

# Statement of Proposal on FY2016 Statement of Intent and Levy

Date issued: December 2014  
Submissions close: 5 February 2015





### **About Gas Industry Co.**

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

**Submissions close:** 5 February 2015

**Submit to:** [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

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# Executive Summary

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Gas Industry Co was established 10 years ago to perform the role of the 'industry body' as set out in Part 4A of the Gas Act 1992 (Act). In consultation with the industry, it develops an annual Statement of Intent, which includes an annual Work Programme, an indication of further activity in following years, and associated funding requirements.

Along with governance objectives set out in the Act, Gas Industry Co must have regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS).

The Company must consult with stakeholders on the costs for the Work Programme for the forthcoming financial year (to 30 June), to be set out in the annual Statement of Intent. These costs are funded through a levy and market fees, the latter imposed under relevant rules and regulations.

This paper is a Statement of Proposal setting out the key elements of Gas Industry Co's Statement of Intent and the associated levy funding required for the year ending 30 June 2016 (FY2016). Submissions from Stakeholders are sought on this Statement of Proposal.

In performing its statutory role, the Company has a Corporate Strategy goal which is to *optimise the contribution of gas to New Zealand* and its purpose is to *provide leadership for the Gas Industry and the New Zealand Gas Story*. The following strategic objectives also form part of the Corporate Strategy and have been used to frame the proposed FY2016 Work Programme set out in this Statement of Proposal:

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

The proposed FY2016 Work Programme set out in this document reflects the significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Act and the GPS. The Work Programme starts with meeting statutory requirements, such as the obligations of the industry body under existing gas governance regulations, and then addresses Government and industry priorities. It continues existing multi-year workstreams and proposes one new workstream in relation to gas metering.

This Statement of Proposal has been prepared after taking into consideration feedback received on the Corporate Strategy and a Draft Work Programme at the Co-regulatory Forum held at Gas Industry Co's offices on 28 November 2014. Forum feedback generally supported the Draft Programme. For participants, we highlight that the following suggestions made at the Forum have been added:

- a) Development of LPG and 'future options/scenarios' sections of our *NZ Gas Story*.
- b) Development of an 'Industry Road Map' adding wider industry proposals to our own Work Programme.
- c) Monitoring of the emsTradePoint wholesale gas market to be made more explicit in the Work Programme.
- d) Review of allocation group settings in the Reconciliation Rules.

The proposed Work Programme and costs also reflect the Company's approach to prioritising work and our ongoing initiatives to achieve value-for-money. Although it is always possible that unplanned, unbudgeted work might need to be undertaken in any one year, the Company prefers not to budget contingency amounts in order to keep the levy at a reasonable level. However, this means that the Company will need to reassess its capacity to deliver on planned milestones if unplanned or unbudgeted work is required.

The estimated FY2016 Levy Funding Requirement of \$3,916,821 is less than the corresponding budgeted and forecast costs for FY2015 (budget \$3,948,818).

The estimated levy rates for FY2016 are: a retail levy of \$6.97 per ICP, and a wholesale levy of 1.09 cents per GJ of gas.

Gas Industry Co's Total Work Programme Costs are met by a combination of the levy and market fees, raised under specific gas governance regulations. Indicative market fees and Total Work Programme Costs are also expected to be flat-to-dropping.

## **Submissions**

Submissions on this Statement of Proposal should be provided by 5.00pm on Thursday 5 February 2015. Submissions can be made by registering on Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). All submissions will be published on this website after the closing date. Submissions may be amended up to closure date. Details of the submissions process can be found in Appendix B. Gas Industry Co is happy to meet separately with any participant who wishes to discuss the proposals in more detail.

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# 1

## Legislative and Strategic Context

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The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Act. It develops an annual Statement of Intent, which includes an annual Work Programme and associated funding requirements for the next financial year, and an indication of further activity through the following two years. These are developed in consultation with the industry, particularly through an annual Co-regulatory Forum and submissions on this Statement of Proposal.

### 1.1 The Role of Gas Industry Co

The overall purpose of Part 4A of the Act is to 'provide for the governance of the gas industry'. Gas Industry Co seeks to achieve this through developing gas governance arrangements<sup>1</sup> that meet the objectives of the Act and of the GPS.

The principal objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Other objectives set down in the Act include (but are not limited to):

- The facilitation and promotion of the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements.
- Barriers to competition in the gas industry are minimised.
- Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced.
- Delivered gas costs and prices are subject to sustained downward pressure.

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<sup>1</sup> The Gas Act provides for the making of regulations or rules; however, Gas Industry Co is required to consider all reasonably practicable options for achieving the objectives of any regulations it might consider. As such, we generally refer to 'gas governance arrangements', which includes rules, regulations, and any voluntary arrangements developed by or with the industry.

The GPS expands the principal objective to include consideration of fairness and environmental sustainability. It also sets out specific outcomes that the Government wants achieved for the gas industry.

The Act and the GPS can be found on the Company's website<sup>2</sup>.

## 1.2 Gas Industry Co Corporate Strategy

The Board of Gas Industry Co has developed a Corporate Strategy for the Company that assists in the delivery of its statutory role.

### **Strategic Goal: Optimise the Contribution of Gas to New Zealand**

Gas has made a key contribution to New Zealand since the development of the natural gas industry from the 1960's. There is an important role for gas going forward, particularly in terms of providing electricity supply security and supporting the New Zealand economy, all consistent with environmental sustainability goals. However, there is a range of scenarios as to future supply and demand. The challenge, in line with Government energy policy, is how New Zealand can make the most of its gas resources, for the benefit of all New Zealanders.

