

26 April 2013

Hon Simon Bridges  
Minister of Energy and Resources  
Parliament Buildings  
Wellington

Dear Minister

### **Draft Statement of Intent FY2014-2016, and Levy Recommendation FY2014**

I enclose:

- Our draft Statement of Intent (SOI) for your review and any comments you may have on it<sup>1</sup>. This sets out Gas Industry Co's strategic priorities and work programme for our financial years 2014 to 2016 (1 July 2013 to 30 June 2016 inclusive).
- Gas Industry Co's recommendation on the industry levy (Levy Recommendation) for the financial year 2014 (1 July 2013 to 30 June 2014)<sup>2</sup>. The levy is to recover the principal costs of Gas Industry Co exercising its functions as the industry body (the levy meets around two-thirds of our total annual costs, with the remaining third met by market fees paid to Gas Industry Co directly by industry participants for services under gas governance rules and regulations). One of your roles is to review and, if satisfied, accept the recommendation for the creation of annual levy funding regulations.
- Advice on progress we are making with the Gas Transmission Investment Programme (GTIP) that you may wish to use as a basis for updating the Cabinet Expenditure Committee.

The SOI and Levy Recommendation have been approved by the Gas Industry Co Board for presentation to you. In essence, these two documents provide Gas Industry Co with the tools it needs to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise fulfil our mandate as the industry body for the coming year and beyond.

### **Industry Consultation Process**

The SOI and Levy Recommendation were developed after consulting with stakeholders on strategic priorities; developing a work programme and budget that addressed these priorities; issuing a formal Statement of Proposal; and considering submissions on that paper. The key issues raised by industry participants were generally concerned with the relative weighting of priorities given to individual

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<sup>1</sup> Section 43ZT of the Gas Act 1992 sets out a process under which Gas Industry Co provides a Statement of Intent to the Minister for comment, and for the industry body to consider any comments from the Minister prior to providing the Minister with a final Statement of Intent.

<sup>2</sup> Under section 43ZZB of the Gas Act 1992, Gas Industry Co may recommend to the Minister of Energy and Resources that regulations be made requiring industry participants to pay a levy to Gas Industry Co.

workstreams. Overall, the industry supported the proposed priorities and work programme, and the estimated costs for achieving those.

The two key priorities are:

- The Company established the GTIP in late 2011 to address industry and Government concerns relating to transmission capacity availability and allocation, especially on the North Pipeline servicing Auckland. This work remains a strategic priority for the period covered by the SOI.
- A priority review of the Critical Contingency Management (CCM) Regulations that builds on improvements identified following the Maui Pipeline outage in October 2011.

### **Statement of Intent**

Gas Industry Co is required by the Gas Act to publish each year an SOI containing certain information, including the nature and scope of its intended operations. We are interested in receiving your comments on the draft SOI for FY2014-2016, which presents a work programme addressing three strategic objectives:

- Build efficient, competitive, and confident gas markets.
- Facilitate efficient use of, and timely investment in, gas infrastructure.
- Deliver effectively on Gas Industry Co's accountabilities as the industry body.

The work programme has been developed having regard to the objectives and outcomes that have been set for Gas Industry Co within the Gas Act and the April 2008 Government Policy Statement on Gas Governance (GPS), as well as the need to meet various statutory accountabilities, such as monitoring and administering existing governance arrangements or reporting requirements under the Gas Act and Companies Act.

The multi-year scope of the Statement of Intent recognises that policy development requires comprehensive consultation and that the results of consultation provide the opportunity for continuous improvements in policy thinking. The end-point of any given policy workstream may be regulations, or it may be a non-regulatory, market-based solution.

### **Levy Recommendation and GTIP Update**

The Levy Recommendation is accordingly structured to fund the following activities:

- Meeting Gas Industry Co's statutory accountabilities (including administration of existing gas governance arrangements).
- Progressing the GTIP and improvements to the CCM Regulations.
- Completing ongoing workstreams previously agreed with industry stakeholders, or initiated by Ministerial request.

In 2012, Gas Industry Co requested an increase in levy funding for the current 2013 financial year, due mainly to the increased work programme required to address the Auckland transmission issues discussed above. I understand that, in approving the 2013 levy, Cabinet invited the then Minister of Energy and Resources to report back to it on progress with this aspect of our work programme. The

enclosed report summarising the progress and direction of the GTIP is designed to assist you in this regard. In summary, we have made good progress. There is sufficient capacity to meet the Auckland market requirements in the short-to-medium term, and there is no immediate requirement for significant new investment. GTIP-related work proposed in the immediate future is set out in the SOI (please refer page 11 of the enclosed draft).

The increase requested for the FY2013 levy was seen as a 'one-off' necessity, and this has proved to be the case. Our levy funding requirement for FY2014 is lower than for the current year, with reductions of 5% and 6% respectively in the proposed retail and wholesale levies.

### **Conclusion**

Gas Industry Co accordingly recommends that:

- the retail levy for FY2014 be set at \$5.90 per ICP (retail customer); and
- the wholesale levy for FY2014 be set at 1.63 cents per gigajoule of gas purchased from a gas producer.

This would amount to an estimated \$6.31 (plus GST) per year for the average gas-using household. In the context of an average annual household gas bill of \$850, the levy comprises less than 1% of the domestic customer's annual gas costs.

We are confident that the proposed Statement of Intent and the associated Levy Recommendation provide us with what we need to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise ensure we can fulfil our mandate as the industry body.

We look forward to your consideration of these matters.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jim Bolger", with a stylized flourish at the end.

**Rt Hon Jim Bolger ONZ**

*Chairman*

Copy: Simon Lawrence, MBIE