

QUARTERLY REPORT

Quarter ended 30 September 2019

Kia ora koutou,

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

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 30 September 2019.

In August 2018, the information disclosure workstream was established to progress issues concerning information transparency and asymmetry in the gas sector.

Since then, there has been considerable focus on the availability of gas outage information. This focus has been driven by a number of major events last year which significantly affected gas supply in the wholesale gas market highlighting that there may be transparency and asymmetry issues associated with gas production information.

Our initial work which focused on gaining a broad understanding of possible information issues, fed into our first formal step in the workstream when we consulted on the *Options for Information Disclosure in the Wholesale Gas Sector* in March this year.

The Options Paper and submissions identified several 'information elements' and our recently released consultation paper *Information Disclosure: Problem Assessment* assesses these information elements against the Government's policy objectives for the sector as identified in the Gas Act (1992) and the Government Policy Statement (GPS). Stakeholders' submissions on the issues raised in the Problem Assessment paper will be used to further our understanding of information problems in the sector and determine the set of information issues that will be the subject of the Statement of Proposal. This work will commence in the New Year.

Parallel to our workstream, the upstream gas sector has proposed a new information disclosure regime and had invited feedback on its paper *Upstream Gas Outage Information Disclosure Code*. The Code, although voluntary is intended to operate comprehensively across the upstream industry as the applicable set of rules for timely, relevant and accurate information disclosure around upstream gas outages.

An Industry Notifications online tool was launched in August this year for industry stakeholders to upload notifications, and for registered users to receive 'push' notifications. The Industry Notifications online tool can be found here: <https://www.gasindustry.co.nz/>.

Information on the information disclosure workstream can be found here: <https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/overview/>.

We released the 2019 Long-Term Gas Supply and Demand Scenarios report in September. This is the fourth edition we commissioned from Concept Consulting. Having a good understanding of future gas supply scenarios is important for stakeholders. This latest edition updates forecasts of New Zealand's gas reserves over the period to 2050.

The report provides a picture and outlook for the gas market and analyses the main drivers for gas and investigates factors that will likely influence future outcomes. The scenarios are presented to help

stakeholders understand uncertainties and how various plausible combinations may impact New Zealand's gas sector.

Although the principal focus of the study is on analysing the key long-term drivers of outcomes in the gas sector, it also comments at a relatively high level on the supply deliverability/flexibility issues which have been causing some challenges in the market.

The full report is found here: <https://www.gasindustry.co.nz/work-programmes/gas-supply-and-demand/long-term-gas-supply-and-demand-scenarios-2019-update/>

Gas Industry Co has published its September 2019 Quarterly Industry Performance Measures report, which provides an update on the performance measures that Gas Industry Co monitors regularly. Through those measures Gas Industry Co tracks 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. The Performance Measures report also tracks transmission pipeline balancing measures as a means of informing Gas Industry Co's work on this issue.

Information on the Quarterly Industry Performance Measures can be found here: <https://www.gasindustry.co.nz/work-programmes/performance-measures/overview/>

Highlights this quarter include:

- Three new retailers have joined the gas industry this year: Hanergy, energyclubnz, and MegaTEL. There are now 14 distinct retail brands.
- 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.

Preparations to develop our Statement of Intent for the next two financial years have begun. This process includes establishing a work programme and associated costs for FY2021, with indicative activity for at least the subsequent two years. The work programme costs are principally funded through market fees under gas governance rules and through annual Levy Regulations.

The co-regulatory model relies on industry input in developing the Statement of Intent and we have found early engagement with stakeholders on strategic and work priorities to be invaluable.

The next step is our annual Co-regulatory Forum on 29 November 2019 from which we will publish detailed proposals in a formal consultation paper with opportunity for stakeholder input.

Good progress continues to be made in achieving the objectives and outcomes for Gas Industry Co and the industry as set out in Part 4A of the Gas Act, GPS and through the Work Programme included in the Statement of Intent. An updated summary of our work is found below.

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 JULY – 30 SEPTEMBER 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 FY2020-2022 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 determine whether a further assessment is necessary.

