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2006/07

Work Programme
and Levy

13 March 2006

Agenda



Process



Work Programme



Budget



Issues



Options

Levy Process

Mid-February	Issue draft Levy Discussion Paper to Board and MED
Late-February	Issue Levy Discussion Paper to Industry Participants Present paper at a Levy Seminar
Mid-March	Receive submissions
Late March	Issue second Levy Discussion Paper, summarising submissions and making a final recommendation
Early April	Submit levy recommendations to Minister

2006/07 Work Programme

A - Corporate Work Programme

	•Jan-Mar 06	•Apr–Jun 06	•Jly–Sep 06 (Q1)	•Oct–Dec 06 (Q2)	•Jan–Mar 07 (Q3)	•Apr–Jun 07 (Q4)	•2007-08
A1 Accountability Framework	Issue Quarterly and Board Reports.	Issue Quarterly and Board Reports.	Issue Quarterly and Board Reports.	Issue Annual, Quarterly and Board Reports.	Board and Quarterly Report.	Board and Quarterly Report.	Board and Quarterly Report.
		Develop and issue Strategic Plan.	Develop and issue Baseline Review.			Develop and issue Strategic Plan.	
				Develop 2007-08 Budget.			
	Hold Industry Workshop		Hold Industry Workshop		Hold Industry Workshop		Hold Industry Workshop
A2 Levy Process	Invoice levies monthly. Develop and consult on 06-07 Levy Proposals.	Invoice levies monthly. Recommendations to Minister on 06-07 Levy. Gazetting of Levy arrangements.	Invoice levies monthly. New levy arrangements implemented.	Invoice levies monthly. Forecast Levy Revenue	Invoice levies monthly. Develop and consult on 07-08 Levy Proposals.	Invoice levies monthly. Recommendations to Minister on 07-08 Levy Proposals	Invoice levies monthly. New levy arrangements implemented.

2006/07 Work Programme

B - Retail Work Programme

	•Jan-Mar 06	•Apr-Jun 06	•Jly-Sep 06 (Q1)	•Oct-Dec 06 (Q2)	•Jan-Mar 07 (Q3)	•Apr-Jun 07 (Q4)	•2007-08
B1 Switching and Registry	•Publish decision on preferred Registry development option	•Develop Registry functional specification and rules. •Develop service provider role specification and engagement proposal.	•Consult on Registry rules. •Conduct Cost Benefit Analysis. •Issue RFP for Service Provider (conditional on Ministerial approval).	•Recommendation on registry solution and rules to Minister.		•Registry goes live.	•Review Registry Operation.
B2 Compliance and Enforcement			•Develop and consult on proposal.	•Recommendations to Minister.			
B3 Reconciliation	•Develop and consult on short term upstream reconciliation amendments (Gas Transfer Code revisions).	•Develop and consult on short term downstream reconciliation amendments (Reconciliation Code revisions).	•Short term fixes implemented (Revised Gas Transfer Code and Reconciliation Code operational).	•Develop and consult on proposals for long term reconciliation arrangements.		•Recommendations on reconciliation to Minister.	•Implement new reconciliation arrangements.
B4 Consumer Issues		•Hold Consumer Issues Forum. •Recommendations on consumer contracts to Minister.	•Develop and consult on Consumer Issues Report.	•Initial Report on Consumer Issues to Minister.		•Hold Consumer Issues Forum.	
B5 Distribution Contracts	•Form project team to review existing contracts.		•Report on issues.		•Develop and consult on Distribution proposals.	•Recommendations on Distribution Contracts to Minister.	•Implement recommendations.

2006/07 Work Programme

C - Wholesale Work Programme

	•Jan-Mar 06	•Apr–Jun 06	•Jly–Sep 06 (Q1)	•Oct–Dec 06 (Q2)	•Jan–Mar 07 (Q3)	•Apr–Jun 07 (Q4)	•2007-08
C1 Open Access Review		•Issues Review released.	•Consult on issues review.	•Report to Minister on Issues Review.	•Recommendations paper issued for consultation (if reqd.).	•Preliminary recommendations presented to Minister (if reqd.).	
C2 Wholesale Market Development	•Develop Concept Design for Wholesale Market.	•Consult on and refine Concept Design.	•Develop and consult on market arrangements.	•Revise arrangements, consult on revision and report outcome to Minister. •Issue RFP for Service provider.	•Appoint Service Provider and begin development of trading platform. •Consult on trading platform design and detailed arrangements.	•Recommendation on trading rules presented to Minister.	•Wholesale market open for trading.
C3 Access to Processing Facilities		•Consult on possible arrangements (including protocols v rules)	•Define and consult on protocols/rules.	•Recommendation on access rules or protocols presented to Minister.		•Implementation of preferred option.	
C4 Gas Outage Contingency Plan	•Develop commercial options for contingency situations. •Consult on above and compliance with existing Contingency Plan (NGOCP).		•Develop and consult on solutions for contingency events.		•Recommendation on contingency arrangements presented to Minister.		•Implementation of preferred option.
C5 Quality Standards	•Consult on Gas Specification Issues.	•Recommendations on Specification Issues to Minister.		•Implement recommendations.			

