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The Year in Review

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Energy Outlook to 2030

- Base case projects gas demand to increase by
 - 35% for primary energy use
 - 60% for power generation
- Energy emissions also increase
- But indigenous gas important for economy
 - Contributes to supply security and
 - Reduces reliance on imported fuels

Focus of presentation

Today, I am going to focus on downstream matters

1. Improving consumer outcomes
2. Enhancing retail market systems
3. Developing wholesale market trading
4. Establishing sound emergency management systems
5. Reviewing access to key infrastructure
6. Effective co-regulation

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(1) Improving consumer outcomes

Over the longer term
consumers will benefit from
all work streams

At the Minister's request we
have analysed specific issues
of relevance to consumers

Model Contracts	EGCC code provides benchmark
Fixed Charges	Not economically efficient to regulate
Transparency of Charges	No compelling case for more disclosure
Meter removal	May be inefficient practices

(2) Enhancing retail market

(a) Switching and registry

- New mandatory arrangements proposed
- Will involve some costs for the industry
- Benefits include
 - reduction in administrative costs
 - removal of barriers to competition and
 - improvement in customer satisfaction

(2) Enhancing retail market cont'd

(b) Allocation and reconciliation

- Strong feedback that improvements are a priority
- Established two separate project teams
- Issued a consultation paper which
 - Explored issues
 - Identified preliminary proposals
- May involve regulatory framework

(3) Developing wholesale market

- Ongoing brief to advise on the efficiency of wholesale market
- Initial focus on transactional efficiency
- Shortly releasing paper for consultation

Two broad time horizons:

- Longer term trading
- Shorter term trading covering all other trades (except balancing trades)

(3) Developing wholesale market cont'd

(a) Long term trading

Underpins large investments (by gas producer or purchaser)

- Negotiated infrequently
 - Sizeable volumes
 - Duration 5+ years
- Highly tailored to specific circumstances

Difficult to achieve transactional efficiencies

(3) Developing wholesale market cont'd

(b) Short term trading

Ability to standardise tranches of gas, e.g:

- volume
- location
- time period
- standard trading terms

More akin to a “commodity”

Suggests there may be benefits in facilitating trading

(3) Developing wholesale market cont'd

Options for short term trades

(a) Standard contract

Parties currently expend considerable time and resources in negotiating trading terms

A standard contract would:

- reduce transaction costs
- pave the way for trading on a platform

(3) Developing wholesale market cont'd

(b) Matching platform

- platform defines parcel sizes and periods of availability
- participants post bids and/or offers
- matched participants complete the deal off-line using standard contract

Simplest option for reducing search costs and improving efficiency

Low costs but

Manual completion limits trading close to real time

(3) Developing wholesale market cont'd

(c) Trading platform

- Functions of matching platform plus
- Settlement and transmission interface

Streamlines the trading process

Allows trades to take place much closer to gas flow

Should yield a significantly greater level of benefits but

Significantly greater level of complexity

(3) Developing wholesale market cont'd

Recommendations in consultation paper

1. Status quo for longer term trades
2. Finalise the standard trading contract and release it to the industry
3. Depending on consultation feedback pursue development of matching platform
4. Defer work on trading platform until balancing issues clearer

(4) Emergency management

- NGOCP is:
 - voluntary
 - not fully supported
- Released a discussion paper which proposes movement to a mandatory set of arrangements
- Currently analysing submissions

(5) Review of infrastructure access

- Power to regulate access to pipelines and gas processing plant in Gas Act
- Prefer to take incremental approach
- In relation to
 - pipelines: our focus is on identifying issues
 - gas processing plant: our focus is on designing protocols
- Our interviews indicate that access to pipelines is more critical than access to gas processing plant
- Pipelines will be discussed this afternoon

(5) Infrastructure access cont'd

Gas processing

- Published report on access issues
- Outlines evidence from structured interviews and external technical consultants
- Weak case for heavy – handed regulation
- Clearly a variety of views
- Submissions close on Friday

(6) Effective co-regulation

Model is similar to other industry specific regulators

- Core business is policy advice and policy design
- Prescribed objectives and processes
- Similar processes to engage with stakeholders

Model is different to other regulators

- Shareholders select Board
- Choice of policy instruments

In conclusion

- Gas Act sets out a vision for the industry which involves achieving positive outcomes for its customers
 - through fair and competitive market arrangements in wholesale and retail sectors and
 - access to the key infrastructure on reasonable terms
 - whilst maintaining safety and security of supply
- GPS sets out a number of tasks to achieve this vision
- Gas Industry Co has made considerable progress on these tasks in the last 12 months