

QUARTERLY REPORT

Quarter ended 30 September 2020

GAS INDUSTRY COMPANY QUARTERLY REPORT TO THE MINISTER OF ENERGY AND RESOURCES

Kia ora Minister

Congratulations on your re-appointment to the energy and resources portfolios.

The gas industry, regulatory structures, and investment framework are responding to the direction you have set for the transition of gas into a net zero carbon economy.

As the sector's co-regulator we look forward to continuing to play our role in supporting that transition.

OUR WORK PRIORITIES

This *September 2020 Quarterly Report* is provided as part of our statutory responsibility to report to you about progress towards the Government's objectives and outcomes for the gas industry.

This quarter we record our progress on our work programme and our intention in playing our part toward the just transition that is the focus of the government's energy policies.

As discussed previously, we have been progressing important topics. Two important areas of our work stand out:

- *promoting consumer equity and fairness issues, and*
- *facilitating use of hydrogen and bio-gas.*

Promoting fair consumer outcomes

We are consulting on the outcome of the Electricity Price Review.

Although the Review was not focused on the gas sector, we see many findings as relevant and our consultation will explore where the recommendations of the review should be applied to gas.

A consultation document has been sent to stakeholders.

Facilitating hydrogen in the energy system

Through its statutory role as the co-regulator of all gases, Gas Industry Company has begun engaging around early-stage regulatory issues. For hydrogen to achieve its potential to be an important component of the transition to net zero emissions, industry participants will need confidence in the system for access, trade and distribution.

A diverse range of markets for hydrogen are possible, which makes the co-regulatory model appropriate to facilitate the fastest possible uptake of hydrogen and the most efficient governance.

We look forward to the opportunity to discuss progress at an early opportunity.

Andrew Knight
Chief Executive

SIGNIFICANT AREAS OF WORK

HYDROGEN WORKSTREAM

Through its statutory role as the co-regulator of all gases Gas Industry Company has begun a workstream to engage with industry around early-stage regulatory issues.

Ultimate uses for hydrogen include industrial and transport applications, although a diverse range of possible markets for hydrogen will be influenced by relative costs and the emergence of technology.

Issues in our workstream include utilising our existing regulatory processes and structures to facilitate access for consumers and create confidence in the safe, efficient and fair delivery of hydrogen.

Examples of where existing systems and structures can facilitate valuable outcomes include blending hydrogen with natural gas, transport fuel, industrial feedstock and export commodities. Examples of the market issues that arise include certification of gas quality, transmission pipeline access, and market operations.

Future issues will involve market rules and systems for switching customers, odorisation, reconciliation of quantities supplied into pipelines, and managing critical contingencies.

INFORMATION DISCLOSURE

Following discussions with you and the industry over information disclosure rules, our work includes the following elements:

- Statement of Proposal for gas production and storage facility outage information;
- Paper on whether major gas user outage information should be included in an information disclosure regime; and
- Paper on whether bilateral gas contract average price and volume information should be included in an information disclosure regime. We sent an information request to producers and major users requesting information about aspects of their gas supply arrangements. Co-operation with this voluntary information request has been pleasing. Responses have helped to understand whether major user outages are likely to have an impact on market volumes or price; and whether disclosure of contract prices is likely to assist industry participants to make good decisions.

Next Steps:

- We are currently developing a statement of proposal for gas production and storage outages for consultation with stakeholders.
- We are assessing whether we have sufficient evidence to support a determination on the major user outages and contract price information elements.

ELECTRICITY PRICE REVIEW RECOMMENDATIONS AND THE GAS INDUSTRY

Although the Electricity Price Review (EPR) recommendations were not applied to the gas industry, Gas Industry Co is nevertheless consulting on whether the EPR's 32 recommendations are applicable to gas markets.

We have held informal discussions with leading retailers to understand their views. Feedback received was largely supportive.

