.
Ongoing Market Fees (per annum basis)	$653,547‡	$670,310	FY2009 included a portion of GIC direct costs which are now part of the levy.
Gross Wholesale Revenue	**3,681,935**	**3,506,107**	
less over-recoveries and interest	($437,897)	($389,972)	Proportionate share of Industry Advances Reserve as at FY2008.
Net Wholesale Funding Comparison	**$3,244,038**	**$3,116,135**	

‡Estimated per annum basis. Estimated costs for FY2009 are $123,547

6.4 Other revenue and over- and under-recoveries of the levy

To determine the final annual levy funding requirement, work programme costs need to be adjusted for other revenue and over- and under-recoveries of prior years' levies. As at 30 June 2008, Gas Industry Co had a retained earnings balance of $1,165,857. This figure represented $599,309 from over-recoveries the Company has collected from the retail and wholesale levy between FY2006 and FY2009, $400,000 in accumulated annual shareholder fees and $166,548 in net interest. The table below analyses these amounts in more detail.

Year	Wholesale levy (Under)/Over-recovery	Retail levy (Under)/Over-recovery	Total levy (Under)/Over-recovery	Annual fee	Net interest income	Retained earnings	Cumulative retained earnings
FY2005	(712,580)	(493,314)	(1,205,894)	100,000	10,581	(1,095,313)	(1,095,313)
FY2006	219,583	402,417	622,000	100,000	40,828	762,828	(332,485)
FY2007	529,086	35,856	564,942	100,000	42,361	707,303	374,817*
FY2008	356,050	262,209	618,259	100,000	72,781	791,040	1,165,857
Sub Total	***392,138***	***207,168***	***599,306***	***400,000***	***166,551***	***1,165,857***	***1,165,857***
FY2009†	(77,315)	(1,111,487)	(1,188,802)	90,000	55,551	(1,043,251)	122,606
TOTAL	**314,824**	**(904,320)**	**(589,496)**	**490,000**	**222,102**	**122,606**	**122,606**

* Previously $379,754 prior to IFRS restatement in FY2008

† Estimated

Allowing for the retention of $100K in annual fees from FY2008 and factoring in the $379,754 to be returned to levy payers over FY2009, the total amount available to apply against the FY2010 annual levy is $686,103. This equates to a reduction in the retail funding requirement of $296,131, and $389,972 in the wholesale funding requirement.

6.5 FY2010 Levy funding requirement

Calculation of the FY2010 annual levy funding requirement is based on the following methodology:

- allocating direct costs to each work stream;
- allocating indirect costs based on the proportion of total direct costs of each work stream;
- deducting revenue from dedicated fees from the relevant work streams; and
- allocating of a proportion of the Industry Advances Reserve balance to the retail and wholesale areas of activity.

Table 3 - Annual levy Funding Requirement

	Retail	Wholesale	Total
Work Programme Direct Costs	2,202,429	2,035,623	4,238,052
Work Programme Indirect Costs	1,039,464	1,422,454	2,841,919
Sub-total	**3,241,894**	**3,478,077**	**6,719,971**
Less Over Recovery from Prior Levies	(296,131)	(389,972)	(686,103)
Sub-total	2,945,763	3,088,105	6,033,868
Less Market Fee Recovery	(1,345,090)	(670,310)	(2,015,400)
Total Levy Funding Requirement	**1,600,673**	**2,417,795**	**4,018,468**

In addition, a one-off levy of $1,052,500 is proposed to recover the costs of the unbudgeted reconciliation development costs in FY2009. The industry has already been advised of the intention to have a one-off levy in FY2010 for these costs.

Q5: Do you support the annual levy funding requirement for FY2010?

7 Revised Levy Proposal

7.1 Levy assumptions

The following volume assumptions have been made to calculate the annual levy rates for FY2010:

- ICP numbers for FY2010 will be approximately 250,000. This estimate was used to calculate the FY2009 levy rate and has been reconfirmed through an independent analysis of ICP numbers disclosed as a result of the Switching and Registry implementation.