<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 workstream 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 set out a proposed problem statement and discussed the importance of information for the operation of a well-functioning market. • Gas Industry Co received 22 submissions and cross submissions from interested parties on the Options Paper. We published an analysis of submissions in June. • In parallel with Gas Industry Co’s work, gas producers and Flex Gas are currently developing an industry-led Upstream Gas Outage Information Disclosure Code for the disclosure of production and storage facility planned and unplanned outages. 	<ul style="list-style-type: none"> • Gas Industry Co released the <i>Information Disclosure: Problem Assessment</i> paper (Problem Assessment Paper) for consultation in October with submissions due on 9 December. This paper assesses the information elements identified in the Options Paper and related submissions against the Government’s policy objectives for the gas sector. The paper represents the first step in the development of a Statement of Proposal, which will commence early in the new year following an analysis of submissions on the Problem Assessment Paper. • Gas Industry Co will review gas producers’ and Flex Gas’s Outage Code as part of the Statement of Proposal process.
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<p>Wholesale Market Monitoring</p>	<ul style="list-style-type: none"> emsTradepoint wholesale gas market (eTp) makes a 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 produces a set of information graphs showing the last 12 months of major usage and supply by gate station for use by stakeholders and the industry.
<p>Gas Quality</p>	<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"> In anticipation of the GTAC replacing the MPOC and VTC, we have updated the Gas Quality Requirements and Procedures document, including seeking and considering stakeholder comments on the updated document. The document provides an overview of the legal framework and technical standards that govern gas quality and describes how industry participants meet their obligations. Discussions with First Gas have confirmed that they are interested in developing arrangements for dealing with non-specification gas events similar to the Australian Energy Market Operator (AEMO) gas quality guidelines. First Gas hopes to discuss this with stakeholders during the last quarter of the 2020 calendar year. In line with the conclusions of our previous reviews, we encourage this development and will maintain a watching brief.

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 which we will release by end-FY2020. With GTAC proceeding it is now timely to consider changes to the CCM Regulations. More information about this review is provided under "Critical Contingency" below.
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	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. First Gas submitted a revised GTAC to Gas Industry Co on 31 October 2018 for assessment. 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. 	<ul style="list-style-type: none"> First Gas and the industry are working through implementation of the new arrangements and this is targeted to go-live at 1 April 2020.
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 issues. 	<ul style="list-style-type: none"> The 2019 edition of the Long-Term Gas Supply and Demand Scenarios report was released September 2019. This is the fourth edition we commissioned from Concept Consulting. The report explores gas supply and demand scenarios over the period to 2050.
Transmission Pipeline Balancing	<ul style="list-style-type: none"> Improved industry arrangements. Gas industry participants and new entrants 	<ul style="list-style-type: none"> Assess balancing market developments. 	<ul style="list-style-type: none"> Balancing under the GTAC is expected to be more efficient than current arrangements. Mandatory daily cash-outs of Shipper

	are able to access transmission pipelines under reasonable terms and conditions.		imbalance positions will no longer occur. Instead, there are price incentives to encourage balancing, with cash-outs only occurring where the transmission owner takes a balancing action. GIC will conduct a post-implementation review in due course.
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 comprising a series of "tidy-ups" is likely once the GTAC goes live. In anticipation of the GTAC coming into effect, Gas Industry Co developed and consulted on a paper entitled "Gas Industry Co role in GTAC code changes". The paper deals with how Gas Industry Co will perform its role in GTAC code changes and provides a useful description of how the overall code change process will work.
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 has modified its Interconnection arrangements to align with the GTAC. Gas Industry Co will review how well the revised arrangements agree with the Guidelines during FY2020.

<p>Transmission Security and Reliability</p>	<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 (Commerce Commission price-quality regulations). Security of supply concerns arising from a tighter upstream supply position has raised awareness of the potential impact of upstream infrastructure. 	<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. Gas Industry Co published an assessment of security and reliability issues in March 2017. 	<ul style="list-style-type: none"> As the GTAC proceeds, Gas Industry Co will revisit our previous security and reliability reviews to determine if further work is necessary.
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<p>Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body</p>			
<p>Project</p>	<p>Rationale</p>	<p>Activity</p>	<p>Status</p>
<p>Downstream Reconciliation</p>	<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.

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"> 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"> CCO activities are reviewed each quarter. First Gas is expected to submit a revised Critical Contingency Management Plan (to accommodate GTAC) to Gas Industry Co which incorporates changes related to GTAC. The proposed plan is expected to be submitted for approval in January, so that it can be put into place in time for GTAC go-live. The implementation of GTAC and expected changes to the Gas Act mean that it is timely to review the CCM Regulations. Gas Industry Co intends to release a consultation document shortly that proposes amendments to contingency price setting, curtailment band definitions, and offence provisions, among other topics.

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 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. 2020-2022 Statement of Intent and the 2019 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
Report on the state and performance of the New Zealand gas 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.

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

Project	Rationale	Activity	Status
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 reported to the Minister.