

QUARTERLY REPORT

Quarter ended 31 December 2018

Welcome to the December 2018 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 key developments in our work programme areas, as well as the gas sector for the three months ended 31 December 2018.

Further progress has been made in the gas transmission work programme. First Gas has been working with industry stakeholders on the design for a single gas transmission access code (GTAC) to replace the existing Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC).

On 31 October 2018 First Gas submitted a new version of the GTAC to Gas Industry Co. We issued a preliminary assessment paper (PAP) on 5 December for industry consultation and concluded that the New Code was materially better than the existing arrangements. Since then, stakeholder submissions on the PAP provided additional input for us to consider. Gas Industry Co released its Final Assessment Paper (FAP) in February 2019, which also concluded that the GTAC was materially better than the existing MPOC and VTC. This meets one of the conditions necessary for the industry to move to implementation of the new arrangements.

Engagement with industry stakeholders has been intensive, comprehensive, thoughtful, inclusive and transparent. Gas Industry Co has attended and hosted most of the workshops that have formed the core of stakeholder involvement and we have been impressed at the level of commitment and the quality of the input from all quarters. First Gas and its stakeholders are to be commended for their respective efforts and there is no doubt that the GTAC has benefitted greatly from the open and collaborative development process.

Information on the GTAC can be found on our website: <https://www.gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gtac-final-assessment-paper/>

The Minister of Energy and Resources, the Hon Dr Megan Woods wrote to Gas Industry Co in July 2018 requesting that we investigate whether the existing arrangements for industry participants to disclose information that could have an impact on the downstream gas market were adequate. The letter highlighted the Pohokura pipeline outage at that time as an example of an instance where a higher level of information disclosure may have been warranted.

Gas Industry Co initiated a new workstream to consider whether the current market arrangements on information disclosure are adequate or whether further arrangements are required. Markets work best when all parties have access to information that enables them to make informed decisions.

Following initial discussions with wider energy sector parties and Government to understand their perspectives on information disclosure, as well as conducting reviews of international information disclosure regimes, an Options Paper was released in February 2019. The paper sets out a proposed problem together with a series of options for addressing the problem. It covers the information to be provided as well as how the information can be provided and what regulatory or voluntary arrangements should underpin disclosure. The options are described at a conceptual level.

As part of our role under the co-regulatory model, Gas Industry Co has an obligation in the Gas Act to ensure that good information about the gas industry is generally available. As with all our workstreams, we like to hear from the industry about its thoughts, concerns and suggestion for improvement. We encourage stakeholders and the wider energy sector to submit on the Options Paper.

The Information Disclosure workstream is on our website: <https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/consultation/>

In our September Quarterly Report, we noted First Gas's announcement to its stakeholders about a crease that was detected in a five-metre section of the 400-line (Maui pipeline) at Tongaporutu, Taranaki during a scheduled routine check. Since then, First Gas's team worked to complete a temporary 800 metre bypass alongside the existing pipeline, which will allow the team to repair the crease without impacting gas supply to users. Repairs on the affected section of the Maui pipeline and work on the surrounding area is currently being carried out and First Gas plans to reinstate the pipeline in 2019.

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: <https://www.gasindustry.co.nz/work-programmes/performance-measures/overview/>

Highlights from the Performance Measures Report include:

- In the past 12 months, there have been about 3,700 not withdrawn switches completed per month, which translates to an annual churn rate of about 15.8 percent.
- In 2018, 70 percent of customer switches were completed within three 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 about one percent (compared with about two percent in 2009).

In November last year we held our annual Co-regulatory Forum which saw us starting consultation on our document FY2020 Work Programme and Levy released in December. As always, our work programme is designed to meet our statutory requirements as the industry body under the Gas Act 1992, and to address Government and industry priorities through achievement of our work programme deliverables.

The FY2020 Work Programme and Levy consultation paper feeds into our Statement of Intent and our Recommendation to the Minister on our annual Levy regulations. The industry's input into this process has been excellent over recent years, successfully underpinning the co-regulatory model. Whilst there has been robust debate over a few important issues, the overall result has been a reasonably settled understanding for effective governance of the downstream gas industry.

