



Consultation Paper

**Levy for Gas Industry Co for the 2008/2009
Financial Year**

December 2007

The Gas Industry Co was formed to be the co-regulator under the Gas Act. As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to key infrastructure; and
 - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

Authorship

This consultation paper has been prepared jointly by Bas Walker, Senior Advisor, Gas Industry Co and Simon Bratt, PricewaterhouseCoopers.

Executive Summary

The Gas Act 1992 (the “Act”) enables Gas Industry Company Limited (Gas Industry Co) to recommend to the Minister of Energy that levy regulations be made requiring industry participants to pay a levy to Gas Industry Co. The levy is to recover the estimated costs of Gas Industry Co exercising its functions as the industry body under the Act. The levy is required to be established each year and there is a new consultation every year to achieve this.

This consultation document sets the context for levy setting, reviews last year’s levy development process, and explains the development of the 2008/09 levy including work done on the general framework for levy setting. It then describes the work which Gas Industry Co will undertake in 2008/09, outlines the calculation of the levy funding requirement for that year, and proposes the 2008/09 levy.

Levy setting is the first step of a two stage process for forward planning. The second stage is the finalisation of the work programme and strategic plan for the coming year. Work programme content and costs are only considered at the levy setting stage in order to provide a basis for determining likely revenue requirements and thus levy level.

The proposed levy has been set so as to recover Gas Industry Co’s estimated levy funding requirement of \$4.626m for the 2008/09 year. This represents a decrease of \$217k on the levy funding requirement of \$4.843m for the 2007/08 year. The lower levy funding requirement includes the partial carry-over of levy over-recoveries from previous years, based on the intention to balance revenue and expenditure over a period of time rather than immediately. It also reflects the decision to fund implementation costs from dedicated fees through gas governance rules and/or regulations.

Gas Industry Co’s indicative total budget for 2008/09 is higher than for 2007/08 in recognition of the significant policy development and implementation activities that are proposed to be undertaken. A more detailed discussion of Gas Industry Co’s work programme and budget is set out in section 5 of this paper.

Following a first principles-based review of structure options, it is proposed that the structure of the levy for 2008/09 remain the same as for previous years.

The cost allocation methodology which drives the apportioning of costs between the retail and wholesale areas has, however, been changed. The proposed cost allocation methodology involves allocating the directly attributable costs to each of the retail and wholesale work programmes, and then proportioning unallocated costs based on the proportion of direct retail and wholesale work programme costs. Previously, unallocated costs have been equally shared between the retail and wholesale work programmes.

Applying this cost allocation methodology to the 2008/09 budget projections, and then deducting dedicated fees, other revenue and levy over-recoveries, the funding requirement for the retail levy is \$1.872m and for the wholesale levy is \$2.754m.

Based on discussions with industry participants, Gas Industry Co has assumed that ICP numbers and wholesale gas volumes will remain at the same levels as assumed for 2007/08, which were 250,000 ICPs and 145 PJs respectively.

The proposed levy rates for 2008/09 are therefore:

- Retail levy of \$7.49 per annum payable on each ICP. This is a 8.5% reduction on the 2007/08 rate, which was \$8.18 per annum payable on each ICP; and
- Wholesale levy of 1.90 cents per GJ of gas purchased directly from gas producers. This is a 1.6% reduction on the 2007/08 rate, which was 1.93 cents per GJ.

Submissions are sought on the proposals in this paper, to be provided no later than **4.00pm on Monday, 4 February 2008**. A template for making submissions is provided that contains questions which submitters are invited to address.

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1 Introduction

1.1 Background

Amendments to the Gas Act, introduced in 2004, provided for the co-regulation of the gas industry by the Government and an industry body. Gas Industry Co was established by the gas industry to fulfil the role of the industry body, as set out in the Act. Gas Industry Co was approved as the industry body by Order in Council on 22 December 2004.

Gas Industry Co is responsible for proposing arrangements, which may include rules and regulations, in a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, and retail and consumer protection. Where appropriate, Gas Industry Co is involved in the implementation of market arrangements, and in the surveillance and enforcement of market rules.

The principal source of funding for this work is through a levy on industry participants. Section 43ZZB of the Gas Act 1992 (the "Act") enables Gas Industry Co to recommend to the Minister of Energy that levy regulations be made requiring industry participants to pay a levy to Gas Industry Co. The levy is to recover the estimated costs of Gas Industry Co exercising its functions as the industry body under Section 43ZZC of the Act.

