

QUARTERLY REPORT

Quarter ended 31 March 2019

Kia ora, and welcome to the March 2019 edition of Gas Industry Co's Quarterly Report.

The Gas Industry Company (Gas Industry Co) reports to the Minister of Energy and Resources each quarter on the progress made towards meeting objectives and outcomes set for the gas industry by the Government. We highlight below developments in our key work programme areas, as well as the gas sector for the three months ended 31 March 2019.

Gas transmission access

During the quarter, our final assessment paper (FAP) on First Gas's Gas Transmission Access Code (GTAC) concluding that the GTAC was materially better than the existing access arrangements was released.

The process of developing the GTAC commenced in August 2016 when First Gas announced that it was committed to designing a new, single transmission code that would replace the Maui Pipeline Operating Code and the Vector Transmission Code. Since then First Gas and stakeholders have engaged openly and collaboratively to design the new arrangements.

Following the positive assessment in our FAP, First Gas launched a programme of work aimed at implementing the GTAC arrangements by 1 October 2019. This encompasses related commercial work, such as promulgating prices for the new services and re-negotiating contracts, as well as developing the supporting IT and other systems. The programme requires a major commitment from transmission pipeline users whose commercial arrangements and IT systems also have to adapt, and whose staff and customers need to be familiarised with the new arrangements.

Information on the GTAC assessment can be found on our website at:

<https://www.gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gtac-final-assessment-paper/>

Information on First Gas's implementation programme can be found on the First Gas website at:

<https://firstgas.co.nz/about-us/gtac/>

Gas market information disclosure

Gas Industry Co is progressing work on its information disclosure workstream and is analysing whether the current market arrangements related to information disclosure in the wholesale gas sector are sufficient or if additional arrangements are required. This work follows on from the information disclosure workstream we set up last August to address potential information issues in the sector.

We are currently reviewing twenty submissions on the Options Paper for Information Disclosure (Options Paper) released on 6 March 2019.

Our Options Paper was discussed with a wide range of parties spanning the energy sector at an industry workshop we held in March. In the Paper we set out a proposed problem statement and

discussed the importance of information for the operation of a well-functioning market. The submissions will assist us in determining whether there is potential information issue, and if there is, the extent of the issue and the appropriate option for detailed design and evaluation.

As we progress to complete our submissions analysis, an initial review has indicated that the focus for most parties is on improved information relating to gas production outages, while several parties also commented that this should be the first priority for the workstream.

Information on the Information Disclosure workstream can be found on our website at:
<https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/consultation/>

Transmission security of supply

Gas Industry Co has a responsibility to ensure that gas is delivered in a safe, efficient and reliable manner to existing and new gas customers.

Last quarter, we reported on the repairs being carried out by First Gas in a section of the 400-line near White Cliffs in Tongaporutu (Pariroa). The Pariroa project saw the construction of an 800m bypass being completed before Christmas, however as further investigative work on land movement is required during the winter months, repairs are being deferred and likely to commence during 2019/2020.

As owners of the two transmission pipelines, First Gas regularly monitors and inspects existing cliff erosions at Gilbert Stream and Whitecliffs. Both these projects as well as the Pariroa project require some amount of shutdown of the pipeline. At a time when gas market information disclosure has become a priority for the industry, First Gas will aim to align the shutdowns at Gilbert Stream with the Pariroa project where possible to cause as little disruption to gas users and will advise the industry prior to the events. As was the case with the Pariroa project, First Gas will no doubt engage with end-users to understand the appropriate timing for the shutdowns.

In addition to First Gas's regular communications and presentations on Asset Management Plans, it will also consult with Gas Industry Co, shippers and customers throughout the process of preparing a 'full scope' customised price quality path (CPP) which will cover all expenditure across the business, including that required for the White Cliffs project.