2006/07 Budget Projections (\$'000)

Accountability Framework	578
Levy Process	60
Corporate Work Programme	638
Switching & Registry	248
Compliance and Enforcement	192
Reconciliation	267
Consumer Issues	125
Distribution Contracts	71
Retail Work Programme	903
Open Access Review	575
Wholesale Market Development	621
Access to Processing Facilities	126
Gas Outage Contingency Plan	191
Quality Standards	20
Wholesale Work Programme	1,533
Total Work Programme Costs	3,074
Other Corporate Costs	629
Loan repayments etc.	195
Total Cash Requirement	3,898
less Non-levy income	(119)
Total Levy Revenue Requirement	3,780

Wholesale Gas Levy

1.5c/GJ

payable by purchasers on all gas purchased from producers.

Retail Gas Levy

6c/GJ and \$4/ICP

payable by retailers on all gas supplied to customers taking < 10TJ/annum.

Levy Review Period (Section 6.1)

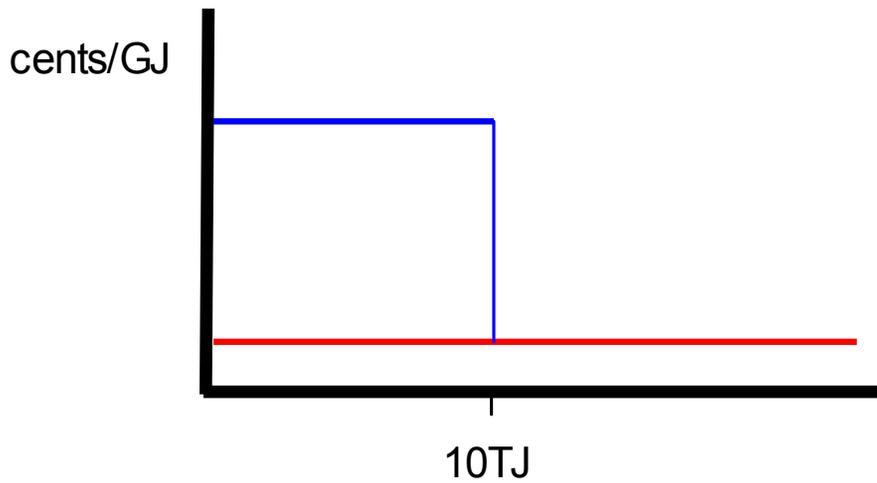
- Levy must be annual (S 43 ZZE(3) of Gas Act)
- But, levy setting process costs costs over \$100k (2.6% of total costs)
- Should we have a 2 year process?

Fixed/Variable Split (Section 6.2)

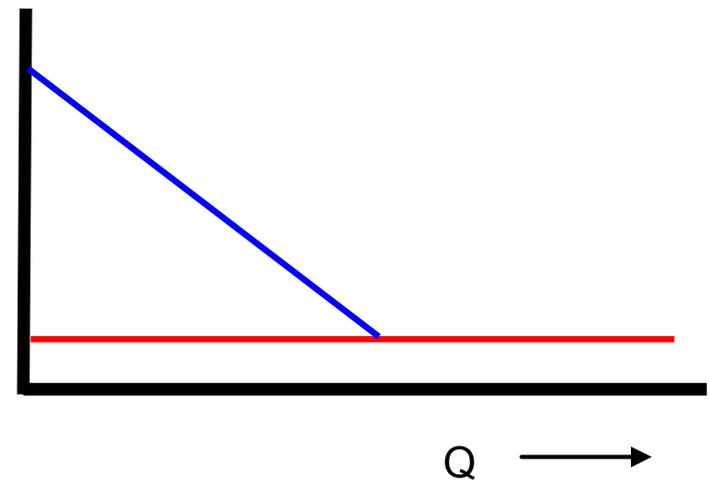
- retail programme will improve competition
 - ▶ lower per GJ prices
- neither per ICP nor per GJ theoretically correct
 - ▶ more emphasis on administrative simplicity
- levies to recover costs, not influence behaviour
 - ▶ it doesn't matter how they are passed thru
- levy in small component of price
 - ▶ about \$0.2/GJ in \$25+/GJ < 1%