The proposed quantum and structure of this levy are based on Gas Industry Co's work programme and budget.

1.2 Levy setting in the context of forward planning

Levy setting is the first stage in a two stage process for forward planning which comprises:

Stage 1: Establishment of the structure and level of the levy.

Stage 2: Finalisation of the work programme, budgets and strategic plan for the coming year, in part in the context of the revenue flow expected from the annual levy already set.

The timing of the levy setting process is dictated by the requirement in the Act for the levy to be set through annual regulations. This requires the levy to be set earlier than is desirable, and in particular before the work programme and the strategic plan for the coming year have been finalised. It is accordingly stressed that the work programmes and budgets in the present paper are indicative, and provided only for the purposes of levy setting. Changes are quite likely to occur before the 2008/09 strategic plan is finalised.

1.3 Overall timetable

The following table presents the indicative timetable for the 2008/09 levy process.

Activity	Timing
Levy consultation paper released.	Thursday, 20 December 2007
Levy workshop held for industry participants.	Thursday, 17 January 2008
Closing date for submissions.	Monday, 4 February 2008
Report on submissions and proposed levy recommendation to Gas Industry Co Board for approval.	Board meeting Thursday, 28 February 2008
Levy recommendation to the Minister.	Wednesday, 12 March 2008.
Levy proposal confirmed by Cabinet.	late-April 2008
Levy regulations promulgated and take effect	29 June 2008

1.4 Contents of consultation paper

This consultation paper:

- reviews last year's levy development process;
- explains the development of the 2008/09 levy, including work done on updating the framework for levy setting, and the reconsideration of the levy structure based on a first principles review;
- describes the work which Gas Industry Co will undertake in 2008/09 and the associated estimated costs;
- outlines the calculation of the levy funding requirement for 2008/09;
- proposes the levy for the 2008/09 financial year; and
- invites submissions on all of the above, as a precursor to formulating a recommendation to the Minister of Energy for the required levy regulations.

2 Call for Submissions

Gas Industry Co invites submissions on the proposed annual 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.

Gas Industry Co's preference is to receive submissions in electronic form (Microsoft Word format and pdf) and to receive one hard copy of the electronic version. The electronic version should be emailed with the phrase "Submission on Proposed Levy for 2008/09" in the subject header to "submissions@gasindustry.co.nz" and one hard copy of the submission should be posted to the address below:

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Gas Industry Co will acknowledge receipt of all submissions electronically. Please contact Jay Jefferies (Ph: +64 4 472 1800 or Email: jay.jefferies@gasindustry.co.nz), if you do not receive electronic acknowledgement of your submission within two business days.

The closing time for submissions is 4 pm on Monday 4 February 2008. 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 generally 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.

To assist industry participants with submissions and to provide a prior indication of matters which will require consideration by Gas Industry Co, an industry workshop will be held at Gas Industry Co's office in Wellington, from 10 am to 12 noon on Thursday, 17 January 2008. It would be appreciated if a prior indication of those planning to attend is provided to Jay Jefferies at Gas Industry Co by Monday, 14 January 2007.

3 Review of 2007/08 Levy Development

3.1 Outcome of levy setting

By Order in Council dated 28 May 2007, the Gas (Levy of Industry Participants) Regulations 2007 were passed into law and came into effect on 1 July 2007. These regulations provided for the rate and structure of the 2007/08 levy as follows:

- Retail Gas Levy: \$8.18/ICP payable by the retailer supplying each ICP.
- Wholesale Gas Levy: 1.93 c/GJ payable by purchasers on all gas purchased from producers.

Three matters were raised in the consultation document for the 2007/08 levy. These matters are discussed briefly below.

3.2 Structure of the 2007/08 levy

Gas Industry Co discussed in its 2007/08 levy consultation document the principles it applies to the levy setting process. Based on these principles, in particular the balance between administrative simplicity and economic efficiency, Gas Industry Co recommended that the structure of the levy for 2007/08 be left unchanged from 2006/07.

Submissions on the levy endorsed the proposed levy structure. However, a number of comments were made regarding the methodology for allocating indirect costs. Gas Industry Co acknowledged these concerns and indicated this matter would be considered in more detail in the 2008/09 levy consultation document. This matter is discussed further in section 4 of this paper.

3.3 Reference quantities

The basis on which the wholesale levy is calculated was changed for the 2007/08 levy.

