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Chief Executive

## The 3<sup>rd</sup> Annual Gas Industry Reform Conference

5, 6 September 2005  
Wellington



## Agenda

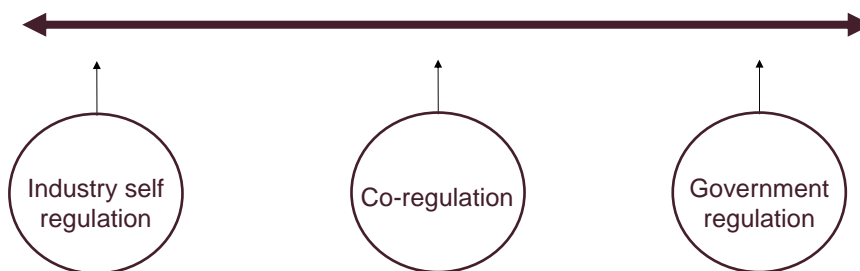
- Recent changes to the regulatory framework
- What is co-regulation?
- Application to the gas industry
  - Government's role
  - Industry's involvement
- Gas Industry Co
  - Policy development priorities
  - Approach to co-regulatory role
- Concluding Remarks



## Recent Regulatory Changes

<b>Since early 1990s</b>	Combination of legislation, regulations, technical standards and voluntary arrangements
<b>Oct 2001</b>	ACIL Consulting Report
<b>April 03 – Nov 04</b>	Government initiates Gas Inquiry
<b>Mid 2004</b>	Gas Act Amendments

## What is co-regulation?



Co-regulation can range

- From a simple endorsement of industry self-regulation
- To providing legislative backing to privately defined rules



## Benefits of co-regulation

### Main benefits of co-regulation:

- Use of expertise
- Rule changes
- Rules are more likely to be observed
- Cost management
- Regulatory backing assists enforcement

## Risks of Co-regulation

### Main risks:

- Industry self – interest
- Failure to achieve Government policy objectives
- Anti competitive practices



## Is co-regulation new?

- Used in NZ for occupational regulation
- New for gas industry
- Used in New South Wales - retail gas market

## Application to NZ gas industry

- Gas Amendment Act 2004 provides for
  - An Industry Body to be approved as a co-regulator
  - Requires a tailor made constitution
- Industry body funded by a levy



## Gas Industry Co

- Set up to fulfill the role of the Industry Body
- Approved by Order in Council
- Approved status gives it the right to recommend rules and regulations

## Government's role

- Minister has power to regulate but will take advice from co-regulator
- Gas Industry Co is required to
  - Follow the objectives in the Gas Act
  - Have regard to any Statements of Government Policy
  - Report regularly to the Minister



## Gas Act Objectives

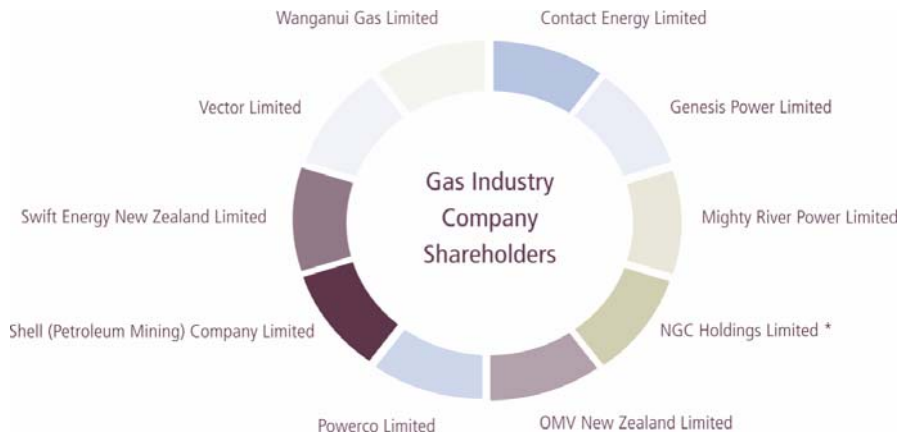
- Government's overall policy objective is
  - To ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, manner
- Other objectives in the Gas Act relate to
  - Providing access to essential infrastructure
  - Promoting competition
  - Maintaining incentives for investment
  - Downwards pressure on price
  - Managing risks relating to security of supply
  - Maintaining consistency with the gas safety regime