### **Purpose: Build and communicate the New Zealand Gas Story**

Of its nature, the gas industry is complex and ever-changing. It is dependent on a range of players, from upstream explorers and product through to customers, and on competitive markets and ongoing investment of all stages. Gas Industry Co will be a leader, building on its statutory role as industry body, in making the next phase in the New Zealand Gas Story a success.

### **Objectives:**

- Deliver effectively on Gas Industry Co's accountabilities as the gas industry body.
- Build and communicate the NZ Gas Story (includes review of industry performance).
- Facilitate efficient use of and investment in gas infrastructure.
- Promote efficient, competitive, and confident gas markets.

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<sup>2</sup> <http://gasindustry.co.nz/>

### 1.3 Statement of Intent and Levy Setting Process

The Company's Strategy and Work Programme for FY2016, and an indication of further activity in FY2017 and FY2018, will be published before the start of the next financial year (1 July 2015) as the Company's Statement of Intent. This must first be submitted to the Minister for comment. Prior to the publication of the Statement of Intent, the Company must also recommend to the Minister that the Minister makes regulations for a levy on industry participants to fund its work in FY2016.

The diagram below outlines the process undertaken to achieve this.



### 1.4 Submissions sought on this Statement of Proposal

Written submissions on this Statement of Proposal should be provided by 5.00pm on 5 February 2015.

Following analysis of these submissions, Gas Industry Co will finalise its Statement of Intent and recommendation for the levy, for review and approval by the Gas Industry Co Board and the Minister.



# 2

## Developing the Proposed Work Programme

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Development of a given financial year's Work Programme starts early in the preceding year to ensure appropriate consultation with stakeholders. Gas Industry Co forecasts the expected or planned end-point of current year activity so as to determine what further work, if any, might be necessary for each workstream into the following year.

Consistent with our statutory role and our Company Strategy, we propose a FY2016 Work Programme similar to that for FY2015, focussing on our core market governance role under existing rules/regulations and continuing our key multi-year programmes. We anticipate that FY2016 will see a continuation of the Company's work on transmission issues. Implementation of the changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) will be largely completed and the work on the gas registry changes well advanced. Substantial work will continue in relation to gas balancing and we expect to be refocussing on D+1 in the gas allocation/reconciliation workspace

We also reflect here on the Company's approach to prioritising workstreams and our ongoing initiatives to achieve value-for-money delivery of the Work Programme. Although it is always possible that unplanned, unbudgeted work might need to be undertaken in any one year – for example, recent years have seen us review the CCM Regulations and aspects of the Switching Rules – the Company prefers not to budget amounts for this sort of contingency in order to keep the levy funding requirement at a reasonable level. However, this means that should unplanned work be required to be performed, the Company will need to reassess its capacity to deliver on planned milestones as set out in the Statement of Intent.

### 2.1 Prioritisation

The following is a framework for assessing priorities and costs between and within project areas.

## **Statutory roles**

Gas Industry Co has a number of statutory accountabilities that arise from:

- obligations under the various rules and regulations that Gas Industry Co administers; and
- specific outcomes defined by the Gas Act and GPS.

Given that these are, or stem from, statutory obligations they must be given a high priority in the Work Programme. Funding for the first of these is from a combination of market fees and levy, and for the second, funding is from the levy. Examples of these are:

- monitoring the performance of industry participants that are subject to the rules/regulations and encouraging, or enforcing, compliance as necessary;
- monitoring and reporting on metrics arising from these processes so as to increase transparency and foster a well-informed market. For example, automating analysis and monitoring of allocation results so as to catch and correct errors at an earlier stage; and
- maintaining rule-change registers where potential improvements are identified.

## **Committed and/or ongoing projects**

There are a number of projects that Gas Industry Co has previously committed to and which are regarded as important by stakeholders or have been requested by the Minister for Energy and Resources.

Examples include:

- a second phase review of the Downstream Reconciliation process to consider improved allocation methodologies (including D+1);
- finalising the transition activities required to implement amendments to the Switching Rules; and
- continuing the counterfactual design process for the Transmission Access and Pricing Project alongside the industry-led process, as recommended by the PEA.

In order to ensure meaningful progress is made with such projects it is essential to programme them into the budget as a means of establishing or maintaining momentum.

## Stakeholder-identified priority work

This category includes work that commands a high priority for stakeholders from the gas industry, end users, and Government. Moreover, in many of these areas, a number of those stakeholders are supporting that programme of work by committing their own resources.

This Statement of Proposal takes into consideration feedback received on the Corporate Strategy and a Draft Work Programme at the Co-regulatory Forum held at Gas Industry Co's offices on 28 November 2014. Forum feedback generally accepted the Draft Programme, including the one new workstream proposed in relation to gas metering. For Forum participants, we highlight that the following further suggestions have been taken up as part of the workstreams described below:

- a) Development of LPG and 'future options/scenarios' sections of our *NZ Gas Story*.
- b) Development of an 'Industry Road Map' adding wider industry proposals to our own Work Programme.
- c) Monitoring of the emsTradePoint wholesale gas market to be made more explicit in the Work Programme.
- d) Review of allocation group settings in the Reconciliation Rules.

## 2.2 Cost efficiencies

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of organisational support services to the Company as a whole. There is a specific focus on delivering efficiency and value for money. Following the implementation of a programme in FY2013 to review organisational support costs, and having appropriate mechanisms for ensuring that procurement decisions are managed effectively, we have been able to successfully maintain downward pressure on support costs. We expect this to be maintained in the FY2016 budget.