Previously, the wholesale levy was calculated on gas purchased from producers during the quarter before the last completed quarter. This created a significant time lag between when the gas was purchased and when the levy on the gas became payable.

To reduce this time lag, the reference quantity for the wholesale levy was changed to the gas purchased during the month prior to the month in which the levy is payable. Submissions on the 2007/08 levy largely endorsed this approach and the process appears to have worked well since it was implemented in July 2007. There is therefore no proposal to change this policy for the 2008/09 levy.

3.4 Provision of Increased Financial Information

During consultation on the 2006/07 levy, submissions were made requesting Gas Industry Co provide additional budget and work programme information.

In the 2007/08 levy consultation paper, Gas Industry provided stakeholders with a table providing a comparison between 2005/06 actuals, the 2006/07 budget and the 2007/08 budget. All submitters agreed that it was useful to provide this information.

A similar level of information is included in this consultation document for the 2008/09 levy. Gas Industry Co also published updated information on its budget and work programme in May 2007.

4 Development of the 2008/09 Levy

This section presents the principles and methodology that have been applied to determine the proposed 2008/09 levy.

4.1 Principles

A robust set of general principles covering levy setting have been developed by Gas Industry Co and were discussed in the 2007/08 levy consultation document. Gas Industry Co has reviewed these principles for the 2008/09 levy.

The only significant change that has been made to the principles, as set out in the 2007/08 discussion paper, is to add to the revenue sufficiency principle the need to treat over-recoveries and under-recoveries in accordance with the Act (see section 43ZZC(3)). The revised principles are thus as follows:

Principle 1: Economic efficiency

- The levy structure should promote efficient market behaviour (or at least not detract from it significantly).

Principle 2: Beneficiary/causer pays

- The costs of regulation development and implementation should be allocated in a way that reflects the cause of regulation (causer pays) and/or the incidence of the benefits from regulation.

Principle 3: Rationality

- Where levies are to recover costs that are allocated to participant classes, there should be a relatively strong logical nexus between the participants on whom a levy is imposed and the costs being recovered through that levy.

Principle 4: Simplicity

- The levy structure should not create undue transaction costs for the organisation which implements and administers it, or for the participants who must pay it;
- The levy structure should only consist of as many individual levies as are necessary to recover the costs in an efficient manner, taking account of all the other principles applying; and
- The levy structures should be transparent to industry participants.

Principle 5: Equity

- Users in similar situations should pay similar amounts; and
- Competitive neutrality should be preserved, so that within a class of participants the allocation of costs should not competitively advantage one participant over another.

Principle 6: Revenue sufficiency

- The levies together with other sources of revenue, such as penalty payments, need to be sufficient to recover the costs borne by the organisation collecting the levy.

- Levy setting must nevertheless be in accordance with section 43ZZC(3) of the Act which says that the levy may be adjusted in any year to take account of under-recoveries and over-recoveries in previous years.

4.2 Application of the principles

A process for the transparent application of the principles to both the design of the levy structure and setting the level of the levy, has been developed by Gas Industry Co. Key elements of the process are as follows:

- selection of those principles that are relevant to the matter being examined and the weighting of the principles according to how important they are to that matter;
- application of the weighted principles, either quantitatively or qualitatively; and
- review of the outcomes from a general acceptability perspective, and an explanation of any change thus made from the direct results of applying the principles.

4.3 Structure of the levy

To date, three annual levies for a full year have been set by Gas Industry Co. The process followed in each year has been similar, i.e. generation of consultation proposals, consideration of industry submissions, and then the formulation of a recommendation to the Minister.

The table below summarises for period from 2004/05 to 2007/08 the levy rate, total levy income received, total annual expenditure and the resulting annual surplus or deficit.

Year	Structure and level of levy	Levy income (\$000)	Financial result (\$000)
2004/05	No levy – expenditure funded by shareholder loans	\$0	Expenditure: \$1,206 Deficit: \$1,095
2005/06	Wholesale gas levy of 1.50 c/GJ Retail gas levy of \$6c/GJ plus \$4.00/year for each ICP for each retail customer	Wholesale: \$2,176 Retail: \$1,772 Total: \$3,948	Expenditure: \$3,500 Surplus: \$763
2006/07	Wholesale gas levy of 1.78 c/GJ Retail gas levy of \$6.30/year for each ICP for each retail customer	Wholesale: \$2,634 Retail: \$1,570 Total: \$4,205	Expenditure: \$3,635 Surplus: \$711
2007/08	Wholesale gas levy of 1.93c/GJ Retail gas levy of 8.17c/month (\$8.18/year) for each ICP for each retail customer	Wholesale: \$2,799 Retail: \$2,045 Total: \$4,844	Budget expenditure: \$4,644 Budget surplus: \$14

Over the period from 2005/06 to 2007/08, the only significant change in the structure of the levy has been the simplification of the retail levy, to be wholly on a per ICP basis. This was done in response to industry submissions. It is noted that the levies overall have been set

high in relation to expenditure, creating surpluses to balance the deficit in the first year, and these surpluses have been used to repay the initial shareholder loans.

