FY2026 Draft Work Programme and Budget Co-Regulatory Forum

Date: 28 November 2024

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Agenda

- Housekeeping
- Objective
- Strategy and co-regulatory model
- Proposed Work Programme
- Funding
- Questions & Discussion

Gas Act and GPS objectives

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

Strategy

WHAT WE DO Gas governance · Facilitating industry systems and processes · Trusted advisor to government and industry

VALUES Excellence · Impartiality · Collaboration · Inclusiveness

"

Facilitating the role of gas in New Zealand's energy future for consumers

OBJECTIVE Ensure gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner

FY2026 Planning process starts early

Oct/Nov 2024	Board notes Indicative Work Programme & Budget
28 November	Initial industry engagement (Co-regulatory Forum)
18 December	Board approves release of Consultation Paper
7 February 2025	Industry submissions due
27 February	Board approves Levy Recommendation
March	Recommendation to Minister for Levy Regulations

Levy Regulations
take effect
1 July 2025

Gas Industry Co proposed work programme FY2026

Proposed work programme

- Security of Supply
- emsTradepoint
- Gas Governance arrangements: Recommendation to Minister on Gas Governance arrangements; Critical Contingency Management
- Levy
- Consumer: consumer voice; retail gas contracts oversight scheme; guidelines to enhance consumer outcomes
- Gas Distribution Contracts Oversight Scheme
- Gas Transmission

Security of Supply

- Work on issues relating to the energy transition will continue to be required in FY2026. This work may include:
  - Facilitating industry and advising Government to enable imported LNG to be available by winter 2026 if required;
  - Blending of renewable gases into gas networks and measures to bring renewable gases into the natural gas market, such as tradeable renewable gas certificates and other market measures;
  - Consideration of whether additional or changed mechanisms are needed to ensure natural gas is available to industrial users in times of unexpectedly tight supply; and
  - Our regular supply and demand studies.

emsTradepoint

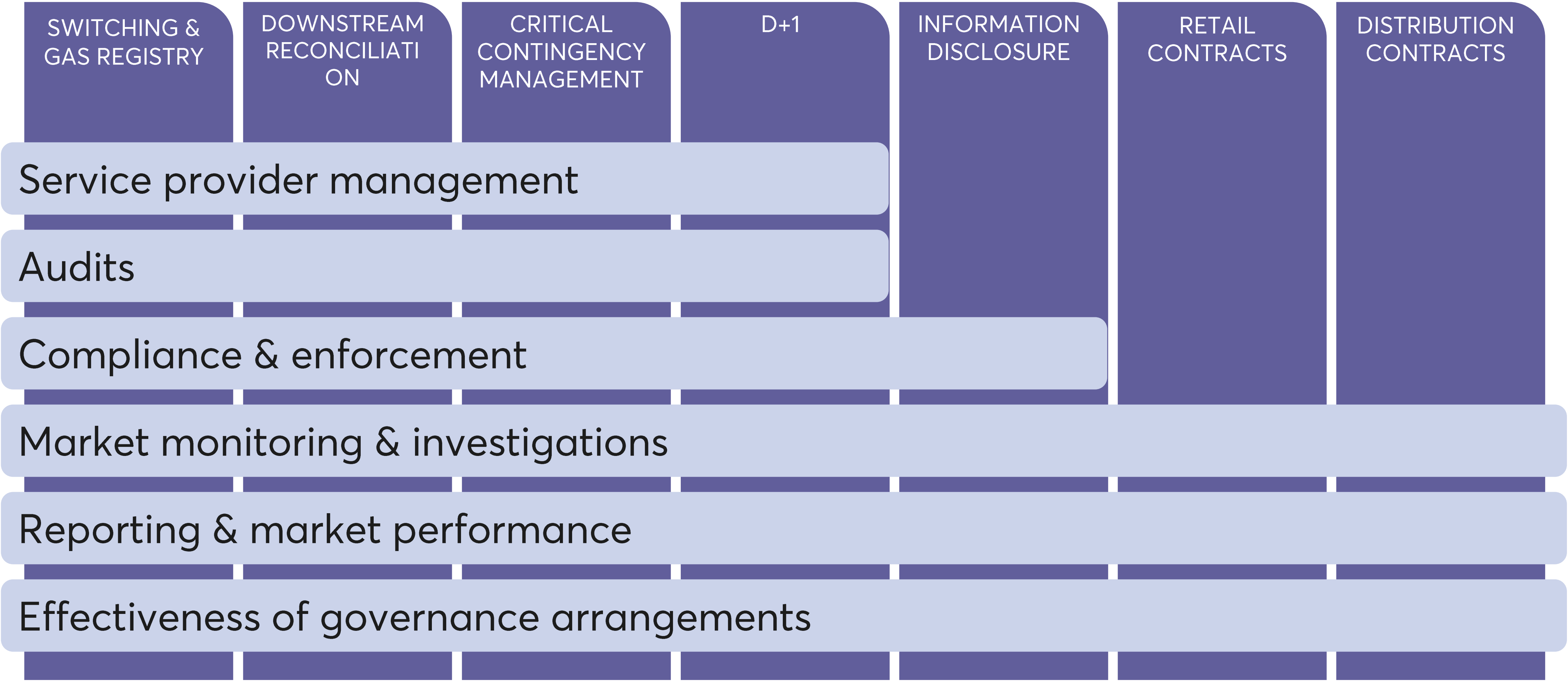
- We note Transpower's most recent statement on emsTradepoint has the system continuing until September 2025.
- Given the importance of a trading platform, we are assuming a role in managing the transition of emsTradepoint after September 2025, including consulting on a range of options.
- This may include Gas Industry Co purchasing the gas trading platform if necessary to ensure security of supply.