As well, we have considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven (e.g. code changes and reviews of new interconnections) and it does not make sense to make full provision for each of these individually. Instead, we make a modest provision for these items as a whole and back ourselves to manage within the global amount<sup>3</sup>.

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<sup>3</sup> Of course, there is now a risk that each line item may be fully active in a given year, leading to a budget deficit, but we expect to be able to manage this risk through re-prioritisation of other work.

Cost-effectiveness is a key element in planning our Work Programme. For example, we endeavour to make maximum use of in-house resources and expertise and only outsource where that adds genuine value.

While satisfied that each workstream is justifiably included in the proposed Work Programme, Gas Industry Co will continue to assess the value of each workstream within the financial year. Should the need or priority for a given workstream decrease, resources originally earmarked for that work can be re- allocated or the funding saved and included in the return to levy payers of any surplus at year-end.

# 3

## Proposed FY2016 Work Programme

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### 3.1 Strategic Goal: Deliver effectively on Gas Industry Co's accountabilities as industry body

There are various obligations that the industry body is required to meet as well as numerous functions that the industry body is required to perform either under the Gas Act or under various gas governance rules or regulations. The activities associated with these are described in this section.

#### Downstream reconciliation

The purpose of the Downstream Reconciliation Rules is to '*establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities*'. Under these Rules, Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and other Rule provisions. Gas Industry Co also monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co or the Allocation Agent.

These rules have been instrumental in reducing the level of UFG (at the final allocation stage) and this is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date. Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of \$2.5 million per annum.

#### Forecast activities FY2016

- Monitor Allocation Agent.
- Assess ongoing performance of the Rules.
- Monitor allocation results.

- Commission performance and event audits as required.
- Make determinations under the Rules as required.

#### Resources

Because the allocation process is a complex, bottom-up process involving large amounts of data, significant resources are required for this workstream. These take the form of approximately 0.5 FTE within Gas Industry Co, plus the service provider arrangements with the Allocation Agent. The first of these is funded from the levy while the second is funded by way of market fees.

#### Switching and registry

The Switching Rules have the purpose of enabling *'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'*. The Switching Rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

Introduction of the Switching Rules tripled the rate of switching and the trend over the past five years has been increasing annual rates of customer switching.

#### Forecast activities FY2016

- Monitor Registry Operator
- Assess ongoing performance of the Rules.
- Monitor and report on switching statistics.
- Make determinations under the Rules as required.

#### Resources

Although this was previously resource-intensive, particularly in the first year of operation, administering the Switching Rules is now more of a routine activity (outside of any activities related to changes to the rules – addressed later in the Work Programme narrative). Gas Industry Co has allowed for 0.25 FTE internally, thus the levy-funded resources are minimal. The service provider is funded from market fees under the Rules. There will need to be a decision by the first quarter of 2016 on whether to extend the service provider appointment for a further two years or to tender the role. The proposed levy budget does not currently provide for a tender process as the external costs would be met from market fees. However, it must be acknowledged that the internal resources required to run a tender process would be likely to crowd out other work and require some re-prioritisation.

## **Critical contingency management**

The purpose of the CCM Regulations is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. The nature of the gas system means that it is not possible to turn off customers remotely as is done in the electricity industry. Accordingly, to manage a reduction in gas supplies it is necessary to instruct consumers themselves to turn off their gas-using equipment and that, in turn, requires regulatory backing. These regulations provide for the appointment of a Critical Contingency Operator (CCO) and that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated three times since they came into full effect in 2010 with one of those being the five day outage as a result of a break in the Maui pipeline in October 2011.

The CCM Regulations were reviewed following the 2011 critical contingency and found to be soundly-based and fit for purpose. The review found that many "essential service providers" were not actually providing essential services. To address this, the system of providing designations for priority access to gas was overhauled and the responsibility moved to Gas Industry Co. As a result, FY2015 has been a busy year in this area, but FY2016 should move back towards more business as usual functions (apart from any future contingency events).

### **Forecast activities for FY2016**

- Monitor the CCO.
- Assess ongoing performance of the Regulations.
- Appoint/monitor experts as required.
- Monitor exercises and events as required.
- Administer contingency pool as required.
- Process applications for designations for critical care, essential services, critical processing, and electricity supply as required.

### **Resources**

The CCO function is performed by a service provider funded through market fees, which also include funding for one annual contingency event. Gas Industry Co's 'business as usual' arrangements typically require approximately 0.25 FTE. However, that can increase depending on the rate and type of applications received for designations. Given that we have processed a large number of designations during FY2014 and FY2015 we have not separately identified additional resources for this activity in FY2016.

## Compliance and enforcement

The Compliance Regulations are an overarching set of regulations that provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi- judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

New rules have typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's quarterly performance reports<sup>4</sup> demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity typically sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various Rules and Regulations.

### Forecast activities FY2016

- Perform the Market Administrator role.
- Assess ongoing performance of the Regulations.
- Assist the Investigator and Rulings Panel as required.
- Monitor compliance trends for indications of regulatory inefficiency.

### Resources

Each of the Investigator and Rulings Panel is engaged as prescribed by the Compliance Regulations. Those costs, and any associated expenses, are funded by market fees as provided for in the Compliance Regulations. The Market Administrator role is undertaken by Gas Industry Co and, based on recent experience, is approximately 0.2 FTE. However, that level could rise in the event of any significant or complex material breaches. Once matters are referred for investigation or referred to the Rulings Panel, the input from Gas Industry Co will increase, potentially substantially, in significant and complex cases. Accordingly, the overall resources required in this area are almost entirely demand-driven. Based on the low level of recent enforcement activity, we do not budget for any increased level of activity.

