



# FY2023 Draft Work Programme and Budget Co-Regulatory Forum

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# Agenda

- **Summary of year-to-date**
- **Looking forward**
- **Strategy**
- **Proposed Work Programme**
- **Funding**
- **Questions & Discussion**

## Summary of year-to-date

- COVID-19 Sector Coordinating Entity role for New Zealand gas industry
- Worked with industry to facilitate outcomes in tight 2021 energy market
- Gas Market Settings Investigation
- Information Disclosure
- D+1
- Applying the findings of the EPR to gas industry
- Hydrogen
- Progressed other Gas Industry Co work:
  - CCM
  - Follow-on work relating to transmission access arrangements
  - Statutory roles (CCM, reconciliation, market admin etc)

## Objective

**Gas Industry Co seeks to ensure that gas is delivered to consumers in a safe, efficient, reliable, fair, and environmentally sustainable way.**

# Strategy



## Trends

- **Pace of transition is accelerating**
  - Discussion about the timing of change and where the impacts will be felt.
- **Increasing interest in new gases, hydrogen and biofuels**
  - Need for regulatory issues to be resolved early.
- **Price and supply issues**
  - Especially for customers coming off contract.

## Looming issues

- **Intermittency and demand for flexible gas**
- **Paying for energy security of supply**
- **Managing exit of demand and supply through transition**

## FY2023 Planning process starts early

<b>October 2021</b>	Board notes Indicative Work Programme & Budget
<b>2 December</b>	Industry initial engagement (Co-regulatory Forum)
<b>16 December</b>	Board approves Consultation Paper for Work Programme and Levy
<b>January/February 2022</b>	Industry submissions
<b>February</b>	Board approves Levy Recommendation
<b>March</b>	Recommendation to Minister for Levy Regulations

Levy Regulations  
take effect  
1 July 2022



## Proposed work programme

- Gas Market Settings Investigation workstreams
- Gas transmission
- Electricity price review
- Information disclosure
- Critical contingency management
- D+1
- Advanced gas metering
- Statutory accountabilities and established activities
- Other

# Gas Market Settings Investigation workstreams

Initiating and progressing the following workstreams identified in the Gas Market Settings Investigation final report:

- Gas Transition Pathway;
- Improving commercial arrangements supporting electricity security of supply;
- 4 other workstreams to improve the operation of the gas sector during the transition:
  - Information availability to help enable participants and users to predict and plan better;
  - The regulatory framework for gas pipelines;
  - How gas supports energy needs that cannot be met by electricity (including green gases, avoiding and reducing emissions, and the viability of emission capture);
  - Additional mechanisms to ensure gas is available to industrial users in unexpected tight situations.

# Gas transmission

Gas Industry Co has a role in assessing changes to the terms of the Maui Pipeline Operating Code (MPOC).

Request from MGUG to consider issues around the transmission arrangements, including transmission pricing.

Gas Industry Co's preference is for an industry-led solution.

During FY2023 Gas Industry Co intends to:

- Liaise with Firstgas and the Commerce Commission to better understand the suitability of the transmission arrangements during the energy transition and any changes that may be progressed;
- Be prepared to assume any role allocated to Gas Industry Co under the terms of the current gas transmission codes in relation to changes to the transmission access arrangements; and
- Assess and action any changes to industry arrangements that may be required as a result of changes to the transmission codes (eg gas metering, gas quality, transmission security and reliability, interconnection, etc.)

## Electricity Price Review (EPR)

Gas Industry Co determined that some of the 32 EPR recommendations should apply to the gas market. Following industry consultation, we are progressing new guidelines for:

1. Dealing with vulnerable gas consumers;
2. Raising consumer awareness of the Utilities Disputes and Powerswitch services; and
3. Managing saves and winbacks behaviour in the gas market.

Gas Industry Co is currently finalising these guidelines with a view to publishing final versions in the coming months.

In FY2023 Gas Industry Co expects to:

- Follow up on steps taken by distributors and dual fuel retailers to comply with the guidelines in accordance with the 12-month review process in the guidelines (stand-alone gas retailers have 24 months to align their processes); and
- Establish processes to progress any remaining EPR recommendations that are relevant to the gas market (e.g. processes for access to consumer consumption data, access to smart meter data).