Gas Governance

Fulfil Gas Industry Co's statutory roles under each of the existing gas governance arrangements:

- Gas (Downstream Reconciliation) Rules 2008;
- Gas Governance (Compliance) Regulations 2008;
- Gas (Critical Contingency Management) Regulations 2008;
- Gas (Switching Arrangements) Rules 2008; and
- Gas (Facility Outage Information Disclosure) Rules 2022.

Gas Governance arrangements



Gas Governance arrangements: Recommendation to the Minister

- In November 2024 we made a Recommendation to the Minister to amend the Gas (Downstream Reconciliation) Rules 2008 and the Gas (Switching Arrangements) Rules 2008 to make provision for advanced gas meters, injection of renewable gases and D+1 (daily allocations).

- Forecast activities for FY2026 include:
  - Engaging with industry on rule drafting and detailed specifications for the implementation of the system changes;
  - Non-regulatory work, for example consulting on and publishing guidelines and information exchange protocols; and
  - Go-live of new arrangements and monitoring of new processes (eg UFG allocation and D+1) to ensure they are working effectively.

Critical Contingency Management

- We are currently supporting MBIE through the legislative change process to progress amendments to the CCM Regulations. In FY2026 we intend to:
  - Implement proposed changes to the CCM Regulations including consequential changes to existing industry processes.

Levy

- Gas Industry Co's levy arrangements have remained unchanged since 2007. With wholesale gas volumes continuing to decline, while the consumption of LPG, LNG and biogas is expected to increase, in FY2026 we intend to:
  - Consult with industry in relation to the possibility of Gas Industry Co levying LPG, LNG and biogas; and
  - Consider whether changes would be required to the Gas Act or levy regulations to enable this.

Consumer

Consumer voice

- Based on preliminary work showing fuel switching costs may be much higher than thought, we are interested in better understanding the lifetime cost and emissions outlook for residential and small commercial gas customers. In FY2026 we propose to:
  - Investigate the lifetime cost to residential consumers and the cost of emissions abatement of fuel switching.

Retail Gas Contracts Oversight Scheme

- The next full assessment of retailer alignment with the Retail Gas Contracts Oversight Scheme is scheduled for FY2027. In FY2026 we will:
  - Provide information to new entrant retailers to help them understand their obligations and the governance processes.

Consumer (continued)

Guidelines to Enhance Consumer Outcomes

- We are currently awaiting finalisation of the changes to the Electricity Industry Participation Code to mandate the electricity Consumer Care Guidelines, after which we assess what changes should be made the existing gas Consumer Care Guidelines. In FY2026, we expect to:
  - Complete our review of amendments to the Code together with retailer feedback on the gas Consumer Care Guidelines and make any changes to the gas Consumer Care Guidelines that are appropriate; and
  - Following an appropriate implementation period, assess alignment with the revised Gas Consumer Care Guidelines.

Gas Distribution Contracts Oversight Scheme

- During FY2025, Gas Industry Co appointed an independent assessor to undertake a review of Firstgas's standard gas use-of-system agreement. The independent assessor's report, and Gas Industry Co's response to the report, were been published in November 2024. Further work, which may be continuing in FY2026, includes:
  - Following up with retailers on progress towards putting a signed agreement in place; and
  - Liaising with distributors regarding any changes to their contracts.

Gas Transmission

- The suitability of transmission arrangements during the energy transition is a matter that will likely require further consideration. Forecast activities in FY2026 could include:
  - Working with the Commerce Commission regarding any changes impacting pipeline regulation;
  - Assessing any proposed changes to the transmission codes;
  - Transmission pricing changes remain an issue for industrial customers and feedback on increases may require engagement by Gas Industry Co; and
  - Reviewing transmission pipeline interconnections as required, address any concerns regarding reasonable access, and amend the Guidelines as required.