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<sup>4</sup> These reports can be found on the Gas Industry Co website: <http://gasindustry.co.nz/publications-library/landing-pages/performance-measures/>



## Statement of Intent and Annual Report

The Gas Act requires that the industry body to provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, the Statement of Intent is required to be submitted to the Minister for comment prior to being finalised and published. As evidenced by this paper, both documents are developed in close consultation with industry participants and other stakeholders.

### Forecast activities FY2016

- Prepare and publish the Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication.
- Prepare and publish the Annual Report; meet requirements for tabling in Parliament.
- Prepare and publish quarterly reports to the Minister.

### Resources

This work is predominantly carried out internally utilising staff resources from across the Company. External printing costs and some design work is required, although these are increasingly reduced by using email and website communication.

## 3.2 Strategic Goal: Build and communicate the New Zealand Gas Story

### New Zealand Gas Story

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. As reflected in the Company's corporate strategy, an objective for Gas Industry Co is to take a leadership role in building and communicating the wider New Zealand Gas Story through analysis and debate.

During FY2013 Gas Industry Co published the first *New Zealand Gas Story*. It is intended that this document is updated at least annually to ensure the information is current and topical. The first annual update was issued during FY2014. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to better understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the New Zealand Gas Story through such other channels as its website, the Company's annual and quarterly reports, and presentations to various stakeholder groups. The latter has been highly successful throughout FY2015 with a large number of stakeholders having attended presentations in Wellington and Auckland.

As discussed at the 2014 Co-Regulatory Forum, there is scope for the *NZ Gas Story* to be developed further, for example to bring together work on the future scenarios and opportunities for the industry (see further in next section) and to expand on the LPG industry.

#### **Activities FY2015**

- Third full update of New Zealand Gas Story produced.
- Stakeholder seminars and other initiatives held to communicate the New Zealand Gas Story.

#### **Forecast activities FY2016**

- Maintain currency of the New Zealand Gas Story as new information comes to hand.
- Continue Gas Story seminars for interested stakeholders.

#### **Resources**

This work is predominantly carried out internally utilising staff from the Communications Team. Other staff resources from across the Company may be called upon from time to time. A small degree of specialist external input has been engaged for particular aspects of the document, such as gas pricing.

#### **Other Reporting**

The purpose of this reporting is to fulfil a statutory requirement for good information to be available on the performance and present state of the gas industry. In recent times this has included preparation of reports focussing on particular aspects of the industry, such as the Consumer Energy Options Report (Concept Consulting, 2012). There has also been strong support for reporting that explores scenarios for the industry's development, such as *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand* (Woodward Partners, 2013).

#### **Forecast activities FY2016**

- Compliance reporting.
- Industry performance measures.
- Switching statistics.
- Other 'state and performance reporting'.

### **3.3 Strategic Goal: Facilitate efficient use of, and investment, in infrastructure**

#### **Transmission access and pricing**

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

Gas Industry Co continues to support the work of the Gas Industry Transmission Access Working Group (GITAWG) which is looking at ways to improve the transmission arrangements through code changes and other means. However, Gas Industry Co also needs to be prepared to step in should some other solution ultimately be required and, to meet this need, we are undertaking a counterfactual design process. As well as considering the design of specific products to improve or augment the existing products on offer, the range of possible options will include giving consideration to regulating the transmission codes.

#### **Activities FY2015**

- Preferred option(s) for counterfactual design determined.
- Watching brief on GITAWG progress.

#### **Forecast activities FY2016**

- Develop a detailed design of preferred counterfactual design option(s)
- Continue to maintain a watching brief on the progress of the GITAWG

#### **Resources**

This project will continue to be a key focus for Gas Industry Co with a significant external budget for specialist advice and internal resource of 2 FTE.

#### **Supply/demand model**

As part of the GTIP work, Gas Industry Co commissioned the first dedicated study on gas supply and demand. An update, including a toolset for stakeholders to model their own scenarios, was developed in FY2014 and published in FY2015 - *Long Term Gas Supply and Demand Scenarios Report* (Concept Consulting, 2014). It is clear that the contribution of the report is significant, and it is worth ensuring that the model and report are updated bi-annually.

#### **Activities FY2015**

- Publish updated Supply/Demand Report, including toolset for stakeholders to model their own scenarios.

#### **Forecast activities FY2016**

- Review and update supply/demand model biannually.

#### **Resources**

As the work for this is outsourced there will only be a modest requirement of 0.1 FTE for contract administration, stakeholder liaison and communication.

#### **Transmission pipeline balancing**

The expected position at the end of FY2015 will be driven by the outcome of the market-based balancing MPOC change request received in October 2014. Pipeline balancing has proven to be difficult to 'land'. Gas Industry Co pursued a regulated solution in 2009 but that was suspended when the industry, principally MDL, asserted that it could solve the issues through changes to the Maui and Vector transmission codes.

Gas Industry Co has approved the various requests to change the Maui Pipeline Operating Code (MPOC) but those approved changes have never been implemented. If the balancing conundrum is not solved definitively in FY2015 then it becomes increasingly clear that this matter is unlikely to be resolved through industry processes. Accordingly, Gas Industry Co will need to review its earlier work on this matter and any changes that have occurred in the meantime, and consider how best to take this issue forward. It may be that the most efficient outcome will be to roll-up the balancing work within the counterfactual design work on transmission access and pricing.

#### **Activities FY2015**

- Monitor balancing activities.
- Driven by outcome of market-based balancing MPOC change request

#### **Forecast activities FY2016**

- Review the efficiency of balancing arrangements.
- Address any identified shortcomings.