10TJ limit to Retail Levy (Section 6.3)

Current cost attribution function

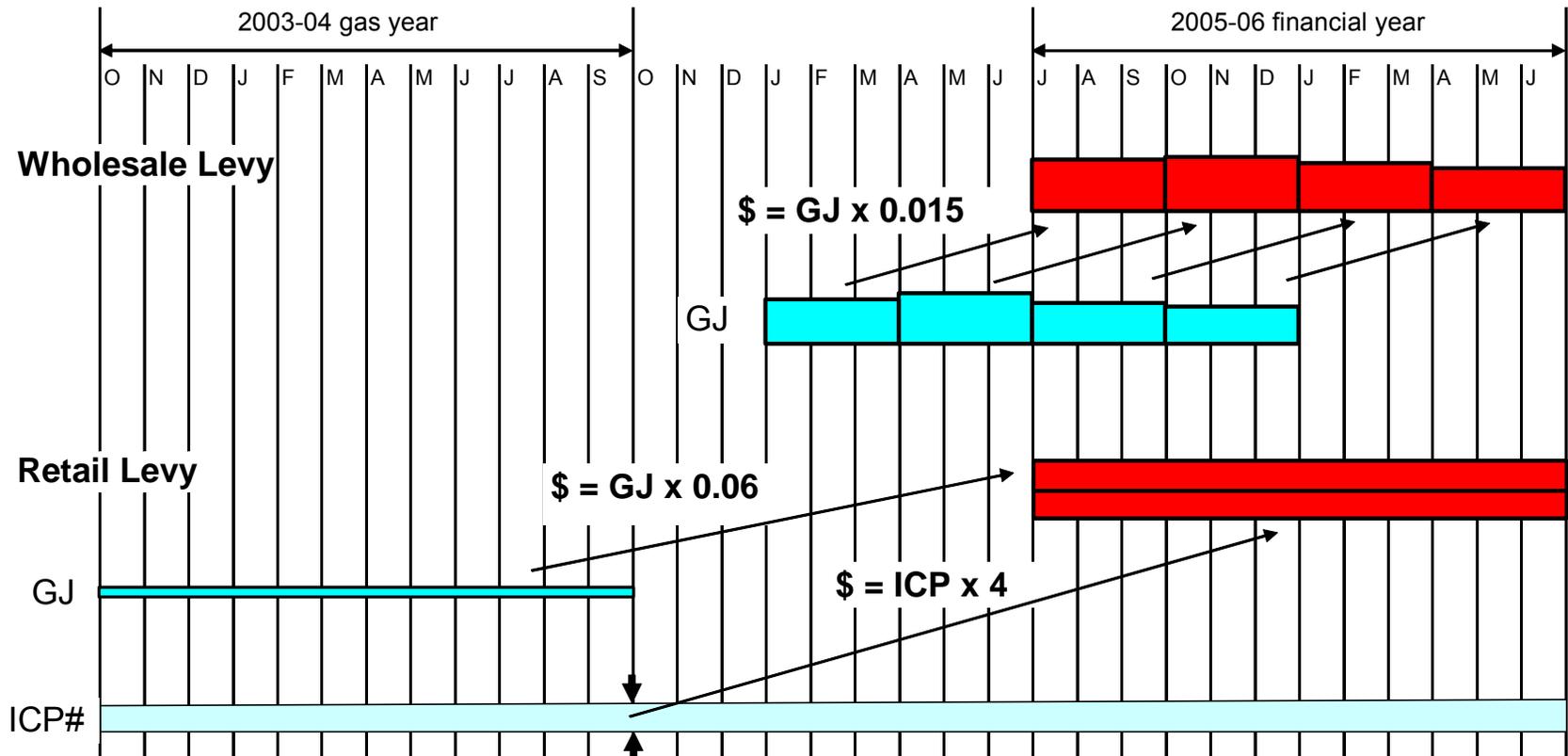


Possible future cost attribution function



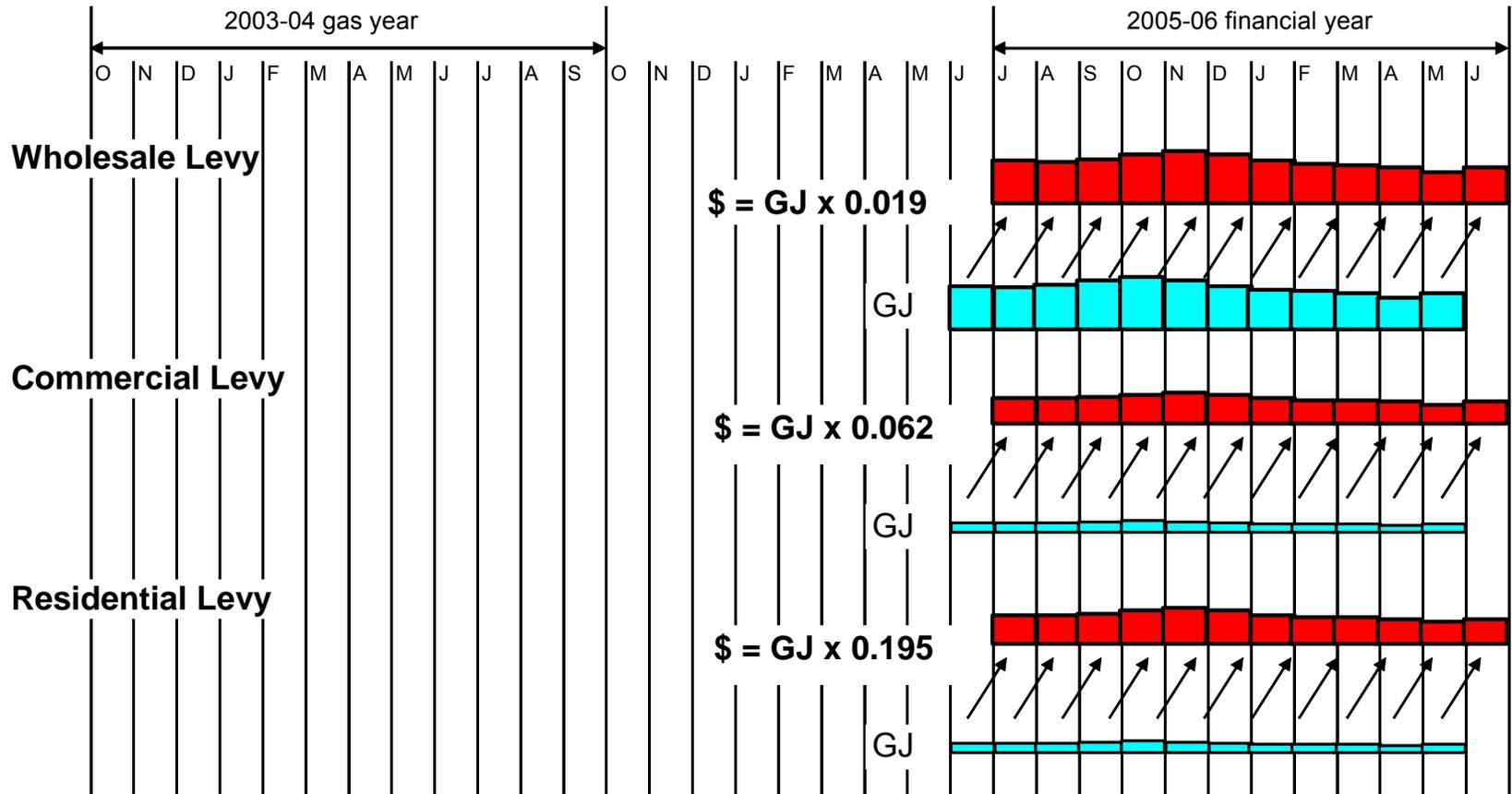
- Retail levy
- Wholesale levy

Currently levy is applied to historical quantities....



Reference quantities (Section 6.4)

Should we move to using current quantities....