Next Steps:

- We have prepared a consultation paper which was released to stakeholders, including consumer groups, in the first week of November.

GAS IN A RENEWABLES RICH FUTURE

Gas Industry Co has commenced work on a discussion document looking at the role of gas in the transition to a net zero economy.

The first role relates to the remaining demand in the industrial, commercial and residential sectors after an accelerated exit of gas from electricity generation and some major industrial demand.

The second potential role for gas is providing dry year electricity generation cover. The current government target of 100% renewable electricity generation in a normal hydrological year suggests that thermal generation may be called upon in the event of a dry year.

The study will focus on the commercial arrangements and investment structures required for gas availability and deliverability to meet demand under a range of possible futures. It is expected this will assist the industry in adjusting investment and strategies to align with Government policy.

Next Steps:

- We aim to release a draft paper for consultation in 2021.

GAS PRODUCTION AND MAJOR USER CONSUMPTION

Gas Industry Co has made available gas production and consumption charts showing gas output from most major fields, and the consumption of gas by several large users. These charts are updated three times a week and can be found [here](#).

Information relating to some of the production down-turns in the charts can be found on our Industry Notifications page [here](#).

QUARTERLY INDUSTRY PERFORMANCE MEASURES

HIGHLIGHTS FROM THE QUARTERLY INDUSTRY PERFORMANCE MEASURES REPORT INCLUDE:

- As a result of the COVID-19 Alert Level 4 lockdown, switches in April 2020 fell to the lowest level since the Switching Rules commenced in 2009. They recovered in the remainder of the June quarter, after the lockdown was lifted, and were unusually high throughout the September quarter.
- There are 12 distinct retail brands, owned by 10 parent companies.
- In the past 12 months, there have been about 3,500 switches completed per month, which translates to an annual churn rate of about 14.6%.
- Over 75% of consumer switches are completed within three business days; 97% are completed within seven business days.
- Over 99.8% 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) stands at about 1.1% (compared with about 2% 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.
- The maximum trade price on emsTradepoint reached a peak of \$50 per gigajoule in July 2020.

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.

QUARTERLY REPORT ON PROGRESS TOWARDS OBJECTIVES AND OUTCOMES

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 FY2021-2023 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 a similar level of alignment as 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 can 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 has surveyed distributors to confirm progress with retailers moving to new contracts consistent with the Scheme principles. We have written to retailers and distributors highlighting the issue of out-of-date and expired agreements. We have advised that we will follow up on this matter in mid-2021.

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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 several 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. This consultation paper discussed a number of issues relating to information in the gas sector. The <i>Information Disclosure: Problem Assessment</i> paper (Problem Assessment Paper) was released for consultation in October 2019, building on the feedback from the Options paper. An analysis of submissions paper was released in May 2020. In parallel with Gas Industry Co's work, gas producers and Flex Gas have developed industry-led arrangements (Upstream Gas Outage Information Disclosure Code 2020) for the disclosure of production and storage facility outages. We have updated the Notifications Page to accommodate changes requested by gas producers and Flex Gas to support disclosure under their code. 	<ul style="list-style-type: none"> Gas Industry Co has commenced development of a Statement of Proposal (SOP) for gas production and storage facility outage information disclosure. We will review gas producers' and Flex Gas's arrangements as part of the SOP process. We are conducting further work on two information elements where submitters expressed a range of opinions (gas contract average price and volume disclosure and major gas user facility outage disclosure). The Electricity Authority (EA) is continuing with its wholesale market information disclosure project, which includes the disclosure of generators' thermal fuels positions. The EA is aiming to present a paper to its Board in December recommending enhancements to its information disclosure regime. Gas Industry Co is working closely with the EA on this project.

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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 produces a set of information graphs twice a week showing the last 12 months of major gas usage and supply by gate station. This is available on our website and is being used by stakeholders and the industry.
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"> 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 2020. In line with the conclusions of our previous reviews, we encourage this development and will maintain a watching brief.