#### **Resources**

This workstream has connections with GTIP, code changes, downstream reconciliation and the wholesale market. Accordingly, although no specific allocation of external resources has been made for the workstream, any requirement for external advice will need to come from a pool that has been set aside for balancing, interconnection, and code changes.

## **Code changes and appeals**

Under memoranda of understanding with MDL and Vector, Gas Industry Co has processed MPOC change requests and VTC change request appeals on an 'as required' basis. At the time of writing, Vector and its shippers are contemplating amending the change request process for the VTC that would include a more collaborative approach and obviate the need for an appeals process. However, that refined process would potentially require more involvement from Gas Industry Co. Under the present arrangements, Gas Industry Co has no involvement in change requests that are not the subject of an appeal, but under the potential new process, the Company would be invited to submit on each change request.

### **Activities FY2015**

- Market-based balancing MPOC change requested determined.
- Processing MPOC change requests as required.
- Role in VTC change requests yet to be finalised.

### **Forecast activities FY2016**

- Process MPOC change requests as required.
- Involvement in VTC change requests to be determined.

### **Resources**

Experience shows that the rate of code changes and/or appeals requires approximately 0.25 FTE per annum, although this amount can vary from year to year. In addition, there are sometimes legal issues to consider and funding for this will be provided from a shared legal budget.

## **Interconnection**

Gas Industry Co has an established set of guidelines that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. As agreed with the Minister, as interconnections occur, we assess new transmission interconnection processes against these guidelines, with a view to determining whether interconnection policies present undue barriers to entry. During FY2014, two physical interconnections were reviewed and the Interconnection Guidelines were considered fit for purpose. Gas Industry Co also commissioned a review of the interconnections for the two wholesale market providers and did not identify any specific issues.

It is expected that this work will continue to be demand-driven as new interconnections arise. The fact that Gas Industry Co reviews the activities after the event ensures that we are aware of

issues, if any, which may arise and are well-placed to amend the interconnection guidelines if necessary.

#### **Activities FY2015**

- Physical interconnections reviewed.
- Interconnection Guidelines considered fit for purpose.

#### **Forecast activities FY2016**

- Review interconnections as required.
- Address any concerns regarding reasonable access.
- Amend Interconnection Guidelines if needed.

#### **Resources**

There is no specific provision for this work as there is no forward information on the rate of new connections. However, given the sporadic nature of interconnections and the low level nature of the work required to review them it is considered that this can be fitted within the available resources. External advice will be provisioned from a pool shared with balancing and code changes.

### **3.4 Strategic Goal: Promote efficient, competitive, and confident gas markets**

#### **Retail contracts oversight scheme**

In 2010, Gas Industry Co established a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an independent external assessor. Industry performance has improved to an overall 'substantial' compliance with the benchmarks. As a result, the Scheme was reviewed, and full reviews of retail contracts are to be undertaken on a three-yearly basis (with provision for one-off reviews of new or amended contracts). The next full review is scheduled for FY2016.

#### **Activities FY2015**

- Benchmarks revised.

#### **Forecast activities FY2016**

- Review retailer contracts.

- Publish compliance levels for individual retailers.
- Report as required to the Minister.

#### **Resources**

This work will require 0.2 FTE to oversee the assessment work and to liaise with retailers on possible amendments and future assessments. A modest external budget is provided for the external assessor.

### **Gas Distribution Contracts Oversight Scheme**

Gas Industry Co established this Scheme in 2012, under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. Over recent years, distributors have developed new agreements in consultation with their customers. The second assessment under the Scheme in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. A further assessment will be undertaken in FY2016 that will also report progress made in transitioning the arrangements to the new agreements.

#### **Activities FY2015**

- Any follow-up actions from FY2014 assessment or from Minister's response to the Second Assessment report undertaken.

#### **Forecast activities FY2016**

- Assess progress with executing new distribution contracts consistent with the principles.
- Review, consider any changes or other actions required, and report.

#### **Resources**

Given the previous work on designing the evaluation process for model contracts, sufficient expertise resides in-house to undertake that work, estimated at 0.15 FTE. The evaluations themselves will be contracted out to an independent assessor.

### **Retailer insolvency**

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. We have previously advised the Minister that permanent regulations are not required to manage any future instances of insolvency. Rather, the best solution is an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and will finalise and issue a Decision Paper in the same year. It is expected that only minimal activity will be required in FY2016.

#### **Activities FY2015**

- Drafting instructions complete.
- Decision Paper finalised and published.
- Related amendments to Switching and Downstream Reconciliation Rules implemented.

#### **Forecast activities FY2016**

- Implement in unlikely event of retailer insolvency.

#### **Resources**

There will be a requirement for some follow-up work after the implementation of the changes to the Switching Rules in respect of the file format for the report on customer details that any insolvent retailer would be required to provide. At most this work would require 0.1 FTE.

### **Gas quality**

This workstream originally developed in response to industry and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. In FY2015, we will finalise and publish the document currently under development that sets out the requirements and procedures for gas quality.

Work in FY2016 will focus on assessing and documenting any issues that remain on gas quality, i.e. any matters that we consider are not addressed by the existing requirements and procedures. To the extent that any gaps are identified, the next step will be to work out how these should be addressed and who is best placed to do that.

#### **Activities FY2015**

- Requirements and Procedures (R&P) document published.

#### **Forecast activities FY2016**

- Determine actions to address remaining gas quality issues.
- Update R&P document as required.

#### **Resources**

A modest amount has been provided in the budget to engage external advisers to assist with any remaining gas quality issues. For budgeting purposes, this workstream is assumed to require 0.2 FTE.