- Wholesale gas volumes will be 145 PJ in FY2010. This estimate was used to calculate the FY2009 levy rate. Gas Industry Co evaluated an increase in assumed wholesale gas volumes in anticipation of an expected increase of methanol production during FY2010. However, there have been made significant reductions in the wholesale volumes of some levy payers in the current financial year and the Company is consequently reluctant to assume total wholesale gas volumes will increase in the current economic climate.

7.2 Retail and wholesale levies

Based on these assumptions, the table following presents the calculation of the retail and wholesale levies for FY2010:

	2009/10 Retail	Wholesale	Total
Direct Costs	2,202,429	2,035,623	4,238,052
Proportion of Direct Costs to Total Costs	*52.0%*	*48.0%*	
Indirect Costs	1,039,464	1,442,454	2,481,919
Total Work Programme Costs	**3,241,894**	**3,478,077**	**6,719,971**
Deduction of Market Fees	(1,345,090)	(670,310)	(2,015,400)
Allocation of Other Revenue	-	-	-
Under (Over) Recovery of Levy	(296,131)	(389,972)	(686,103)
	(1,641,221)	**(1,060,282)**	**(2,701,503)**
Total Retail Levy Funding Requirement	**1,600,673**	**2,417,795**	**4,018,468**
Volume Units	*ICPs*	*GJ*	
Volume	250,000	145,000,000	
Levy Unit	*$/ICP*	*cent/GJ*	
Levy Rate	**6.40**	**1.67**	
Projected Levy Revenue	**1,600,673**	**2,417,795**	**4,018,468**

The proposed annual levy rates for FY2010 are therefore:

- a retail levy of $6.40 per annum payable on each ICP. This is a decrease of 14% on the FY2009 rate, which was $7.42 per annum payable on each ICP;
- a wholesale levy of 1.67 cents per GJ of gas purchased directly from gas producers. This is a 7% reduction on the FY2009 rate, which was 1.79 cents per GJ; and
- a special one-off Gas (Downstream Reconciliation) Rules 2008 Establishment Costs Levy of $1,052,500 levied in proportion to allocated gas volumes.

Q6: Do you support the proposed annual levy for FY2010?

Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. Respondents are also free to include other material in their responses.

Submission prepared by: ……………………………………………………………………….. (company name and contact)

Question	Comment
Q1: Do you consider we have correctly identified the policy priorities for FY2010?	
Q2: Do you agree that it is necessary for the FY2010 annual levy to fund the roles under the approved gas governance arrangements?	
Q3: Do you agree we need to review the effectiveness of rule changes and make changes to those rules where appropriate?	
Q4: Do you agree the industry facilitative roles are valuable and that it is appropriate to budget for, and use, levy funds in this manner?	
Q5: Do you support the annual levy funding requirement for FY2010?	
Q6: Do you support the proposed annual levy for FY2010?	

Appendix B Submissions Summary

Parties responding

- CHH Pulp & Paper (Roger Kestle)
- Contact Energy Ltd (Jan de Bruin)
- Energy Direct NZ (Tara Gannon)
- Genesis Energy (John Carnegie)
- Methanex New Zealand Ltd (Matthew Gardner)
- Mighty River Power (Robert Allen)
- Nova Gas Ltd (Charles Teichert)
- Origin Energy Ltd (Tony Bissell)
- Powerco Limited (Paul Goodeve)
- Vector Limited (Nathan Strong)

Summary of submissions

The summary below analyses the responses to each question posed in the Consultation Paper. Other and more general issues are also summarised.

General Issues Raised

Summary of responses: The most prevalent general comment (eight out of ten submissions) is the FY2010 annual levy should reflect the general economic downturn and international financial crisis. Most respondents who commented on this issue suggested Gas Industry Co cut back on its planned work program in FY2010, either through a re-prioritisation of its planned work programme (Contact; Methanex; Powerco; Vector) or renegotiate GPS deliverables with the Minister of Energy (Carter Holt Harvey; Genesis; Mighty River Power; Nova).