Gas Industry Co has completed a review of a number of structural options for the 2008/09 levy against the levy setting principles outlined above.

It was concluded that although there could be some positives in moving to a more complex levy structure, including consideration of a separate component for transmission/distribution, arguments for simplicity and stability strongly favour retention of the existing structure, i.e. separate per ICP retail and per GJ wholesale levies.

Gas Industry Co has, therefore, made the decision to retain the existing levy structure.

Q1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?

4.4 Funding policy implementation

Over the next 2 to 3 years, the majority of Gas Industry Co's work streams will move from policy development to implementation. The Company, therefore, needs to take a view now on how the implementation of gas governance arrangements will be funded.

There are two broad mechanisms available to Gas Industry Co for funding policy implementation. They are:

- through levy regulations under section 43ZZB of the Act. This levy (referred to as the general levy below) is the main source of funding for Gas Industry Co and has funded all policy development work to date); or
- under section 43S(1)(a) of the Act, to include in gas governance regulations or rules provision for dedicated fees to be paid to fund implementation.

Implementation often involves two phases of activity: firstly, development and establishment (e.g. creation of IT platforms for implementation and appointment of the service providers for related functions), and secondly, on-going operations. The distinction is that the development and establishment phase is usually of a limited duration and with a single fixed cost, whereas on-going costs are incurred annually over several years and may change over time for a variety of reasons.

A variety of approaches have been adopted for funding development and establishment costs. For example:

- the switching rules have a dedicated fee for development, which covers all development costs whether internal to Gas Industry Co or external; whereas
- the proposed downstream allocation and reconciliation rules require funding for development out of the general levy.

The approach to date for funding the on-going operation of arrangements (e.g. with the recommended switching rules and the proposed downstream allocation and reconciliation rules) has been to fund these through a dedicated ongoing fee.

Gas Industry Co has reviewed the options for funding both development and establishment, and ongoing implementation costs. Based on its review, Gas Industry Co proposes to use dedicated fees for implementation of gas governance arrangements. This approach has been adopted for the following reasons:

- indications are that very specific cost allocation formulae will apply to each implementation situation and it would be excessively complex and confusing to try to integrate those formulae into the annual regulations for the general levy;
- if dedicated fees apply the outcome of applying the cost allocation rules to the particular situation is more evident and transparent; and
- implementation costs will generally apply over significant periods of time (e.g. the agreement with the registry operator will probably have a 5 year initial term), which is incompatible with the requirement of the Act for the general levy to be set, and regulations promulgated, separately every year.

There is, however, additional cost, both internal to Gas Industry Co and external in terms of compliance costs, associated with creating dedicated fees. It is therefore proposed that a significance test be applied in relation to funding development and establishment costs.

The proposed policy for funding development and establishment, and ongoing implementation costs, is as follows:

- Where development and establishment costs for a gas governance arrangement are relatively low and/or largely internal to Gas Industry Co, the cost will be funded by the general levy.
- Where development and establishment costs for a gas governance arrangement are substantial they should be funded through a dedicated development fee. However, within this there might sometimes be scope to negotiate with the chosen service provider to apportion development costs between upfront and ongoing charges to provide an optimum solution for all parties.
- Ongoing implementation costs, such as funding the operation of arrangements, will be funded through a dedicated fee.

The levy for 2008/09 has been calculated on the assumption that a proportion of the costs of the Company will be recovered through dedicated fees. The size of the dedicated fee component will increase as more of the Company's work streams move into the implementation phase.

Q2: Do you agree with the proposed policy for funding the implementation of gas governance arrangements?