## **Metering**

The objective of this workstream is to assist in achieving the GPS outcome of providing an efficient market for metering services. Based on industry feedback at recent years' Co-Regulatory Forums around developments and potential issues in this area, a 'seed paper' is proposed.

### **Activities FY2015**

- "Requirements and procedures" document on gas measurement published.

### **Forecast activities FY2016**

- Seed paper to consider issues associated with introduction of new metering technology.
- Consider any other issues, e.g. contract benchmarks?

### **Resources**

Preparing a seed paper can be a relatively self-contained task that is contracted-out. However, given the range of possible views on the types of, and applications for, new metering technology it will be important to run a process that allows for broad input. Accordingly, this workstream is likely to require 0.25 FTE.

## **Regulation and rule changes**

The objective of this workstream is to ensure efficient, effective regulatory arrangements. The work on amending the gas registry to provide for new metering fields should be well advanced by the end of FY2015.

Progress on D+1 is a little harder to predict at the time of writing as it will be highly dependent on the success or otherwise of the algorithm for preparing the daily allocations as well as the availability of the requisite input data. There was also a call at the co-regulatory forum to review the definitions of the allocation groups to assess whether they continue to remain appropriate. All of the above indicates that FY2016 will be a busy year for reviewing and developing ways to change the downstream allocation arrangements to be able to provide the tools that shippers need to better manage their daily positions throughout the consumption month.

### **Activities FY2015**

- Downstream Reconciliation:
  - Trial of D+1 commenced;
  - Other options considered.
- Switching:

- Minister amends Rules;
- Data cleansing complete;
- Extra metering fields implemented.

#### **Forecast Activities FY2016**

- Downstream Reconciliation:
  - Refine D+1 algorithm in light of experience.
  - Evaluate D+1 trial
  - If positive, implement by:
    - Expand to daily trial;
    - Recommend changes to Downstream Reconciliation Rules;
    - Appoint service provider
    - Develop D+1 system.
- Switching:
  - Monitor performance of amended Rules.
  - Conduct baseline audits.

#### **Resources**

In respect of switching and reconciliation, this workstream will require a significant amount of internal resource of 1.5 FTE in FY2016 to work with industry working groups; to liaise with the Allocation Agent and Registry operator; to finalise the necessary rules changes, and to address implementation and transition issues.

#### **Wholesale market**

The emsTradepoint market (eTp) has now been in operation for over a year and has increased in both membership and volume over that time. We note that the GPS seeks an outcome of "Efficient arrangements for the short-term trading of gas" and eTp makes a transparent contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date. Proposed transmission interconnection arrangements were subject to a review and advice to the Minister in 2014.

Gas Industry Co intends to continue to monitor activity and developments in the wholesale spot market but considers that this is a relatively low-level activity unless specific concerns are brought to our attention. In addition, we have a role with the market's Operational Working Group.

**Activities FY2015**

- Monitor activity and developments.

**Forecast activities FY2016**

- Monitor activity and developments.

**Resources**

Consistent with the low-level monitoring of the market and the OWG role, this workstream is likely to require 0.1 FTE.

*Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2016? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.*

*Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2016? Please provide reasons for your response.*

# 4

## Funding of Operations

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### 4.1 Sources of Funding

The Company has two main sources of funding to meet the total cost of delivering on the Work Programme and other aspects of its role as the industry body - market fees and a levy.

#### Market Fees

The gas governance rules or regulations include provision to recover money directly required to administer those arrangements (referred to as 'market fees'). These cover the contractually-agreed costs of any service providers (such as the Allocation Agent and the Registry Operator) and any other expected direct costs related to the monitoring of those arrangements.

A formal estimate of market fees for each set of rules or regulations is required to be published around March 2015<sup>5</sup>. Market fees collected are applied to actual expenses incurred for each set of rules or regulations; any shortfall is collected in the following year's market fee, or any excess fees are returned to the market fee payers in a year-end 'wash-up'.

#### Levy

The levy funds the industry body's costs that are not covered by market fees, including the Direct Costs of workstreams and Organisational Support Costs for the business.

The main focus of the following section is on the FY2016 Levy Funding Requirement (LFR).

#### Downward Pressure on Cost

We have committed over recent years, including in our annual Levy Recommendations to the Minister, to putting downward pressure on costs. We have kept these flat-to-dropping across four years, despite inflationary pressures on staff, property and other costs.