Table 1 : Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	It was not totally clear how much GIC is "pushing back" to the Government, regarding the necessity for the work programmes required by the GPS, and also unclear as to the process for considering "cheaper options" in setting the work programme. CHH believes it may be appropriate for GIC to slow down a work stream in order to assess the costs and benefits.
Contact Energy	….. we have some concerns, especially considering the current poor global economic situation, at a time when most companies are cutting back their expenditure, about the size and scope of the GIC's proposed work programme for FY2010. The GIC should consider whether some of the initiatives proposed should be deferred for the time being. We submit that the GIC should carefully prioritise, and weigh up the benefits of the initiatives proposed in its work programme, including against their costs (which are to be recovered through the FY2010 levy). In some situations we consider that an initiative could be deferred until FY2011 (or later) without any substantial loss in benefit to either consumers or industry participants, particularly if that would better ensure completion of high priority work.
Genesis Energy	Since publication of the April 2008 government policy statement on gas governance (the GPS), the state of the economy has deteriorated, there has been a change of government, and government departments have been directed to carry out line-by-line reviews of expenditure. In light of these developments, it would be prudent to test whether the Minister would prefer the GIC to defer some of its planned work in favour of controlling expenditure and lowering levies. To achieve this, Genesis Energy recommends the GIC should analyse the effect on gas levies of deferring discretionary work and provide this information to the Minister as part of its levy advice
Might River Power	Mighty River Power believes the GIC should be turning its mind to the implications of the change in Government on its work streams. The GIC's work streams are very much business-as-usual, based on the previous Government's Policy Statement on Gas Governance (GPS) 2008. The GPS tasks will not necessarily reflect the new Government's priorities. The review the Government has flagged of the status of the Electricity Commission, and whether it should continue, may also have implications for the GIC.
Nova Gas	The GIC needs to be cognisant of the changing economic environment that participants operate in and the increasing expectation that we will all have to tighten our belts and do more with less. We believe this requires that the GIC review its expenditure and its work programme with the objective of reducing expenditure relating to its future work program as well as looking for savings in corporate overheads. Given the change in Government and the potential for changes in Government expectations of the Gas industry, we would expect some early engagement with new Government to reaffirm or amend expectations regarding the future work program and projects requiring significant expenditure.
Methanex	Methanex seeks a greater emphasis from GIC in achieving practical outcomes and is concerned that the GIC may expend unnecessary expense and resource on monitoring and reporting activities.

Respondent	Comments
Powerco	Powerco is keen that the GIC continues to focus on delivering value for money to gas consumers, and that all work streams have clear cost benefit justification. GIC's costs are only one part of the "regulatory burden", including Commerce Commission and Electricity and Gas Complaint Commission costs, which are ultimately borne by consumers. Given the relatively small size of the New Zealand gas industry, all regulators need to look closely at their costs and ensure consumers are not unreasonably burdened.
Vector	As the GIC is of course aware, there is substantial pressure on businesses and domestic users arising from the current economic downturn and financial market turmoil. Imposing new costs on users needs to be considered carefully, and the assessment of the potential for competition benefits realistic, given inherent qualities of the sector, including the dominance at the production end of the market and the relative demand and supply balance at different points in time. Given the thinness of the market, Vector considers the GIC needs to be proactive in separating the "nice to have" changes from the ones that are crucial, enabling the market to operate more efficiently. Only changes that demonstrate an overall net public benefit should be progressed.

Question 1: Do you agree with the proposal not to alter the structure of the levy for the 2010 financial year?

Summary of responses: All though the majority of submissions either had no comment or supported the proposal (seven out of ten submissions), some respondents made a point of suggesting a change in the levy structure so that market fees form part of the general levy. One respondent opposes the proposal and wants a separate charge to pipeline businesses to be included and one respondent considered the introduction of market fees had materially altered the levy structure already.