4.5 Cost allocation methodology

The levy is structured so that particular levy components fund relevant parts of Gas Industry Co's work programme. There is a retail levy and a wholesale levy, and the work programme is divided into three aggregated blocks of work accordingly. For these purposes:

- **Wholesale:** work on those parts of the gas supply chain upstream of distribution comprises the wholesale gas aggregated work stream;
- **Retail:** work on consumer issues, retail markets and distribution comprises the retail gas aggregated work stream; and
- **Indirect costs:** include the costs of Gas Industry Co governance, general support services and infrastructure, and work which is broadly related to gas governance rather than to one of the two aggregated work streams.

Costs which are directly related to a work stream, including staff salaries and consultancy costs, have been allocated to that work stream. This leaves the issue of how indirect costs should be allocated to retail and wholesale work streams.

The approach that has been taken to date is to allocate indirect costs on a 50:50 basis to the retail and wholesale work streams. This is a simple approach and tends to even out the overall distribution of costs, which in turn dampens differential movement between the levels of the two components of the levy.

Gas Industry Co has reviewed its indirect cost allocation methodology, and it is proposed that:

- wherever possible indirect costs that have some degree of linkage to specific work areas should be directly allocated to those work areas on a pre-determined basis; and
- other indirect costs should be allocated proportionally to each work stream based on the total direct costs (salaries and consultants, but not service provider costs) of each aggregated work stream.

This approach is proposed because:

- it is simple to apply;
- it better represents those unallocated costs, which are unrelated to staff salaries. These include the costs of the Board, and work related to general aspects of gas governance; and
- it better reflects the dominance of consultant costs in the non-salary component of direct cost. These costs have historically been incurred as a substitute for sufficient permanent staff.

Q3: *Do you agree with the proposed indirect cost allocation methodology?*

4.6 Balancing of revenue against expenditure

Section 43ZZC of the Act states that over- and under-recoveries in previous years should be specifically reflected in the level of the levy over time. Thus, while it would be contrary to the Act to set a levy which systematically over-recovered expenditure to create continuing reserves, the Act does allow adjustments to be made over several years rather than in a single year.

The issue of how this should be dealt with was raised in the 2006/07 levy consultation document. After receiving submissions on this document, Gas Industry Co considered that it was appropriate for the Company to carry forward any over or under recovery into the following year's levy calculation. This has now been taken a step further, so that a multi-year approach is taken which assists in stabilising the levy.

The proposed approach is that Gas Industry Co will, where possible, use any over- or under-recoveries to stabilise the level of the levy over the medium term. The Company will do this by preparing indicative forward estimates of expenditure and applying over- or under-recoveries so as to minimise year-on-year fluctuations in the levy.

To ensure consistency with the Act, two key principles of the proposed approach are that:

- the levy will be set so that over time the Company's surplus or deficit arising from the levy will trend to zero; and
- the position of each proposed levy relative to expenditure will always be consistent with the over-or under-recovery position, so that if the Company has an accumulated surplus, the levy would be set so as to intend to reduce this surplus, and vice versa.

For 2008/09, Gas Industry Co will apply a proportion of its current over-recovery balance (i.e accumulated surplus) to the levy finding requirement calculation. The remainder of the over-recovery balance will be held as reserves to either apply to unexpected decreases in revenue or increases in expenditure, or to apply to the levy funding requirement calculation in subsequent years.

The intended impact of this policy is stable levies over the medium term.

Q4: Do you agree with the proposed approach to balancing levy revenue against relevant expenditure, over several years?

5 Work Programme and Budget for 2008/2009

This section outlines the role of Gas Industry Co, the Company's strategic priorities, and its work programme and budget for 2008/09. Details are set out in Appendix B.

5.1 Role of Gas Industry Co

Governance of New Zealand's gas industry is effected through a co-regulatory partnership between the Government and an industry body, Gas Industry Co.

The combination of the Gas Act, any Gas Policy Statement (GPS) which the Minister of Energy may issue from time to time, and the Constitution of Gas Industry Co provide the framework within which Gas Industry Co is required to operate in developing gas governance arrangements.

Gas Industry Co has the following tools available to meet its objectives:

Power	Description
Recommend gas governance regulations & rules	Gas Industry can recommend gas governance regulations and rules to the Minister of Energy. In certain areas, including wholesale markets, transmission and distribution networks, regulations and rules cannot be made by the Government except in accordance with a recommendation of Gas Industry Co.
Industry arrangements	Gas Industry Co can develop pan-industry arrangements (not supported by rules or regulations), subject to the terms of its Constitution and to any necessary approvals of the Commerce Commission under the restrictive trade practices provisions of the Commerce Act.
Reports to the Minister of Energy	Section 43ZL(2)(f) of the Gas Act requires Gas Industry Co to report regularly to the Minister of Energy on: <ul style="list-style-type: none"> the performance and present state of the New Zealand gas industry; Gas Industry Co's performance and achievement of its objectives; and any other matters Gas Industry Co thinks fit or the Minister of Energy requests in writing.