## GPS Policy Objectives

- GPS requires the Gas Industry Co to have regard to
  - Fairness and environmental sustainability
  - Efficient use of energy
  - Signalling to consumers the full costs of producing and transporting gas
  - The quality of gas services reflecting consumer preferences
  - The gas sector contributes to achieving the Government's climate change objectives



## Industry involvement



## Board

- Elected by Shareholders
- Majority of Independents and an Independent Chair
- The current Directors are
 

Rt Hon James Bolger	Chair and Independent
Robin Hill	Independent
Mark Verbiest	Independent
Denis Clifford	Independent
Steve Barrett	CE - Contact Energy
Mark Franklin	CE- Vector



## Board ( cont'd )

- Casual Vacancy on the board for another industry director
  - following the resignation of Don Morgan (Swift)
- AGM on 22 September

## What is our work programme?

- Two possible sources
- Most of the work relates to GPS
  - Wholesale Market Reform
  - Retail Market Reform
- Work also underway on
  - Retail Reconciliation
  - Natural Gas Outage Contingency Plan
  - Gas Transfer Code



## Wholesale markets

### Now

- Most gas is sold on long term bilateral contracts
- Balancing gas supplied by NGC
- Degree of open access

## Wholesale markets ( cont'd )

### Future (post Maui)

- Series of long term bilateral contracts, plus
- A variety of new market arrangements
  - Balancing, spot, short, medium and long term
  - Revised gas specification
  - Improved reconciliation
  - Development of capacity trading
  - Enhanced pipeline access arrangements



## Wholesale markets ( cont'd )

- Timeframe
- Wholesale Market Working Group formed
- Not yet clear what is involved in implementation
  - A new IT platform, service provider and multilateral rules, or
  - Simple standard form contract and a set of protocols on common issues

## Retail market issues

GPS invited the Gas Industry Co to

- Improve customer switching
- Put in place new complaints resolution arrangements
- Recommend a model contract for retail gas sales



## Switching & registry

- Currently arrangements are inefficient
- Gas Industry Co has formed a Switching and Registry Working Group
- Benefits include reduced transaction costs, improved service and improved competition

## Consumer complaints

- March 2005 gas was included in the Electricity Complaints Commission scheme
- Work is ongoing in relation to the inclusion of landowner disputes in the new combined scheme



## Model contracts

- Gas Industry Co formed a Model Contracts Working Group
- Consultation should commence next month
- Key issue – degree of overlap between the EGCC’s “Code of Practice” and the Groups preferred “model contract”

## How is this work funded?

- Gas Industry Co can recover the costs from levy
- Gas (Levy of Industry Participants) Regulations 2005
  - Wholesale gas levy of 1.5 cents gigajoule for wholesale purchases
  - Retail gas levy of 6 cents for each gigajoule of gas supplied to retail customers during 2003/2004 gas year and a \$4.00 for each ICP supplied on 30 Sept 2004



## Approach to co-regulation

- Gas Industry Co is committed to
  - Rigorous analysis of policy options
  - Sound consultation processes
  - Principled but pragmatic solutions
  - Cost /benefit analysis

## Approach ( cont'd )

Gas Industry Co seeks from stakeholders

- Active participation in working groups
- Submissions which
  - Focus on the objectives in the Gas Act
  - Clearly articulate the reasons/evidence for the views expressed
  - Provide alternatives where an option is not favoured



## Concluding remarks

- Co-regulatory regime developed
- Unique opportunity for the gas industry
- Work is already underway in a variety of work streams
- Government has made it clear what the alternative is
- Co-regulation requires everyone's support