Information on Gas Industry Co's FY2020 Work Programme and Levy can be found here on our website:
<https://www.gasindustry.co.nz/work-programmes/levies/developing/>

The Company's Annual Meeting of shareholders was held in November 2018. In accordance to the Company's Constitution the Rt Hon Jim Bolger, and Dennis Barnes retired by rotation and being eligible both were re-elected as Independent Director and Non-Independent Director respectively.

We are pleased to also report that good progress continues to be made in achieving the objectives and outcomes for Gas Industry Co and the industry in Part 4A of the Gas Act, and the GPS, through the Work Programme included in the Company's Statement of Intent. An updated summary of our work is included on page four.

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 OCTOBER – 31 DECEMBER 2018

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 entrants 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 FY2019 to confirm progress with retailers moving to new contracts consistent with the Scheme principles.

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

Project	Rationale	Activity	Status
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 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. 	<ul style="list-style-type: none"> A new workstream that will consider improvements to information disclosure in the gas sector was initiated in August 2018. In February 2019, Gas Industry Co released for consultation an Options Paper on Information Disclosure.
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. The Information Disclosure workstream is at an initial consultation phase.

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

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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. 	<ul style="list-style-type: none"> Gas Quality: Requirements and Procedures Document was issued in 2015 and will be reviewed and updated by Gas Industry Co as arrangements change. As the GTAC is proceeding, we will revisit our previous gas quality reviews (such as the 2017 Gas Quality Update) to determine if further work is necessary.
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 pilot will be reviewed following Gas Industry Co's Final Assessment Paper (FAP) which concluded that First Gas's 31 October 2018 GTAC is materially better than the existing terms and conditions for access to and use of gas transmission pipelines.
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"> As part of its next steps, Gas Industry Co established a technical advisory group to develop a minimum voluntary standard for advanced metering.

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. A final assessment paper (FAP) of the 31 October 2018 GTAC concluded that the revised GTAC is materially better than the current MPOC and VTC. This allows the industry to move to implementation of the new arrangements.
Gas Supply/Demand Study	<ul style="list-style-type: none"> <i>Long-Term Gas Supply and Demand Scenarios</i> 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. 	<ul style="list-style-type: none"> Third biennial edition of the Long Term Gas Supply and Demand Scenarios was released in October 2016. 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. First Gas and stakeholders are considering balancing in the context of the GTAC development.

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

Project	Rationale	Activity	Status
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.
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 as the GTAC work proceeds.
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 development of first combined First Gas Transmission Asset Management Plan) and several areas where arrangements were evolving 	<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 considered on an ongoing basis as part of the monitoring of wholesale market activity. 	<ul style="list-style-type: none"> Gas Industry Co published an assessment of security and reliability issues in March 2017. If the GTAC proceeds, Gas Industry Co will revisit our previous security and reliability reviews to determine if further work is necessary.

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

Project	Rationale	Activity	Status
	<p>(Commerce Commission price-quality regulations.</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. 		

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 regularly. Annual Unaccounted for Gas (UFG) factors and unusual metering arrangements reviewed for any significant differences. A pilot of day-after (D+1) gas allocation and daily balancing and peaking pool (BPP) information delivery is continuing successfully. Early indications are that

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

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			<p>D+1 will continue to be relevant under the new GTAC.</p> <ul style="list-style-type: none"> Changes to Reconciliation Rules will be proposed if required for the continuation of D+1.
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 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 will be held in April, in advance of the annual exercise scheduled for May.

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

Project	Rationale	Activity	Status
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. 	<ul style="list-style-type: none"> Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations. Sir John Hansen appointed as Rulings Panel. Following the current Investigator's intention to resign, Gas Industry Co is exploring options for his replacement. Rulings Panel appointment expires in June 2019. Process to reappoint Sir John Hansen for a further 3 years is currently underway. Breach activity remains generally low; a positive indicator of industry compliance.
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 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. 	<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 Performance Measures Reports are published on Gas Industry Co's website, with highlights included in the Quarterly Reports to the Minister

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

Project	Rationale	Activity	Status
	<ul style="list-style-type: none"> Monitor the effectiveness of governance arrangements. 		

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 currently being developed for release in 2019.