# Information disclosure

The Problem Assessment paper identified three projects for further work:

1. Statement of Proposal (SOP) for the disclosure of gas production and storage facility outage information;
  2. Paper on gas contract price and volume information; and
  3. Paper on major user outage information.
- The latter two papers should be completed by the end of FY2022.
  - The SOP phase of the first project was completed in FY2022.
  - Gas Industry Co will make a recommendation to the Minister for gas governance regulations before the end of FY2022.
  - Subject to Ministerial approval, in FY2023 we will proceed to implement a regulated solution for the disclosure of gas production and storage facility outage information.

# Critical contingency management

The purpose of the CCM Regulations is to achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply.

It is expected that Gas Industry Co will have made a recommendation to the Minister to amend the CCM Regulations during FY2022 following further consultation as a result of a recent request to change the CCM thresholds.

In addition to the recommendation, we will undertake the following activities in FY2023:

- Implement changes to CCM Regulations;
- Monitor the CCO;
- Assess the performance of the CCM Regulations;
- Respond to CCM events by appointing/monitoring experts;
- Monitor the annual CCM exercise; and
- Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing, and electricity supply as required.

# D+1

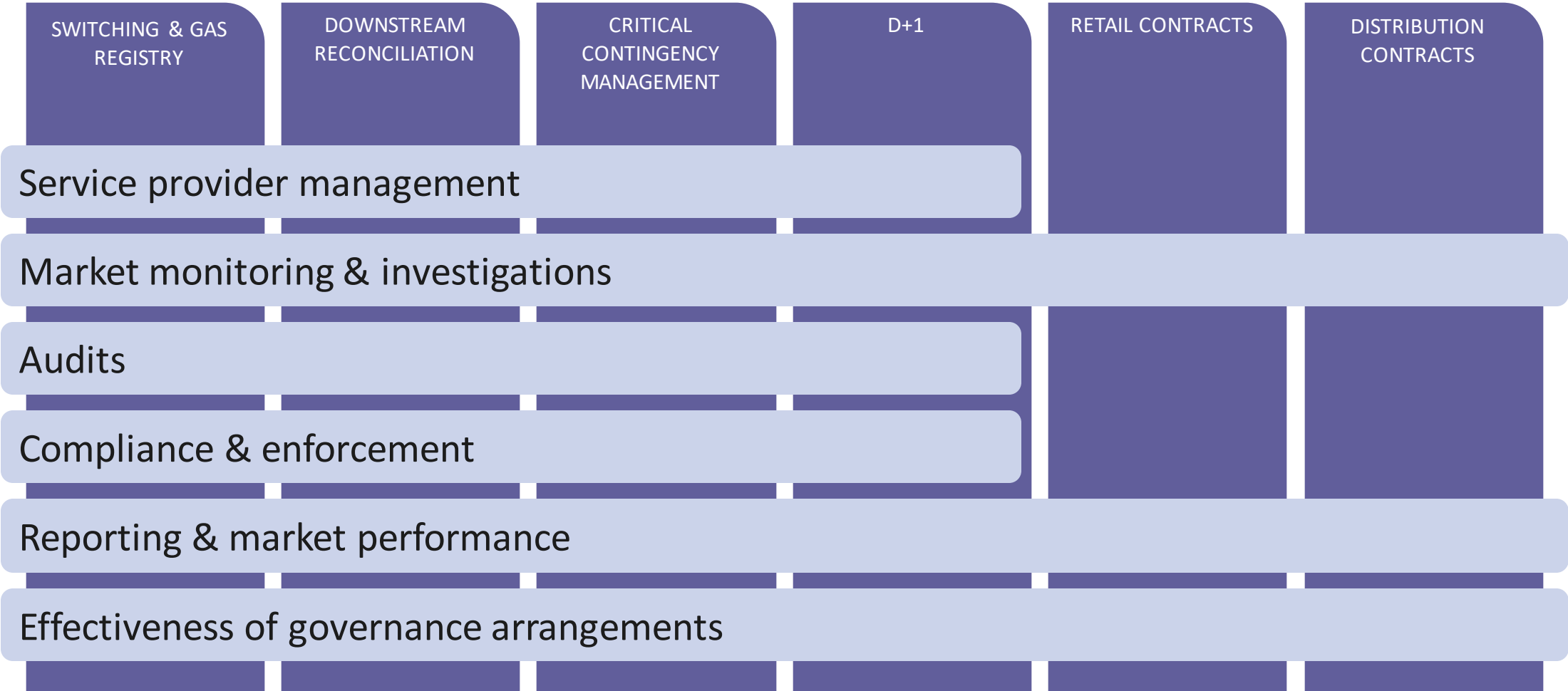
- D+1 is a process managed by Gas Industry Co, that provides retailers with an estimate of their gas allocations at shared gas gates, the day after gas has flowed
- After operating for several years as a pilot, in 2021 we began a project to formalise D+1
- The D+1 project is a multi-year programme with several phases:
  - Interim D+1 arrangements **COMPLETE**
  - D+1 system rebuild **COMPLETE**
  - Amendments to Reconciliation Rules **IN PROGRESS**
  - Alignment of D+1 and Allocation systems **FY2023**
  - Allocation Agent tender process **FY2023**