Table 2: Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	No comment.
Contact Energy	Contact believes the structure of the levy should be changed to accommodate other levies so as to avoid classifying these other costs as 'Market Fees'.
Energy Direct	Agrees with the proposal not to alter the structure of the levy.
Genesis Energy	Agrees with the proposal not to alter the structure of the levy, although would support changes to the levy structure if necessary as part of transferring funding from market fees to the levy.
Mighty River Power	Levy structure should be altered to include a charge to Gas Pipeline Businesses.
Methanex	Agrees with the proposal not to alter the structure of the levy.
Nova Gas	Considers the levy structure has been materially changed by the introduction of Market Fees.
Origin Energy	Agrees with the proposal not to alter the structure of the levy.
Powerco	No comment.
Vector	Agrees with the proposal not to alter the structure of the levy.

Question 2: Do you agree with the proposal to recover the establishment costs of the Gas (Downstream Reconciliation) Rules 2008 by way of a one-off Special Purpose Levy, calculated on the same basis used to allocate the ongoing operational costs?

Summary of responses: While there was no disagreement with the need to recover these costs, there was significant disagreement with the proposal to recover the establishment costs by way of a one-off Special Purpose Levy. Six respondents disagreed with the proposal while three had no comment. Only one respondent agreed with the proposal. Most of the objections relate to the undesirability of imposing a capital cost on the industry in one hit, rather than spreading that costs over the life of the system. Other objections relate to the proposed methodology and propose an ICP based levy as being more equitable.

Table 3 : Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	No. Charging market fees which cover development expenditure in the year it is incurred can create inequality. This development expenditure is generally for the future benefit of all market users, not solely the current market. CHH believes this expenditure is akin to capital expenditure, and should be amortised over subsequent years.
Contact Energy	No. It is inconsistent with [GIC's levy setting] principles to allocate establishment costs for the Gas (Downstream Reconciliation) Rules 2008 through a one-off Special Purpose Levy which would result in recovery of those costs in a single year. The Downstream Reconciliation Regulation establishment costs should be recovered under the volume based retail levy consistent with the recovery of the on going operating costs relating to these regulations.
Energy Direct	No. We believe that [Downstream Reconciliation establishment] costs should be included in the proposed standard levy. If the charges are to be calculated on allocated volumes, our preference would be to include it in the producer levy. Otherwise we would accept the charges being built into the per ICP rate.
Genesis Energy	No. Genesis Energy would prefer development costs to be recovered over the term of the service provider contract, rather than in a single instalment. Genesis Energy agrees with allocating costs based on reconciled volumes for consistency with the rules.
Mighty River Power	No comment
Methanex	No comment
Nova Gas	No. Nova does not agree with the proposed one off levy to recover the new reconciliation rules establishment costs. The major issue with recovery of those development costs as a one off charge in one year is that current participants (and ultimately, current consumers) are paying up front for benefits derived from a system that may well be enjoyed by others at a later date and as such this may mean that in some cases the principle of beneficiary/causer pays is not met. Nova [also] believes that the recovery of reconciliation costs on a volume basis results in a cross subsidy between consumer groups. TOU consumers, in our view, are cross subsiding non TOU consumers. A significant proportion of the development costs are likely being driven by the seasonal profiling and daily allocation of non TOU volumes whereas TOU consumer information is more readily dealt with.
Origin Energy	Agrees with the proposal, although note their company is not directly impacted by the matter.
Powerco	No comment

Respondent	Comments
Vector	No, Vector believes this fee should be allocated on a 50/50 basis until the GIC are able to identify the most equitable allocation for funding.

Question 3: Do you agree with the proposed policy for funding the establishment, implementation and ongoing administration costs of gas governance arrangements?

Summary of responses: Responses were evenly split on the proposal, although the majority of comments related to the undesirability of having market fees. However, the proposal related mainly to changes in the way internal costs were to be funded and not to the established policy of using market fees to recover establishment and implementation costs.