5.2 Strategic priorities and goals

Gas Industry Co's strategic priorities are essentially set by the Government's Policy Statement on Gas Governance – the GPS. In October 2004, the Government issued a revised GPS that provided for:

Wholesale Markets and Processing

- *The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.*
- *The development of a secondary market for the trading of excess and shortfall quantities of gas.*
- *The development of capacity trading arrangements.*

- *Protocols that set reasonable terms and conditions for access to gas processing facilities.*

Transmission and Distribution Networks

- *The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions.*
- *The establishment of consistent standards and protocols across distribution pipelines so that gas market participants can access distribution pipelines on reasonable terms and conditions.*
- *The establishment of gas flow measurement arrangements to enable effective control and management of gas.*

Retail and Consumer Arrangements

- *The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.*
- *The development of efficient and effective arrangements for the proper handling of consumer complaints.*
- *The development of model contract terms and conditions between consumers and retailers.*

Government has indicated that a new GPS on Gas Governance will be released before the beginning of 2008/09. Inputs for levy setting, including especially the indicative 2008/09 work programme and budget, have been prepared so as to provide for matters expected to be raised in the new GPS. A draft of the new GPS will be issued for consultation shortly.

The specific matters raised in the final new GPS, i.e. after the Government has taken account of submissions on the draft, will be incorporated into the final work programme, budgets and strategic plan for 2008/09. That work will occur in April/May 2008, well after the expected release date for the final new GPS.

Considering both the existing and the expected new GPS, the strategic priorities for Gas Industry Co over the period ahead are to have:

- completed the policy development phase of the existing GPS by mid 2010;
- received Ministerial approval for a significant number of (at least six) policy recommendations for improved gas governance, and be well advanced on implementation of approved arrangements, by the beginning of 2008/09; and
- work at least underway, and in some cases substantially advanced, for meeting the requirements of the new GPS, by the end of 2008.

Q5: *Do you agree that the strategic goals proposed are an appropriate basis for providing work programme and cost inputs for levy setting?*

5.3 Organisation of work streams

Gas Industry Co has reviewed the organisation of its work streams against:

- the Company's role as defined in the Gas Act; and
- the priorities in the existing and expected new GPS'.

As a result, two changes have been made to the breakdown of the work programme into major work areas, as follows:

- the addition of a new work area: *Strategic Issues for the Gas Industry*. This work area has been created to address the priorities in the expected new GPS; and
- the removal of *Development of sound emergency management systems* as a separate work stream, as Outage and Contingency Management relates, and contributes to the development of wholesale market arrangements.

The following table sets out Gas Industry Co's major work areas, work streams within work areas and desired outcomes.

Major Work Areas	Work Streams	Desired Outcomes
Work Area 1: Effective operation of the co-regulatory model	<ul style="list-style-type: none"> • Corporate Services • Compliance and Enforcement • Legal • Co-regulatory Framework 	<ul style="list-style-type: none"> • Gas Industry Co operates efficiently and effectively • Gas Industry Co complies with the accountability framework set out for it in the Gas Act, the GPS and its constitution • Gas Industry Co complies with best practice regulation • Benefits of gas governance recommendations are realised
Work Area 2: Strategic Issues for the Gas Industry	<ul style="list-style-type: none"> • Strategic advice on matters relating to the performance of the gas industry. 	<ul style="list-style-type: none"> • Barriers to competition are minimised • The gas sector contributes to achieving the Government's goals in the NZES
Work Area 3: Improvement of consumer outcomes	<ul style="list-style-type: none"> • Consumer complaints scheme • Retail contract terms and conditions • Other consumer outcomes 	<ul style="list-style-type: none"> • Consumer have access to an independent complaints resolution scheme • Gas is delivered to consumers in a safe, efficient, fair, reliable and environmentally sustainable manner.
Work Area 4: Improvements to the retail market	<ul style="list-style-type: none"> • Switching and registry • Downstream reconciliation 	<ul style="list-style-type: none"> • Faster, more reliable customer switching • More accurate and efficient downstream reconciliation