# Advanced gas metering

- Gas Industry Co is determining what changes are required to industry systems and regulatory arrangements to support the roll-out of advanced gas meters.
- In September 2021, Gas Industry Co released an issues paper after discussions with industry stakeholders. We are currently analysing submissions on this paper to prioritise issues and identify next steps
- In early 2022 we expect to (re)convene an industry working group to work through the issues identified through the consultation process
- In FY2023 we expect to:
  - Continue working group meetings to agree on detailed proposals
  - Develop a Statement of Proposal for any regulatory changes required
  - Begin implementation of any required system changes (to gas registry, D+1 system and allocation system)



# Statutory accountabilities and established activities



## Other

- Support the gas industry through the COVID-19 pandemic as sector coordinating entity;
- Consider the alignment of the Retail Gas Contracts Oversight Scheme with the outcomes of the EPR workstream; engage an independent assessor to assess retail contracts and advise of the results; review the contracts of any new entrants during the year;
- Continue to assess alignment of new distribution contracts with the Gas Distribution Oversight Scheme principles; report on next steps;
- Government's Emissions Reduction Plan – consider and draft responses as appropriate;
- Gas Supply/Demand – commission annual updates;
- Report on the present state and performance of the gas industry through publications such as Switching Statistics and Quarterly Report, and continuing engagement and communications for interested stakeholders.

# Funding

# Two main sources of funding: Market fees and Levy

## Market fees:

- Provided for in gas governance rules and regulations;
- Cover costs of service providers, and other direct costs relating to the monitoring of rules/regulations;
- Formal estimate of market fees published two months before the beginning of the financial year, so placeholder included in FY2023 budget;
- Gas Industry Co required to wash-up at year end - either invoices under-recovery, or credits over-recoveries.