Table 4 : Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	No comment
Contact Energy	No. Contact does not agree with the proposed policy for funding establishment and ongoing administrative costs of gas governance arrangements. Contact believes they should either be recovered under the current levy system or a separate levy should be introduced.
Energy Direct	No. The gas governance arrangement costs are direct costs to deliver the GIC's policy objectives. We believe they should be included in the proposed standard levy.
Genesis Energy	No. Genesis Energy believes the GIC should use the levy to recover internal and external costs.
Methanex	Yes. Methanex considers that in principle, the most equitable way of recovering the costs incurred by the GIC is by way of market based fees where practical in order to reduce the potential for cross-subsidisation of costs inherent in the general levy mechanism.
Mighty River Power	Yes. We support recovery of market fees by way of volumetric fees, rather than per ICP fees.
Nova Gas	No comment
Origin Energy	Yes, the rationale behind your proposals is compelling, and we support the use of market fees to recover only the external costs of service providers, with internal costs being met by the general levy.
Powerco	No comment
Vector	Agrees with the proposal.

Question 4: Do you consider there to be any other items in the external work programme which should be included in the Company's strategic priorities for FY2010?

Summary of responses – Four out of ten respondents commented that GIC should be looking for ways to reduce its work programme (Contact; Genesis; Methanex; Nova). Three respondents wanted to see greater emphasis placed on various aspects of the upstream gas market.

Table 5: Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	There appears a total lack of competition in the upstream gas market (ie producers). CHH is most concerned about this, and is unclear where this issue sits in relation to the GIC.
Contact Energy	No. Contact would like to see a more rigorous prioritisation of the work currently programmed so that a deferral of some work can be made. Contact believes that in the current economic climate there should be a more prudent approach. Given that the funding of the GIC is made by the industry it would be worthwhile seeking formal input from industry participants as to the work-streams they consider important and that should be given priority.
Energy Direct	No.
Genesis Energy	No. Genesis Energy recommends that the GIC should look for opportunities to defer or remove some items from its work programme.
Methanex	No. The GIC should consider providing a clear distinction between the setting of its immediate work priorities, which we understand are essentially mandates from the Government, and its core long-term strategic objectives.
Mighty River Power	No. The GIC has focussed on contractual arrangements at the retail level, whereas it should be focussing on the natural monopoly (transmission and distribution) parts of the gas market.
Nova Gas	No. Items to be removed from the work programme would include the consumer complaints scheme, wholesale market trading platform and the consumer issues work programme.
Origin Energy	No – The strategic priorities listed in Section 5 are thorough and appropriate, in our opinion.
Powerco	No comment
Vector	No. Vector agrees that the external work programme seems reasonable. However, Vector questions why Upstream Reconciliation was not included as a Strategic Priority for FY2010 and considers that it should be added.

Question 5: Do you have any comment on the levy funding requirement for FY2010?

Summary of responses – Little specific comment was made that had not already been expressed in earlier sections. One respondent wished to see Gas Industry Co undertake a review of the circumstances around the Downstream Reconciliation implementation to ensure similar problems don't re-occur.

Table 6 : Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	No comment
Contact Energy	No specific comment, save those responses made to earlier questions.
Energy Direct	No.
Genesis Energy	No specific comment, save those responses made to earlier questions.
Methanex	No comment
Mighty River Power	No comment.
Nova Gas	We believe the levy/fee that funds the expenditure on the reconciliation system development should be spread over future years – eg the costs plus interest recovered over a period of 5 years.
Origin Energy	No – This is well presented in Section 6 with excellent supporting material / arguments.
Powerco	No comment
Vector	Given its past errors in cost forecasting, there will be an increased pressure placed on the GIC to "get it right." Vector suggests that it would be timely for the GIC to undertake a review or audit of the issues it faced with increased costs to implement the Switching and Reconciliation projects. A review as such would help restore industry confidence in the GIC that it has learned from past funding mistakes.

Question 6: Do you have any comment on the proposed levy for FY2010?

Summary of responses – In many instances, comments from previous sections were repeated. However, two respondents (Contact; Genesis) made extensive comment on their analysis of the total increase, including items outside of the general levy, such as Market Fees. Other submitters (MRP; Vector) also emphasised the need for Gas Industry Co to be demonstrating value for money.