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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 daily allocation working group (DAWG) met in mid-2019 to discuss next steps for the pilot. Changes will be consulted on in a paper due to be released by end of 2020. Related to D+1 is the need to explore the viability of increasing the number of large customer sites that report consumption daily. This will also be explored in the D+1 consultation paper. Gas Industry Co released a Statement of Proposal on changes to the CCM Regulations in May 2020. The proposals included revisiting the critical contingency price setting methodology, compliance and offence provisions, curtailment band definitions and several other changes. Submissions were received in July. We are now undertaking further analysis and working towards a published submissions summary and analysis before making a recommendation to the Minister.
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. In 2019, Genesis & Vector announced a smart meter rollout for Genesis customers due to begin mid-2020. 	<ul style="list-style-type: none"> Develop a minimum voluntary standard for advanced metering. Investigate what changes are required to rules and systems to support the rollout of smart meters. Consider broader implications of smart metering (and data) to the retail market. 	<ul style="list-style-type: none"> Gas Industry Co has established a technical advisory group to develop a minimum voluntary standard for advanced metering. The working group met in December 2019 to hear details of the Genesis/Vector roll out and to share initial views of what regulatory and system changes might be required. GIC will continue discussions with the working group to address what, if any, changes need to be made to our rules or registry.

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. 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 has informed stakeholders that it has suspended the GTAC implementation until it has an opportunity to re-engage with stakeholders and determine the best way forward. GIC has requested and received confirmation that the OATIS system will be able to continue to support the operation of the transmission system.
Gas Supply/Demand Studies	<ul style="list-style-type: none"> Gas Industry Co commissions an update of the Long-Term Gas Supply and Demand Scenarios report every two years to provide industry stakeholders with information that may be useful for making business decisions. We also develop shorter-term supply/demand studies that focus on particular issues. 	<ul style="list-style-type: none"> We are developing a paper that will examine the role of gas in a renewables rich future. The study will focus on the commercial arrangements and investment structures required to ensure alignment of gas supply and demand out to 2035. We aim to release a draft paper for consultation in early of 2021. 	<ul style="list-style-type: none"> We are currently evaluating consultant proposals for carrying out the work.
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"> Gas Industry Co will review any outcome of First Gas's workstream regarding the gas transmission access arrangements.

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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"> Greymouth has proposed a change to the VTC to require the provision of data on weekends to support shippers' balancing decisions. Otherwise, no changes to the MPOC or VTC are expected, unless extensions are required to the codes to align with the go live date.
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. Gas Industry Co will review how well the revised arrangements agree with the Guidelines.
Transmission 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 (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"> We are commencing a study of the remaining outstanding items listed in the 2017 paper to assess if these have been addressed and to ensure stakeholders are informed of the risks in the system and how they are being managed.

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 the Allocation Agent Service Provider role. An audit of the allocation agent was completed in late 2019. The draft report shows a high level of performance and compliance with regulatory and contractual requirements. The latest round of participant performance audits began at the end of 2019. The audit programme will cover all the allocation participants over the next couple of years. The audits currently underway have had their timeframes extended to accommodate for the auditors not being able to do their on-site inspections as a result of COVID-19. 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"> 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. The latest round of participant performance audits began at the end of 2019. The audit programme will cover all the allocation participants over the next couple of years. The audits currently underway have had their timeframes extended to accommodate for the auditors not being able to do their on-site inspections as a result of COVID-19.

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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. An audit of the CCO was completed during June 2020. No instances of non-conformance were found but a number of improvement suggestions were made. Currently GIC and the CCO are collaboratively working through these recommendations.
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. 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'. 2021-2023 Statement of Intent has been published on Gas Industry Co's website. 	<ul style="list-style-type: none"> Quarterly Reports and News Bulletins are published regularly. 2020 Annual Report was provided to the Minister on 28 September and was gazetted and 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.