Major Work Areas	Work Streams	Desired Outcomes
Work area 5: Development of wholesale market arrangements	<ul style="list-style-type: none"> Wholesale market Outage and contingency management 	<ul style="list-style-type: none"> More efficient short-term gas trading Greater certainty on the physical and commercial outcomes of outage and contingency events
Work Area 6: Review of infrastructure access arrangements	<ul style="list-style-type: none"> Gas Processing Transmission Access Upstream Reconciliation Distribution Access 	<ul style="list-style-type: none"> More information about availability of gas processing facilities Improved transmission access, including balancing and reconciliation Barriers to competition are minimised

5.4 Indicative work programme for 2008/09 and 2009/10

A broad description of the work programme, by work area and work stream is set out below. More detail is provided in Appendix B.

Work Area 1: Effective operation of the co-regulatory model

Corporate Services work stream

The Gas Act imposes a number of accountability requirements on Gas Industry Co, which reflects the transparency required of an organisation with a statutory power to levy funds.

The Corporate Services work stream encompasses Gas Industry Co's statutory reporting requirements and the 'back office' functions of the company, including finance, levy development, website development, IT infrastructure, human resources, office management and other overheads. Board costs are separately identified in the budget.

Reflecting the growing scope and scale of the company, industry participants have called for greater transparency around the organisation's activities. In addition, Gas Industry Co has identified the need to improve internal reporting, support services and project management practices. A Corporate Services Manager will be appointed to take the lead in this work.

Compliance and Enforcement work stream

In addition to developing gas governance arrangements, Gas Industry Co needs to ensure that there are systems in place to ensure the new arrangements are complied with and can be enforced. Accordingly, the Compliance and Enforcement work stream has been created, which sits across all Gas Industry Co's gas governance initiatives.

The current financial year has seen a compliance regime proposed for six of Gas Industry Co's proposed arrangements. These new compliance arrangements build on the compliance regime proposed in the switching rules, which Gas Industry Co recommended to the Minister in May 2007.

It now appears that switching will not be the first new gas governance arrangement implemented by Gas Industry Co. The compliance regime is now likely to be needed to support the new downstream reconciliation arrangements, which are anticipated to 'go live' on 1 October 2008.

To implement the compliance regime for the new governance arrangements, Gas Industry Co needs to develop procedures for the Rulings Panel and appoint a Market Administrator (most likely from within Gas Industry Co staff), the Rulings Panel and Investigators.

Over 2008/09 the compliance regime will be amended to include other gas governance arrangements developed by Gas Industry Co

Legal Services work stream

The legal services work stream provides non-work stream related legal advice and company secretarial services to the organisation. To date, this work stream has been included within the Corporate Services work stream. The decision was made to split out internal legal services to provide greater transparency.

Provision has been made in the Work Programme and Budget for 2008/09 for a number of issues to arise that requires substantive external legal advice and significant liaison with officials. In addition, provision has also been made to review the Company's constitution, as proposed by a shareholder at the Company's AGM.

Co-regulatory Framework work stream

The policy development framework in the Gas Act is complex and Gas Industry Co has received a number of submissions on its process for implementing gas governance arrangements. The company is constantly reviewing its processes to ensure their efficiency, internal consistency and compliance with best regulatory practice.

In the current year, Gas Industry Co has undertaken an internal review of the policy development process, cost benefit analysis, cost allocation principles and inter-governmental approval processes.

In the 2008/09 year, Gas Industry Co will continue with the review process and will progressively publish guideline and information documents on key policies and processes.

Work Area 2: Strategic Issues for the Gas Industry

Strategic Issues for the Gas Industry work stream

Gas Industry Co is obliged to report to the Minister of Energy on:

- the performance and present state of the gas industry; and
- Gas Industry Co's performance and achievement of its objectives.

Industry participants have advised Gas Industry Co that they would like the Company to undertake a higher level of problem definition analysis, planning and review work, before development commences on new gas governance arrangements. In addition, the

Government has now adopted a new policy framework in the NZES, which has significant implications for the gas industry, and is about to issue a new GPS on gas governance.

In view of these factors, Gas Industry Co has decided to create a new work stream to encompass all the activities Gas Industry Co does in relation to strategic issues for the gas industry.

Provision has again been made in the work programme for 2008/09 for the Company to participate in the “strategic debate” on matters affecting the gas industry. In addition, the Company understands that the release of a new GPS on gas governance, which supports the Government’s stated aim of a low emission energy future, will set out a number of areas of action for Gas Industry Co that promote the Government’s recently announced policy objectives for the energy sector. The budget for the 2008/09 year allows for work to be undertaken on issues raised by the new GPS.