Funding

Two main sources of funding: Market fees and Levy

Market fees:

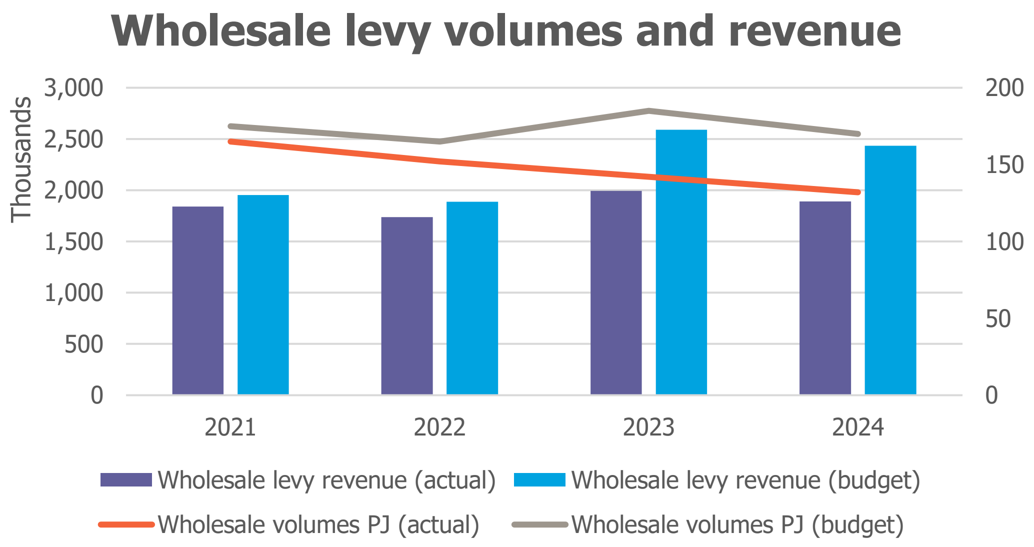
- Provided for in gas governance rules and regulations;
- Cover costs of most service providers, and other direct costs relating to the monitoring of rules/regulations;
- Formal estimate of market fees published two months before the beginning of the financial year, so placeholder included in FY2026 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 of gas 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.

Shortfall in wholesale levy revenue not sustainable

- Over recent years we have managed significant shortfalls in wholesale levy revenue due to actual gas volumes being less than budgeted gas volumes. This is not sustainable if we want to continue to deliver our work programme.



- If we use a more conservative/accurate estimate of wholesale gas volumes in FY2026 we would see a sharp increase in the wholesale levy rate, <u>unless</u> the amount required to be funded by the levy is significantly lower.

Reallocation of salary costs from levy to market fees

- We reviewed our current practice of including all salary costs in the levy, and none in market fees, even though the rules/regulations allow for this.

- We carried out an exercise to determine the portion of time staff spend working on gas governance arrangements vs time spent on other work. This has resulted in $900,000 being reallocated from the levy to market fees in FY2026.

- The impact of this reallocation to levy/market fee payers is small overall.

- Using 2024 numbers, 9 of 13 industry participants will pay less overall than they currently do. Of the 4 who will pay more, the increases range from 2% to 6% for all but one industry participant (a small gas retailer who does not pay the wholesale levy so doesn't benefit from the offsetting reduction in amounts funded by the levy).

- In our view, this reallocation of salary costs more accurately reflects the allocation of staff time and effort across our various activities.

Projected FY2026 expenditure

The reallocation of salary costs is illustrated in the table below by the reduction in the levy funding requirement, and offsetting increase in market fees:

Levy funding requirement		Market fees		Total work programme costs
$3,410,198		$2,674,550*		$6,084,748
22.89% decrease from FY2025 ($4,422,758)	+	57.83% increase from FY2025 ($1,694,566) *Placeholder - Market fees estimated in April	=	0.53% decrease from FY2025 ($6,117,324)

Comparison of FY2025 and FY2026

- The reduction in the levy funding requirement has enabled us to use a more conservative 110PJ estimate of wholesale gas volumes, with the result being a modest 7.56% increase in the wholesale levy rate for FY2026 (11.35% increase in FY2025).
- If no reallocation was done the FY2026 wholesale levy rate would increase by 24.66%.

	FY2026 (indicative)	FY2025 (published)	Variance
Levy Funding requirement	$3,410,198	$4,422,758	22.89% decrease
Wholesale volume estimate	110PJ	150PJ	26.67% decrease
Wholesale Levy	1.7158c/GJ	1.5952c/GJ	7.56% increase
Retail Levy	$4.90/ICP	$6.53/ICP	25.02% decrease

Year-on-year levies

- The wholesale levy increase in FY2026 is largely due to reduced gas volumes.
- The retail levy has decreased as amounts required to be funded by the retail levy have reduced, while the number of ICPs has remained steady (311,000). Almost two-thirds of the amount reallocated to market fees came from the retail component of the levy funding requirement.

Crucial Questions

- Do you agree with suggestions that energy affordability should feature more centrally in market regulation?
- Is the voice of consumers (large and small) adequate in the regulatory process?
- Is there other work that should be included in the 2026 work programme?
- What issues in the gas sector do you think will need more attention in future?
- Are there gas industry issues that we haven't identified?

Next steps

- Feedback from today's Co-regulatory forum will be incorporated into the Consultation Paper on the FY2026 Work Programme and Levy;

- The Consultation Paper will be published on our website (and advised via our News Bulletin) on 18 December 2024;

- Submissions will be due by 5 pm Friday, 7 February 2025.

Gas Industry Co.

Thank you