Information and updates on the repair work can be found on First Gas's website at:
<https://firstgas.co.nz/media/news/>

Levy and draft Statement of Intent

Our draft Statement of Intent for FY2020 – 2022 (SOI) and the FY2020 Levy Recommendation has been prepared for presentation to Cabinet for consideration. Our work programme has been developed following extensive industry engagement, and our collective focus is made sharper by the level of participation over what the key issues are, and how they should be tackled. It reflects our strategic objectives, which in turn has regard to the objectives and outcomes set for the gas industry by the Gas Act and the Government Policy Statement on Gas Governance.

Update on industry performance measures

Our Quarterly Industry Performance Measures Report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of those measures is to track the performance of the Gas (Switching Arrangements) Rules 2008, the Gas (Downstream Reconciliation) Rules 2008, and the Gas Governance (Critical Contingency Management) Regulations 2008. The Report includes measures directly related to these governance arrangements as well as measures for the competitive outcomes that they foster. The Report also tracks transmission pipeline

balancing, distribution, and metering measures, as a means of informing Gas Industry Co and the wider industry on these issues.

The full Report is available on our website at: <https://www.gasindustry.co.nz/work-programmes/performance-measures/overview/>.

Highlights from the Performance Measures Report include:

- With the entrance of Hanergy in February this year, there are now twelve distinct retail brands, owned by eleven different retail companies.
- In the past twelve months, there have been about 3,800 not withdrawn switches completed per month, which translates to an annual churn rate of about 15.9 percent.
- Over 70 percent of consumer switches are completed within three business days; 97 percent are completed within seven business days.
- Over 99 percent of gas customers are connected to a gate where seven or more retailers trade, suggesting that the gas retail sector is generally competitive throughout the North Island.
- Average annual unaccounted-for gas (UFG) over the past year stands at less than 1.0 percent (compared with about 2 percent in 2009).

Ngā mihi,

Andrew Knight
Chief Executive

Workstream developments during the quarter are summarised in this Quarterly Report. Further details of the developments have generally been reported previously through the Gas Industry Company's periodic News Bulletins and are available on our website www.gasindustry.co.nz.

PROGRESS TOWARDS OBJECTIVES AND OUTCOMES

1 JANUARY – 31 MARCH 2019

This section provides an update of progress towards objectives and outcomes for Gas Industry Co the gas industry body, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, particularly as implemented through the Company's FY2019-2021 Statement of Intent.

Strategic Objective 1: Promote efficient, competitive and confident gas markets

Project	Rationale	Activity	Status
Retail Gas Contracts Oversight Scheme	<ul style="list-style-type: none"> Improve consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small consumers. 	<ul style="list-style-type: none"> Administer the Retail Gas Contracts Oversight Scheme. Conduct a full review of retail contracts every 3 years. Review retailers' contracts otherwise on an exceptions basis (ie new entrant retailers and changed contracts). Provide additional information to assist new entrant retailers to understand their obligations and governance processes. 	<ul style="list-style-type: none"> Since the Retail Scheme's introduction in 2010, retailers' overall rating has increased from 'Moderate' to 'Substantial' alignment with the benchmarks. The full review conducted in November 2018 showed similar levels of alignment as in the 2015 review, with all the terms assessed having substantial overall alignment with the benchmarks.
Gas Distribution Contracts Oversight Scheme	<ul style="list-style-type: none"> Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions. Ensure consistency in distribution services arrangements. 	<ul style="list-style-type: none"> Monitor and report as required to the Minister on the status of distribution arrangements. Develop and publish distribution contract principles. Encourage publication of network services agreements. 	<ul style="list-style-type: none"> The second assessment of distribution contracts issued in May 2014 showed that overall alignment improved from 'Moderate' to 'Substantial'. Gas Industry Co plans to survey distributors in late FY2019 to assess progress with retailers moving to new contracts consistent with the Scheme principles.