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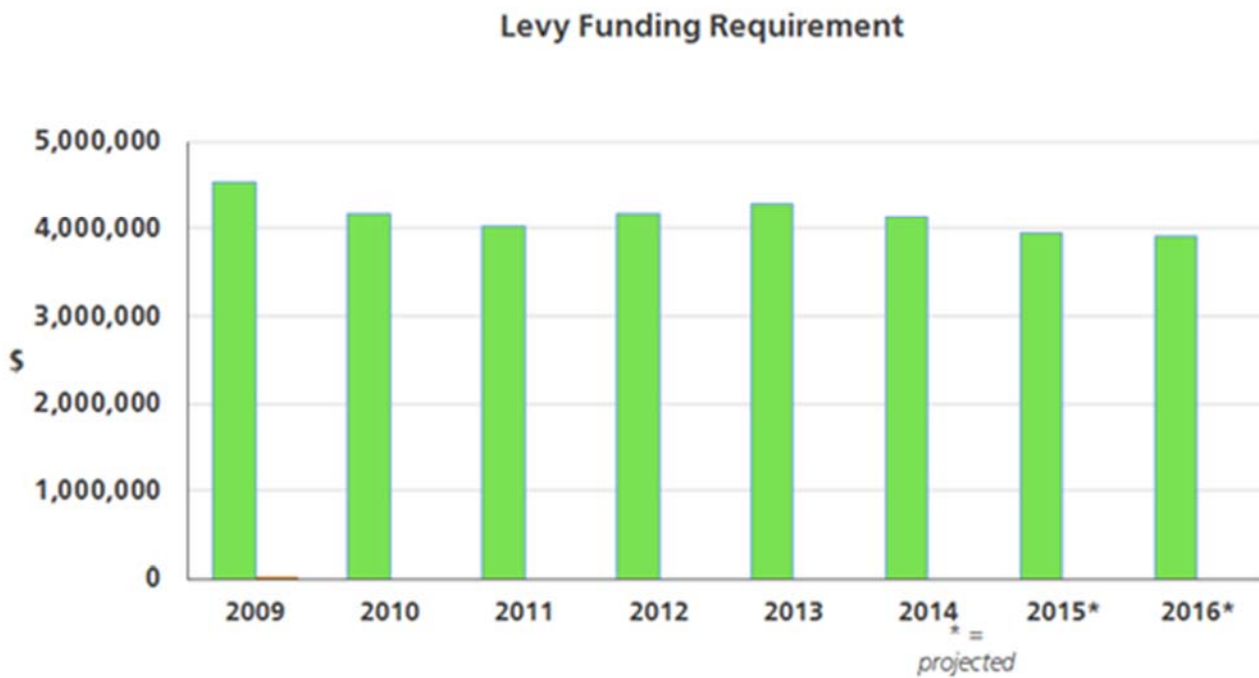
<sup>5</sup> Market fee estimates are published two months before the financial year starting 1 July.

## 4.2 Levy Funding Requirement

We expect the LFR to show a small decrease (compared to FY2015) to \$3,916,821. This has been driven by small reductions in both Direct Costs of workstreams and Organisational Support Costs for the business.

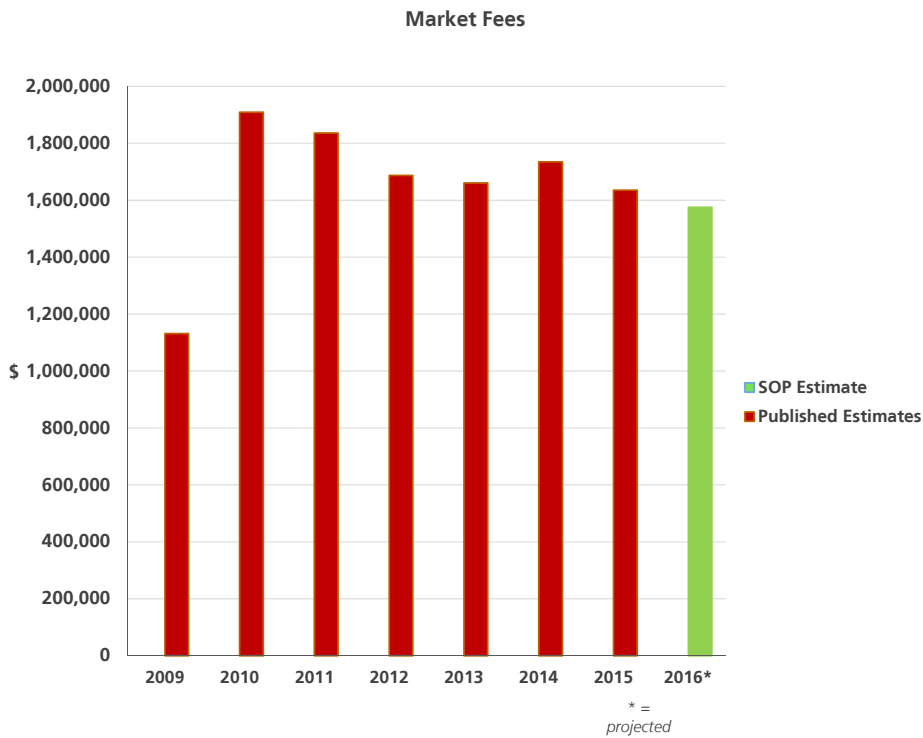
The following chart shows the actual LFR for FY2009-14, forecast LFR for FY2015 and proposed LFR for FY2016.

Chart 1:



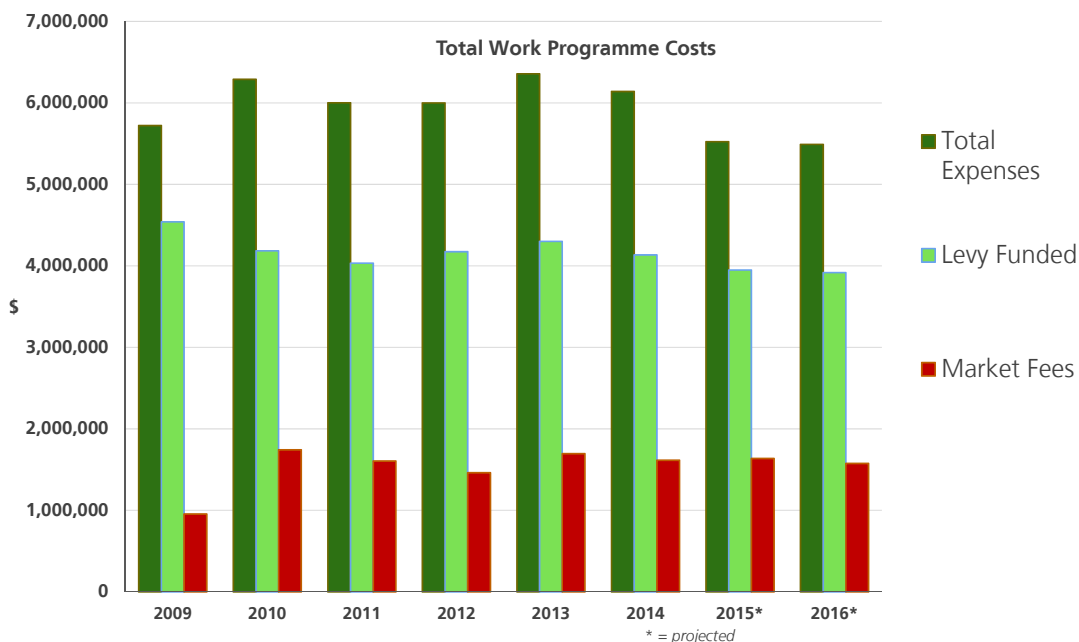
We indicate a flat-to-dropping market fee figure of \$1,575,000 for FY2016. Chart 2 shows published market fee estimates to FY2015 and the indicative estimate for FY2016.