Table 7: Responses from individual respondents

Respondent	Comments
Carter Holt Harvey	CHH believes the timeframe for applying over-and-under-recoveries can and should be shortened. Levy adjustments should be accounted for as soon as determined, either by adjusting the current levy, or by a wash-up based on the relevant year.
Contact Energy	Contact considers it is incorrect to make comparisons of the Retail and Wholesale Levy with previous years. There are now increasing costs payable by industry that sit outside of these levies which should also be included when making comparisons. If one was to include all market fees and one off payments as well, then the comparison would look more like $18.68/ICP for 2010 compared to $7.42/ICP in 2009 (a 152 per cent increase rather than the reported 6.6 per cent increase) and 2.50 cents/GJ for 2010 compared with 1.79 cents/GJ in 2009 (a 40 per cent increase rather than the reported 1per cent reduction). The funding should be transparent so that the industry has the ability to assess and attribute value to the work being done by the GIC. Contact would like to see a clearer comparison of the costs of the GIC's proposed work programme with the previous year's work programme and a clearer comparison proposed levies with the previous year's levies.
Energy Direct	Would prefer all costs to be included in the proposed levies, rather than some costs in the levies and others as one-off levies or market fees.
Genesis Energy	The summary should include information on market fees, as these are levies by another name. Including market fees and the proposed "one-off levy", the actual levy increase proposed is nearly 34%. This reflects the start up of three major new sets of market arrangements, but is nonetheless a significant increase in costs. Given the current economic conditions and the focus in the public sector on reducing costs, it would be sensible for the GIC to explore options for reducing this cost impact.
Methanex	No comment
Mighty River Power	GIC that it needs to ensure its levies are justified in terms of the value they provide to end-users, who ultimately will incur these costs through higher (than otherwise) gas tariffs. This is something the GIC should be particularly mindful of given that for many end-users gas is a discretionary service.
Nova Gas	No
Origin Energy	No – Again this appears reasonable, although we note that our company is not directly impacted by the fees / fee structure.
Powerco	Powerco does have some concerns that the way the levy is passed through by retailers to end consumers could act as a deterrent to new connections or encourage existing consumers to disconnect from distribution networks.
Vector	Vector has concerns regarding the New Zealand gas market's ability to absorb the additional costs it will be incurring in the coming years and reiterates its comments from prior levy consultations that there is an increasing expectation for GIC to demonstrate how its work streams are delivering best value for consumers.

Appendix C Estimated Benefits of Gas Governance Arrangements

Reconciliation

Total implementation costs were $1,052,500 plus ongoing operational costs estimated at $904,000 per annum. The cost benefit analysis showed the regulated option having a $2.4 million net benefit, relative to implementing the arrangements by way of a pan-industry agreement. However, the NPV in both cases was significantly positive at $14.8 million under the regulated option and $12.3 million under the pan-industry agreement. The original analysis allowed for $2 million per annum of operational costs (relative to doing nothing) in each of the first two years which overstates the actual service provider costs by a factor of two. Service provider costs were understated in the remaining years - $100,000 pa versus actual costs of $900,000 - but even if these were taken into account, the NPV in both cases remains positive relative to the status quo and does not change the relativity between the regulated option and the pan-industry agreement.