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Information Disclosure	<ul style="list-style-type: none"> In July 2018 the Minister requested that Gas Industry Co consider whether the existing arrangements for industry participants to disclose information that could potentially have an impact on the downstream gas market were adequate. Gas Industry Co responded that a number of stakeholders shared the Minister's concern and that we would instigate a workstream to identify and address the issues. 	<ul style="list-style-type: none"> Gas Industry Co has consulted with industry participants and related parties on whether they consider information disclosure in the sector is sufficient. Conducted interviews with upstream stakeholders. Barriers to disclosure primarily relate to Joint Venture arrangements that may be challenging to address in a non-regulatory manner. In February 2019, Gas Industry Co consulted on its Options Paper on Information Disclosure inviting submissions by mid-April. A workshop was held (spanning parties across the wider energy sector) in March to take interested parties through the paper and discuss issues and perspectives. 	<ul style="list-style-type: none"> A new workstream to consider improvements to information disclosure in the gas sector was initiated in August 2018. Following the February 2019 consultation on its Options Paper on Information Disclosure, twenty submissions were received. Gas Industry Co is in the process of preparing its Analysis of Submissions and will consider whether cross submissions are required.

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Wholesale Market Monitoring	<ul style="list-style-type: none"> emsTradepoint wholesale gas market (eTp) makes a significant contribution to GPS outcome for 'efficient arrangements for the short-term trading of gas'. 	<ul style="list-style-type: none"> Gas Industry Co continues to monitor activity and developments in the wholesale spot market. Gas Industry Co's workstream for information disclosure (see above) is to provide a comprehensive consideration of potential information disclosure issues in the wholesale markets. 	<ul style="list-style-type: none"> Gas Industry Co is continuing to support the Energy Trader Forum. An initial review of submissions indicated a potential disclosure issue with regard to the availability of wholesale gas market information.
Gas Quality	<ul style="list-style-type: none"> Maintain an acceptable standard of gas quality. Ensure costs of gas quality incidents are met efficiently. Achieve improved transparency on gas quality incidents. 	<ul style="list-style-type: none"> Ongoing review of industry arrangements for managing gas quality. Consider options for improving gas quality arrangements. Gas Quality: Requirements and Procedures Document was issued in 2015 and will be reviewed and updated by Gas Industry Co as arrangements change. 	<ul style="list-style-type: none"> As foreshadowed in our 2017 Gas Quality Update report, now that MPOC and VTC seem likely to be replaced by the GTAC, we will consider whether the industry arrangements for dealing with gas quality excursions still require attention. Our preliminary view based on previous discussions with First Gas is that they are interested in adopting arrangements similar to the Australian gas quality guidelines. First Gas will need time to do this properly and this is likely to occur following the GTAC implementation. Gas Industry Co is preparing information for consideration when the GTAC has progressed.

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Rule Changes	<ul style="list-style-type: none"> Improved industry governance through regular review of existing arrangements and recommending changes where appropriate. 	<ul style="list-style-type: none"> Maintain rule change registers. Review Switching, Reconciliation, and CCM rules/regulations once the new GTAC design is sufficiently advanced. 	<ul style="list-style-type: none"> A pilot of day-after (D+1) gas allocation and daily balancing and peaking pool (BPP) information delivery is continuing successfully. The D+1 model is undergoing changes to allow it to produce results at a zone level as required for the GTAC. The daily allocation working group (DAWG) will be resurrected to review the acceptability of the new model. Related to D+1 is the need to explore the viability of increasing the number of customer sites that report consumption daily. This will be explored via a consultation paper to be released by end-FY2019. With GTAC proceeding it is now timely to consult on changes to the CCM Regulations. These will include the process for setting a contingency price as well as a potential tweak to curtailment band 3.
Gas Measurement	<ul style="list-style-type: none"> Workstream arose from industry stakeholder discussions at annual Co-regulatory Forums undertaken in context of GPS outcome of providing efficient market for metering services. 	<ul style="list-style-type: none"> Develop a minimum voluntary standard for advanced metering. 	<ul style="list-style-type: none"> Gas Industry Co has established a technical advisory group to develop a minimum voluntary standard for advanced metering. We understand that parties are investigating a rollout of advanced gas meters and that an announcement will be made shortly. Once there is clarity on that project, we will continue with the advisory group's work.