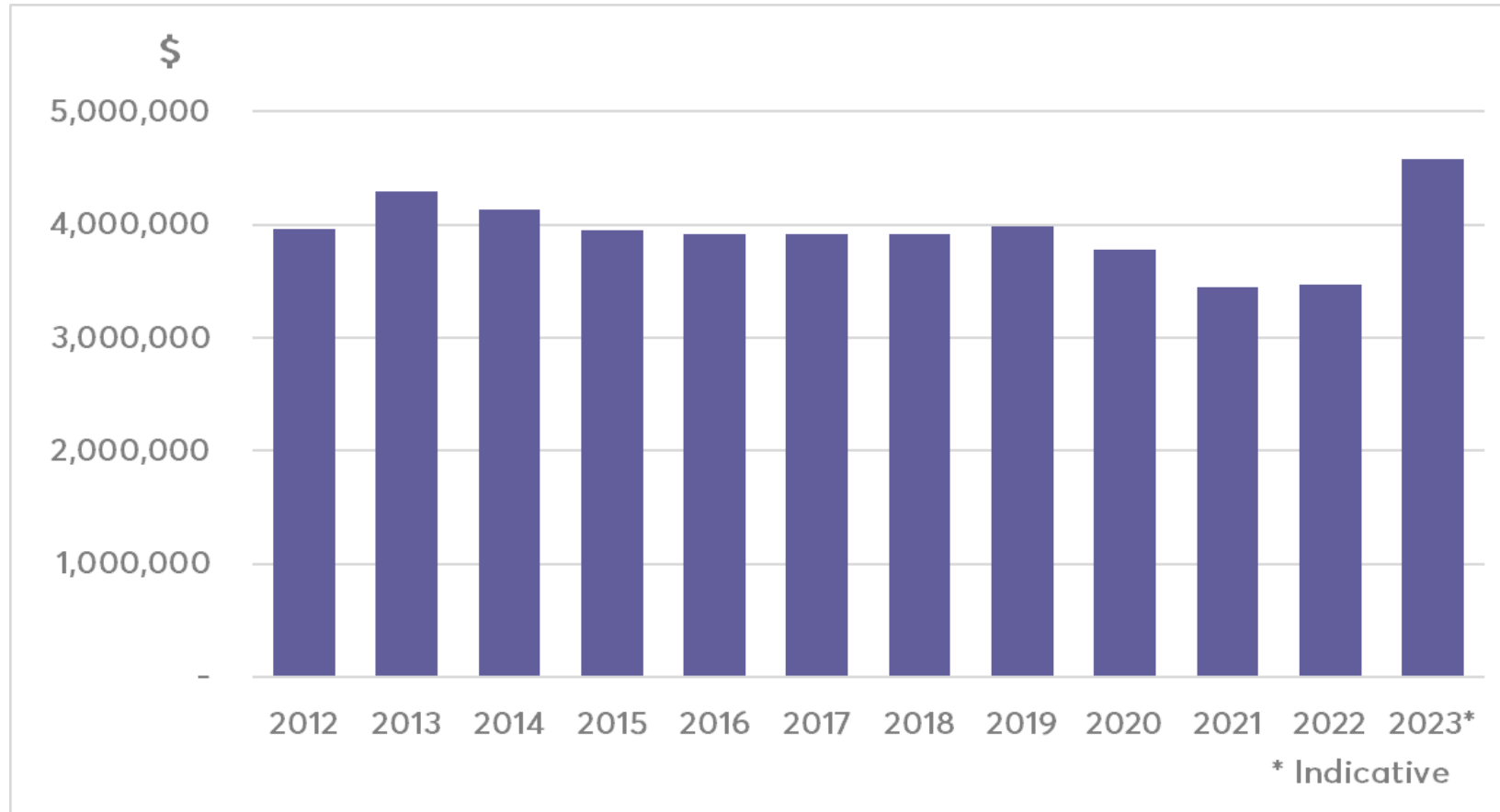
## Levy:

- Cover direct cost of workstreams and non-operational expenditure;
- Two components of the levy: wholesale and retail;
- Wholesale levy paid by industry participants on purchases from gas producers;
- Retail levy paid by gas retailers on the number of ACTIVE-CONTRACTED ICPs in the registry;
- Wholesale/retail component of levy reflects the weighting of the work programme, which changes from year to year;
- Gas Industry Co Board practice has been to return any over recovery and/or underspend.

# Projected FY2023 expenditure

Levy funding requirement	Market fees	Total work programme costs
\$4,579,373	\$1,761,000*	\$6,340,373
31.9% increase from FY2022 (\$3,472,368)	21.5% increase from FY2022 (\$1,449,000)  *Placeholder - Market fees estimated in April	32.9% increase from FY2022 (\$4,771,367)

# Levy funding requirement



## Comparison of FY2022 and FY2023

	FY2023 (indicative)	FY2022 (published)	Variance
Levy Funding requirement	\$4,579,373	\$3,472,368	31.9% increase
Wholesale volume estimate	185PJ	165PJ	+20PJ
Wholesale Levy	1.3997c/GJ	1.1445c/GJ	22.3% increase
Retail Levy	\$6.63/ICP	\$5.28/ICP	25.6% increase

# Prior year levies





## Crucial Questions

### Our performance

- Are you broadly satisfied with our governance, facilitation and consultation roles?
- How did we perform in our sector coordinating entity role during COVID-19?
- What would you like to see us do to strengthen or maintain relationships across the energy sector?

## Crucial Questions

### Our work programme

- Do you support inclusion of the work streams mentioned in our upcoming work programme?
- Do you support us taking on work specifically identified in the Gas Market Settings paper?
- Are we developing our role of trusted advisor appropriately? What else would you like to see from us in this role?



Thank you