

QUARTERLY REPORT

Quarter ended 30 June 2019

Welcome to Gas Industry Co's June 2019 Quarterly Report.

The quarter to 30 June recorded several developments for the gas sector as well as finalisation of Gas Industry Company's Work Programme for the year forward.

Gas Industry Co records its appreciation to the Minister of Energy and Resources for her support in the levy process which led to the finalisation of our levy and work programme for the year ahead. The Gas (Levy of Industry Participants) Regulations 2019 came into force on 1 July 2019, the same date as the publication of our FY2020 – 2022 Statement of Intent. Gas Industry Co thanks all stakeholders who participated in the consultation process.

The FY2020 Statement of Intent, the 2019 Levy Regulations and supporting documents can be found here: <https://www.gasindustry.co.nz/work-programmes/levies/current-arrangements/levy-fy2020-1-july-2019-30-june-2020/>.

Gas market information disclosure

In March 2019, we consulted on the paper Options for Information Disclosure in the Wholesale Gas Sector ('Options Paper'), as a first step in our information disclosure workstream. The paper set out a possible problem statement and a number of information disclosure options. It provided stakeholders with the opportunity to comment on various issues relating to information disclosure in the New Zealand gas sector.

We received twenty submissions on the Options Paper from a wide range of parties spanning the New Zealand energy sector. Given the number of detailed responses to various issues and the range of different perspectives in the submissions, we decided on a round of cross-submissions and received thirteen cross-submissions, including two from parties that had not provided an initial submission.

The cross-submissions reinforced the points made in the earlier round of submissions. There is a broadly consistent theme across submissions that upstream production planned, and unplanned outage information should be disclosed. Most submitters consider that disclosure of this information should be the highest priority for the information disclosure workstream. There are mixed views on whether major user outages should be disclosed. A submissions analysis is due to be published in late July.

Based on the information gathered from the submissions, our next step will be the development of a concise problem definition and specific information elements, which will go out for further consultation.

In parallel to our process, gas producers have been working to develop industry-led arrangements for production outages (both planned and unplanned).

Information on the information disclosure workshop can be found here:

<https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/overview/>.

Gas Industry Co has also developed an online tool 'Industry Notifications' on our website so stakeholders can voluntarily post notifications. The page does not replace, nor does it reflect any outcomes of the Information Disclosure workstream outlined above. The page went live in July.

The Industry Notifications online tool can be found here: <https://www.gasindustry.co.nz/>.

Gas Transmission Access Code

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

Last October, First Gas submitted a new version of the GTAC for our assessment. Our December 2018 preliminary assessment paper (PAP) concluded that the New Code was materially better than the existing arrangements. We further released a Final Assessment Paper (FAP) in February 2019, where we concluded that the GTAC was materially better - meeting one of the conditions necessary for the industry to move towards implementation of the new arrangements.

The GTAC implementation program is now targeting a 1 April 2020 go-live date. This remains subject to final confirmation. Gas Industry Co notes the constructive engagement it has observed as the industry considers the implementation process.

A number of 'Requirements and Procedures' (R&P) documents that provide an overview of the legal requirements and technical standards that apply to particular areas of the industry and describe common industry practices is maintained by Gas Industry Co. The anticipated introduction of the GTAC has prompted us to revisit these documents and issue updates once the GTAC comes into effect. In this regard, we invited submissions on the Gas Quality R&P Document which relates to the composition of gas, the contaminants in it, or the pressure it is delivered at, and the Gas Measurement R&P Document which relates to gas metering or the calculation of delivered energy quantities.

During the development of the GTAC, Gas Industry Co committed to issuing a note describing how we would perform our Code Change role. In May, we issued the 'Gas Industry Co role in Gas Transmission Access Code - code changes' document to the industry and invited input. In the note we describe Gas Industry Co's role in relation to a full change request process which effectively combines the change request processes of the MPOC and the VTC. We received four submissions when our consultation closed in July and we will be issuing an analysis of in the next month.

Gas Industry Co continues to support the GTAC process and acknowledges the ongoing engagement and investment that has been made by First Gas and industry stakeholders during the process of developing the GTAC and the associated arrangements.

Information on GTAC can be found on Gas Industry Co's website here:

<https://www.gasindustry.co.nz/work-programmes/transmission-pipeline-access/overview/> and on First Gas's website here: <https://firstgas.co.nz/about-us/gtac/>

Annual Critical Contingency Exercise

The Critical Contingency Operator (CCO) annual test exercise to test First Gas's Critical Contingency Management Plan (CCMP) under the Critical Contingency Management Regulations was held in May.

Exercise Matatau provided an opportunity for parties to practice their response to a critical contingency event in a safe environment and subsequently enhance their knowledge and competency for dealing with an actual event. The exercise tested the core critical contingency phases and information flows associated with an event, such as declaration, demand curtailment and CCO public information statements. The exercise also provided an opportunity for asset owners other than the TSO to consider the requirements to communicate information about failed assets.

Information on Exercise Matatau and the CCO's Exercise Report can be found on the CCO's website [here](#).

Update on Industry Performance Measures

Gas Industry Co's Quarterly Industry Performance Measures report for the period ended June 2019 has also been published. The 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, both in terms of activity related to these governance arrangements and the competitive outcomes that they foster.