Option 1 – only adjust wholesale levy

This Year

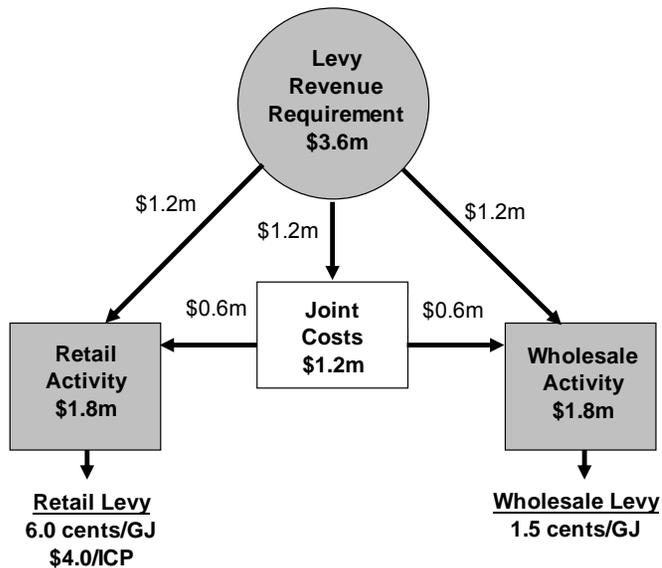
Next Year (option 1)

Retail	6.00	Cents/GJ
	4.00	\$/ICP
Wholesale	1.50	Cents/GJ

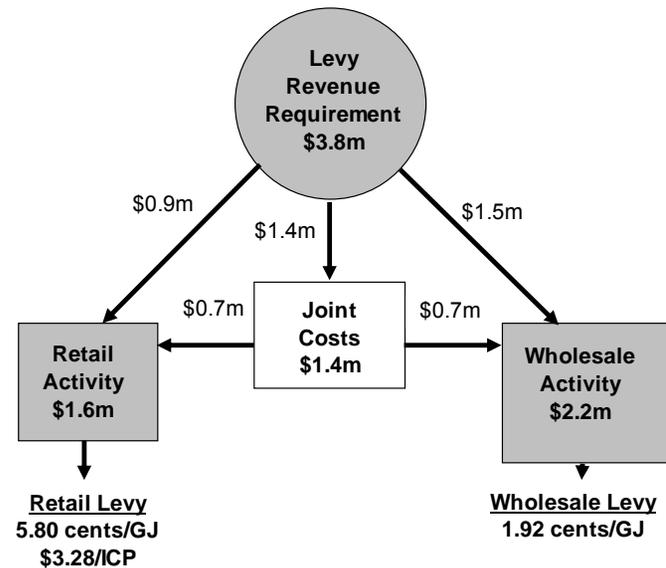
Retail	6.00	Cents/GJ
	4.00	\$/ICP
Wholesale	1.74	Cents/GJ

Option 2 – no change to method

This Year



Next Year



Option 2 – no change to method

This Year

Next Year (option 2)

Retail	6.00	Cents/GJ
	4.00	\$/ICP
Wholesale	1.50	Cents/GJ

Retail	5.80	Cents/GJ
	3.28	\$/ICP
Wholesale	1.92	Cents/GJ

Option 3 – Fully variable Retail levy

Retail Allocation Base	
Volume	14 TJ
Retail Cost Allocation	
Cost Allocation	\$1.575 million
Retail Levy	
Retail levy	11.59 cents/GJ

	GJ/annum	Current Levy \$/year	Option 1 Levy \$/year	Option 2 Levy \$/year
Retail Levy				
Small Residential User	5	4.30	3.57	0.58
Medium Residential User	25	5.50	4.73	2.90
Large Residential User	40	6.40	5.60	4.64
Small Commercial User	25	5.50	4.73	2.90
Medium Commercial User	5,000	304.00	293.28	579.50
Large Commercial User	10,000	604.00	583.28	1,159.00

Option 3 – Fully variable Retail levy

This Year

Next Year (option 3)

Retail	6.00	Cents/GJ
	4.00	\$/ICP
Wholesale	1.50	Cents/GJ

Retail	11.59	Cents/GJ
Wholesale	1.92	Cents/GJ

Option 4 – Residential/Commercial levies

This Year

Next Year (option 4)

Retail	6.00	Cents/GJ
	4.00	\$/ICP
Wholesale	1.50	Cents/GJ

Retail		
Residential	19.45	Cents/GJ
Commercial	6.20	Cents/GJ
Wholesale	1.92	Cents/GJ

“...without the benefit of submissions from interested parties,
the Gas Industry Co’s view is that Option 1 should be adopted.

... Option 1 provides a practical compromise which recognises the methodology which was developed last year

but does not change the structure of the levy too radically.”