Strategic Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

Project	Rationale	Activity	Status
Transmission Access	<ul style="list-style-type: none"> Ensure transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity. 	<ul style="list-style-type: none"> Address, using regulatory and/or non- regulatory options, any lessening of competition due to transmission constraints. Improve the quality and availability of pipeline security and supply/demand information. Promote changes to transmission access arrangements. 	<ul style="list-style-type: none"> First Gas submitted a revised GTAC to Gas Industry Co on 31 October 2018 for assessment. Gas Industry Co's assessment (FAP) of the 31 October 2018 GTAC concluded that the revised GTAC is materially better than the existing MPOC and VTC. First Gas and the industry are working through implementation of the new arrangements and are targeting go-live on 1/10/2019. This date is currently looking challenging given IT requirements.
Gas Supply/Demand Study	<ul style="list-style-type: none"> The Long-Term Gas Supply and Demand Scenarios commissioned to provide industry stakeholders with information that may be useful for making business decisions. 	<ul style="list-style-type: none"> Update the supply/demand study biennially. Third biennial edition of the Long-Term Gas Supply and Demand Scenarios was released in October 2016. 	<ul style="list-style-type: none"> Gas Industry Co has commissioned Concept Consulting to produce the next update which will include further work on understanding gas supply issues. The release is planned for mid-2019.
Transmission Pipeline Balancing	<ul style="list-style-type: none"> Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. 	<ul style="list-style-type: none"> Assess balancing market developments. 	<ul style="list-style-type: none"> A post-implementation review following the October 2015 introduction of Market-Based Balancing (MBB) identified efficiency improvements. Balancing under the GTAC expected to be more efficient as a result of the combination of incentive fees and the lack of mandatory

Strategic Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

Project	Rationale	Activity	Status
			daily cash-outs by the transmission owner. GIC will undertake a post-implementation review after the first full year of operation.
Transmission Code Change Requests	<ul style="list-style-type: none"> Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines. 	<ul style="list-style-type: none"> Transmission Code Change Requests processed as required. 	<ul style="list-style-type: none"> No changes to the MPOC or VTC are expected while the GTAC is being implemented. Gas Industry Co expect an omnibus GTAC change request comprising a series of 'tidy-ups' once the GTAC goes live.
Interconnection	<ul style="list-style-type: none"> Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. 	<ul style="list-style-type: none"> Review interconnections as required. Address any concerns regarding reasonable access. Amend Interconnection Guidelines if needed. 	<ul style="list-style-type: none"> Interconnection Guidelines have been in place since 2009. Transmission System Owner policies are largely consistent with those guidelines. First Gas and stakeholders are considering interconnection arrangements in the context of the GTAC development. Gas Industry Co will revisit our previous interconnection work to determine if further work is necessary now that the GTAC implementation is underway.
Security and Reliability	<ul style="list-style-type: none"> Gas Industry Co's 2015/16 review of transmission pipeline security and reliability found arrangements were generally appropriate but noted several opportunities for improvement under current arrangements (mainly 	<ul style="list-style-type: none"> Gas Industry Co will continue to review developments and work with stakeholders on further improvements. The impact of changes in the upstream supply dynamic will be 	<ul style="list-style-type: none"> Gas Industry Co published an assessment of security and reliability issues in March 2017. Gas Industry Co will revisit our previous security and reliability reviews in light of the GTAC development and First Gas's Asset

Strategic Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

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	development of first combined First Gas Transmission Asset Management Plan) and several areas where arrangements were evolving (Commerce Commission price-quality regulations.	<p>considered on an ongoing basis as part of the monitoring of wholesale market activity.</p> <ul style="list-style-type: none"> Security of supply concerns arising from a tighter upstream supply position has raised awareness of the potential impact of upstream infrastructure 	<p>Management Plan improvements to determine if further work is necessary.</p> <ul style="list-style-type: none"> Work is being undertaken by Commerce Commission and First Gas with regards to transmission pipelines. Tightness in the gas market due to reduced deliverability of supply is being monitored.

Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

Project	Rationale	Activity	Status
Downstream Reconciliation	<ul style="list-style-type: none"> Oversight of the Gas (Downstream Reconciliation) Rules 2008. Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs. 	<ul style="list-style-type: none"> Oversight of the Reconciliation Rules, including Allocation Agent Service Provider role. 	<ul style="list-style-type: none"> Reconciliation Rules operating well, with Energy Market Services (EMS) performing Allocation Agent Service Provider role. Gas reconciliation audits performed are regularly. Annual Unaccounted for Gas (UFG) factors and unusual metering arrangements are reviewed for any significant differences.

Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

Project	Rationale	Activity	Status
Switching and Registry	<ul style="list-style-type: none"> Oversight of the Gas (Switching Arrangements) Rules 2008. Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers. 	<ul style="list-style-type: none"> Oversight of Switching Rules, including Registry Operator Service Provider role. 	<ul style="list-style-type: none"> Switching Rules operating well, with Jade performing Registry Operator Service Provider role. Gas Industry Co's monthly switching statistics report show switching levels remain stable. Switching audits are performed regularly.
Critical Contingency Management	<ul style="list-style-type: none"> Oversight of the Gas Governance (Critical Contingency Management) Regulations 2008. Improved industry outcomes through increased market confidence in industry's ability to manage critical contingency events. 	<ul style="list-style-type: none"> Oversight of CCM Regulations including management of Critical Contingency Operator (CCO) Service Provider role. Review effectiveness of the Regulations following events and the annual exercises. Operate critical contingency pool following an event. 	<ul style="list-style-type: none"> CCM Regulations operating well, with Core Group performing Critical Contingency Operator Service Provider role. CCO activities are reviewed each quarter. Industry training sessions were held in April, in preparation for the annual exercise scheduled in May.
Compliance	<ul style="list-style-type: none"> Oversight of the Gas Governance (Compliance) Regulations. Improved industry operations through provision of a compliance and dispute resolution process for industry participants. 	<ul style="list-style-type: none"> Oversight of Compliance Regulations. Appointment of Rulings Panel and Investigator, and management of associated processes. Sir John Hansen appointed as Rulings Panel. Gas Industry Co has recently appointed a panel of investigators. 	<ul style="list-style-type: none"> Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations. Rulings Panel appointment expires in June 2019. A backstop of continuing appointment exists in the regulations and the status quo will remain until advised. Breach activity remains generally low, indicating industry compliance.

Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

Project	Rationale	Activity	Status
Statutory Accountability	<ul style="list-style-type: none"> To ensure stakeholders understand the scope of the company's intended operations and its results to the cost thereof. 	<ul style="list-style-type: none"> Prepare/publish a Statement of Intent that meets statutory requirements. Prepare/publish Annual Reports that meet statutory requirements. Prepare/publish Quarterly Reports to the Minister on 'state and current performance of the industry'. 	<ul style="list-style-type: none"> Quarterly Reports and News Bulletins are published regularly. 2018 Statement of Intent and 2018 Annual Report are both published on Gas Industry Co's website.
Performance Measures	<ul style="list-style-type: none"> Improved industry and consumer outcomes through provision of public information on industry performance. Monitor the effectiveness of governance arrangements. 	<ul style="list-style-type: none"> Determine and publish information on each gas governance arrangement that has been implemented. 	<ul style="list-style-type: none"> The Quarterly Industry Performance Measures Reports are published on Gas Industry Co's website, with highlights included in the Quarterly Reports to the Minister.

Strategic Objective 4: Build and communicate the New Zealand Gas Story

Project	Rationale	Activity	Status
NZ Gas Story/State and Performance of Industry	<ul style="list-style-type: none"> Facilitate nexus between industry and Government. Maintain informed industry participants and other stakeholders. 	<ul style="list-style-type: none"> Facilitate, influence and communicate with the industry and Government. Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry. 	<ul style="list-style-type: none"> Regular liaison with MBIE, Electricity Authority, and other relevant regulators. Liaising with Commerce Commission on gas transmission matters. Next update of NZ Gas Story is being developed for release later in 2019.