Information on the Quarterly Industry Performance Measures can be found here:

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

The report also tracks transmission pipeline balancing measures, as a means of informing Gas Industry Co's work on this issue. The full report is available on our website, highlights of which include:

- There are now 14 distinct retail brands. The gas industry has welcomed two new retailers into the gas registry in the quarter - energyclubnz and MegaTEL.
- 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 15.5 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 about 0.8 percent (compared with about 2 percent in 2009).
- Genesis is the largest retailer by customer share. Nova has the largest share of commercial and industrial customers.
- Nova is the largest retailer by volume market share.

We are pleased to 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.

Nga mihi nui.

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 Gas Industry Co's periodic News Bulletins and are available on our website www.gasindustry.co.nz.

PROGRESS TOWARDS OBJECTIVES AND OUTCOMES

1 APRIL – 30 JUNE 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 FY2020 to confirm progress with retailers moving to new contracts consistent with the Scheme principles.

<p>Information Disclosure</p>	<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"> • A new workstream that is considering improvements to information disclosure in the gas sector was initiated in August 2018. • In February 2019, Gas Industry Co released <i>Options Paper on Information Disclosure</i> (Options Paper) for consultation. The Options Paper sets out a proposed problem statement and discusses the importance of information for the operation of a well-functioning market. • Gas Industry Co has developed a page on its website for stakeholders to post industry notifications. We are also currently developing an information portal on our website for parties to access and understand currently available information in the market. • In parallel with Gas Industry Co's work, gas producers are currently developing industry-led arrangements for the disclosure of production outages (both planned and unplanned). 	<ul style="list-style-type: none"> • Gas Industry Co received twenty submissions on the Options Paper in April. Cross submissions on the paper recently closed, with thirteen further submissions received. An analysis of submissions is currently being prepared. • The next step in Gas Industry Co's work programme will involve the development of a specific problem statement along with particular information disclosure options. • Gas Industry Co will review gas producers' proposed arrangements against the Gas Act and GPS objectives. We expect to receive the industry's proposal at the end of August.
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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. Gas Industry Co regularly produces information showing significant sources of gas supply and demand for distribution to interested stakeholders.
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 foreshadowed in our 2017 Gas Quality Update report, now that MPOC and VTC are likely to be replaced by the GTAC, we will consider whether the industry arrangements for dealing with gas quality excursions 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. This is likely to occur following the GTAC implementation and will remain in watching status until the GTAC implementation is clear.
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

			<p>required for the GTAC. The daily allocation working group (DAWG) will be resurrected to review the acceptability of the new model.</p> <ul style="list-style-type: none"> • 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-FY2020. • 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 in due course. 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 	<ul style="list-style-type: none"> • Address, using regulatory and/or non-regulatory options, any lessening of competition due to transmission constraints. 	<ul style="list-style-type: none"> • First Gas submitted a revised GTAC to Gas Industry Co on 31 October 2018 for assessment.

	<p>for efficient investment in additional capacity.</p>	<ul style="list-style-type: none"> • Improve the quality and availability of pipeline security and supply/demand information. • Promote changes to transmission access arrangements. 	<ul style="list-style-type: none"> • Gas Industry Co's (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 currently targeting go-live on 1/10/2019.
Gas Supply/Demand Study	<ul style="list-style-type: none"> • The Long-Term Gas Supply and Demand Scenarios report is commissioned by Gas Industry Co to provide industry stakeholders with information that may be useful for making business decisions. The supply/demand study is updated biennially. 	<ul style="list-style-type: none"> • Gas Industry Co has commissioned Concept Consulting to produce the 2019 edition of the report. This edition will include further work on understanding gas supply. 	<ul style="list-style-type: none"> • The draft 2019 report has been circulated to key stakeholders to test and provide feedback on the analysis. Depending on the response, we expect to release the report in August/September.
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 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. An omnibus GTAC change request comprising a series of “tidy-ups” once the GTAC goes live is expected. (some minor & technical drafting issues have already been identified).
Transmission Pipeline 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.
Transmission Security and Reliability	<ul style="list-style-type: none"> Gas Industry Co’s 2017 review concluded that all the necessary arrangements to deliver effective security and reliability of the transmission system were in place and noted the substantial improvements to the Asset Management Plan since First Gas became the single owner of the ex-Maui and ex-Vector transmission systems. 	<ul style="list-style-type: none"> First Gas has continued to make improvements to its transmission Asset Management Plan, including those recommended by Gas Industry Co in its 2017 review. 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’s GTAC Final Assessment Paper anticipated that implementing the GTAC would bring a number of reliability improvements. A post-implementation review is needed to assess whether these improvements have been realised.

	<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. 		
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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"> Gas reconciliation audits are performed regularly. Annual Unaccounted for Gas (UFG) factors and unusual metering arrangements are reviewed for any significant differences.
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"> 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. 	<ul style="list-style-type: none"> Oversight of CCM Regulations including management of Critical Contingency Operator (CCO) Service Provider role. 	<ul style="list-style-type: none"> CCO activities are reviewed each quarter. Industry training sessions were held in April, and the annual exercise was successfully completed in May.

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"> Improved industry outcomes through increased market confidence in industry's ability to manage critical contingency events. 	<ul style="list-style-type: none"> Review effectiveness of the Regulations following events and the annual exercises. Operate critical contingency pool following an event. 	<ul style="list-style-type: none"> First Gas has submitted a revised CCMP to GIC which incorporates changes related to GTAC.
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. Gas Industry Co has appointed a panel of Investigators to undertake this role. 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 are published regularly. 2019 Statement of Intent and 2018 Annual Report are both published on Gas Industry Co's website.

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.
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.