Chart 2:



Based on the combination of the proposed levy and indicative market fees above, Total Work Programme Costs are therefore expected to continue the flat-to-dropping trend we have seen in recent years, from \$5,528,038 budgeted for FY2015 to \$5,491,821 budgeted for FY2016.

Chart 3:



Combining all of the above, the LFR can be calculated as follows:

Table 1: Levy Funding Requirement Calculation

Description	\$
<b>Strategic Goal 1: Deliver effectively on Gas Industry Co's accountabilities as industry body</b>	
<i>Comprising: Downstream Reconciliation; Switching; Critical Contingency Management; Compliance.</i>	[3,079,164]
<b>Strategic Goal 2: Build and communicate the New Zealand Gas Story</b>	
<i>Comprising: New Zealand Gas Story; Statement of Intent and annual Report; Other Reporting.</i>	[182,006]
<b>Strategic Goal 3: Facilitate efficient use of, and investment in, infrastructure</b>	
<i>Comprising: Transmission Access and Pricing; Supply/Demand Model; Transmission Pipeline Balancing; Code Changes and Appeals; Interconnection; Metering</i>	[1,219,907]
<b>Strategic Goal 4: Promote efficient, competitive, and competent markets</b>	
<i>Comprising: Retail Contracts Oversight Scheme; Distribution Principles; Retailer Insolvency; Gas Quality; Metering; Regulation and Rule Changes.</i>	[1,010,744]
<b>Total Work Programme Costs</b>	<b>5,491,821</b>
<b>Less Indicative Market Fees</b>	<b>1,575,000</b>
<b>Levy Funding Requirement</b>	<b>3,916,821</b>

### 4.3 Proposed Levy Method and Rates

Gas Industry Co's existing levy method:

- a) is based on a 'beneficiary pays' approach and a set of Levy Principles. In summary, those Principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency. The full Principles are available on Gas Industry Co's website.

has two components: a wholesale component based on energy quantities of gas and a retail component based on ICPs. These components are apportioned according to the cost allocated to each part of the annual work programme. In years when the Work Programme focusses on retail issues, for instance, the retail levy rate will increase while the wholesale levy rate will decrease.

These arrangements have remained in place since 2006, including through annual consultations, with only minor refinements. Gas Industry Co considers that they remain fit-for-purpose

The proposed levy rates for FY2016 are:

- Wholesale levy –1.09/GJ (down from 1.30c/GJ in FY15, a 16.22% decrease)
- Retail levy - \$6.97/ICP (up from \$5.48/ICP in FY15, a 27.22% increase)

Assumptions:

- The gas volume assumption for FY2015 is 190PJ. All indications point to that assumption being very close to actual. After analysis of this trend and discussions with industry, we have based our assumptions for FY2016 on the same volume.
- The ICP assumption is based on the current number of ACTIVE-CONTRACTED entries in the gas registry (approximately 265,000).

*Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?*

*Q4: Do you have any comment on the proposed levy for FY2016?*



# Appendix A Recommended Format for Submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders’ responses, a suggested format for submissions has been prepared. Respondents are also free to include other material in their responses.

Submission prepared by: (company name and contact)

QUESTION	COMMENT
<p>Q1: Do you consider there to be any other items that should be included in the Company’s intended Work Programme for FY2016? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.</p>	
<p>Q2: Do you consider there to be any items that should be excluded from the Company’s intended Work Programme for FY2016? Please provide reasons for your response.</p>	
<p>Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?</p>	
<p>Q4: Do you have any comment on the proposed levy for FY2016?</p>	

# Appendix B Submissions Process

## Submissions

Gas Industry Co invites submissions on the proposed FY2016 levy and the associated issues set out in this paper. Specific matters on which submissions are sought are set out in each section of the paper, and a suggested format for submissions is set out in the template in Appendix A.

Submissions can be made by registering on Gas Industry Co's website [www.gasindustry.co.nz](http://www.gasindustry.co.nz) and uploading your submission, preferably in the form of the submissions template attached to the consultation document. All submissions will be published on this website after the closing date. Submissions may be amended up to closure date.

Please note that you will not receive an email confirmation of your submission. If you wish to check that your submission has uploaded successfully, you should log in and check your account which will show your upload. Alternatively, you can contact Estelle Tolmay (ph: +64 4 472 1800 or email: [estelle.tolmay@gasindustry.co.nz](mailto:estelle.tolmay@gasindustry.co.nz) for confirmation.

The closing time for submissions is 5pm on Thursday 5<sup>th</sup> February 2015. Please note that submissions received after this date may not be able to be considered.

Gas Industry Co values openness and transparency and therefore submissions will be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.