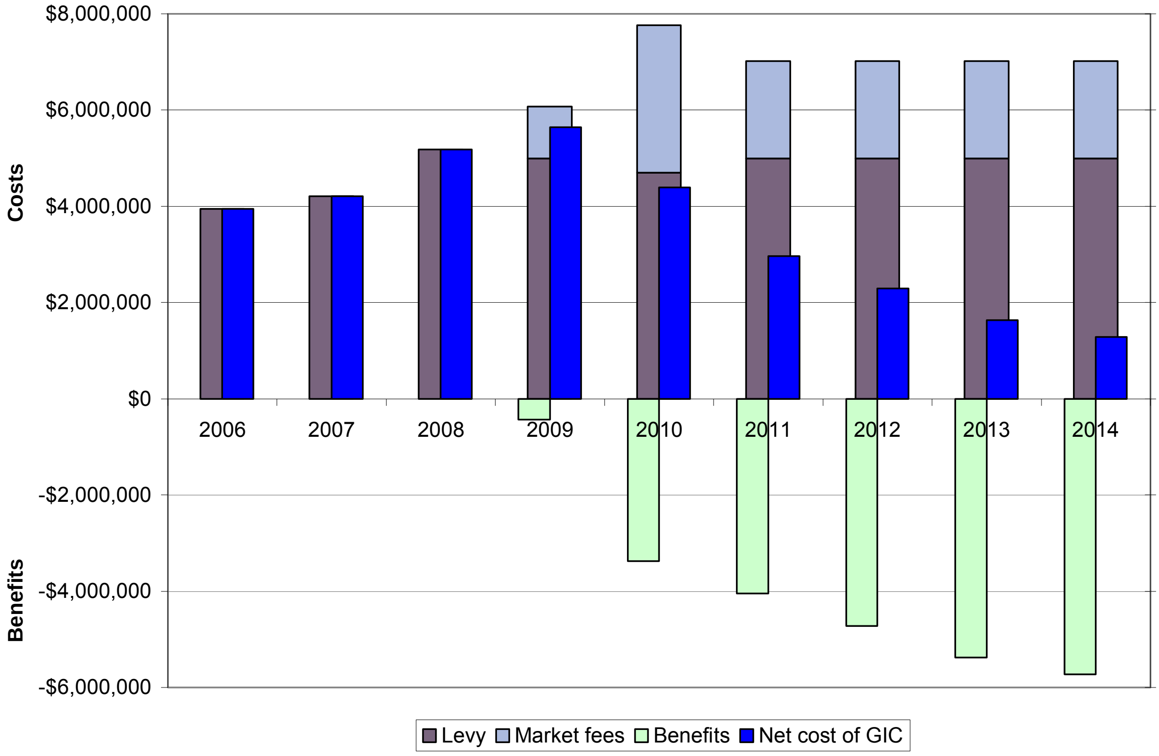
Switching

Total implementation costs were $1,075,360 plus ongoing operational costs estimated at $300,000 per annum. Against these costs, industry advice was the average net present value of benefits arising from savings in switching costs would be approximately $392K.

Critical Contingency

Industry advice was that improved outage and contingency management arrangements may increase economic efficiency through lowering the cost of supplying gas, increasing the quantity of gas traded and lowering its price, and encouraging investment developing the industry further, which may also reduce gas supply costs over time. In terms of its economic impact, Gas Industry Co advice was that an improved critical contingency scheme would be responsible for the industry avoiding in excess of $1M per annum in costs associated with the impacts of outages.

The following graph shows Gas Industry Co's annual income from market fees and the levy, the benefits expected from the introduction of the various gas governance arrangements, and the net cost of Gas Industry Co to the industry (the blue bars in the graph).



The graph demonstrates there is a lead time during which there are only costs, as the policy development work proceeds through options analysis, consultations and recommendations to the Minister of Energy. Then, as the various rules and regulations are implemented, the benefits begin to be realised and offset the costs.

The graph is indicative as, although it captures the costs, it does not capture all of the benefits. For example, the benefits accruing from MPOC and VTC changes are not shown. Nevertheless, the pattern is apparent. As long as Gas Industry Co pursues work streams which offer benefits then, over time, those benefits will crystallise and offset the costs of market fees and the Gas Industry Co levy.

Appendix D Market fees

Gas Industry Co has estimated the proportion of costs that will be recovered through market fees. This is presented in the table below.

Regulations	Cost Type	Amount ($)
Switching	Service Provider Contract	260,000
	Other External Direct Costs	40,000
Reconciliation	Service Provider Contract	830,000
	Other External Direct Costs	74,000
Compliance	Rulings Panel and Investigator	166,400
	Other External Direct Costs	45,000
Critical Contingency Management	Service Provider Contract	600,000
	Total	**2,015,400**

Copies of the service provider contracts which comprise the major component of these costs are available on our website. The other costs proposed to be recovered under market fees in FY2010 are the costs of persons appointed under provisions in the rules and regulations, for example independent experts and external consultants who assist with market administration.