Work Area 3: Improvement of Consumer Outcomes

Consumer Complaints scheme work stream

Retail Contract Terms and Conditions work stream

Other Consumer Outcomes work stream

Because of the interdependencies of the work, it is convenient to comment on the whole work area at once, rather than break the comments down by work stream.

The first two recommendations Gas Industry Co made to the Minister related to the areas of consumer complaints (early 2005) and retail model contracts (June 2006). These were followed by recommendations on low fixed charges, increased transparency of invoices and disconnection practices.

Progress in implementing these arrangements, however, has been less than satisfactory due to complexities arising from the need for joint governance of a combined electricity and gas complaints scheme, and the inability to achieve industry agreement on increased standardisation of disconnection practices or on amendments to the Electricity and Gas Code of Practice within the expected timeframes. This has resulted in a revised approach to these matters.

Gas Industry Co reported to the Minister in November 2007 that it had been unable to achieve industry agreement on disconnection arrangements and proposed, as an alternative, to consider a regulatory solution as part of a wider investigation into contractual arrangements in the retail sector (including a review of its earlier recommendation that the EGCC Code of Practice could act as a benchmark contract for the terms of supply between retailers and consumers).

Given the limited progress on this work stream, Gas Industry Co considers this to be a focus area for the Company over 2008/09. The key activities for this work stream will be to:

- work with the Electricity Commission on a joint governance approach to the approval and monitoring of a multi-fuel dispute resolution scheme;

- reconsider its recommendation on model contracts in the light of difficulties experienced in progressing Code of Practice changes and making the Code mandatory;
- review the contractual arrangements for metering, distribution and energy services to ascertain whether consumer needs are being met by the various providers; and
- work with other government agencies to improve the quality of information available to consumers about their energy choices.

Work Area 4: Improvements to the Retail Market

Switching and Registry work stream

The purpose of this work stream is to encourage retail competition through the development of efficient and effective switching arrangements.

The focus of this work stream for 2008/09 is on the development and implementation of the proposed central gas registry. The work involves the appointment of a registry operator, development of the registry software and population of the registry with data. Ongoing operations will start before the end of the year.

Downstream Reconciliation work stream

The focus of this work stream is on improving downstream allocation and reconciliation arrangements.

The work programme for 2008/09 has been prepared on the assumption that the proposed rules are approved by the Minister and gazetted in sufficient time to achieve a 'go live' date of 1 October 2008. The most significant piece of work required by Gas Industry Co to implement the new arrangements is the appointment of the Allocation Agent.

In order to meet the proposed milestones, the appointment of the Allocation Agent will need to be run in parallel with the gazetting of the new rules.

Work Area 5: Development of Wholesale Market Arrangements

Wholesale Market work stream

The focus to date of this work stream has been on the development of more efficient arrangements for the trading of gas in the short-term.

Key activities for this work stream over 2008/09 will be administering, monitoring and evaluating the proposed voluntary wholesale market trading platform. It is envisaged that once the platform is in operation, a number of rule changes will be required to meet the needs of platform users and ensure the efficient and effective operation of the market.

The work programme anticipates an evaluation of the effectiveness of the trial market 6 to 9 months after its inception. Following that review, a formal recommendation will be made to the Minister about whether it should be continued. If it is decided that the platform should continue, a number of amendments to the platform may be requested. The budget assumes that no major amendments will be required.

Outage and Contingency Management work stream

In 2005/06, industry participants requested that Gas Industry Co review the arrangements for managing contingency events, as these are currently the subject of a voluntary industry agreement.

The work programme for 2008/09 will be primarily focused on implementing the proposed new arrangements. This will include:

- Creation of an implementation plan and timetable;
- Appointing the “critical contingency operator”;
- Arranging and holding industry seminars and/or training to introduce the new systems;
- Co-ordinating the handover between the existing NGOCP and the replacement arrangements;
- Managing any change processes as required in the light of experience with the new arrangements; and
- Oversight of the new arrangements including incident reports.

Work Area 6: Review of Infrastructure Access Arrangements

Access to Gas Processing Facilities work stream

The purpose of this work stream is to ensure that industry participants have reasonable access to gas processing facilities. The 2008/09 year will focus on implementation of the proposed new information disclosure rules. It is not expected that any significant external consultancy support will be required for this exercise.

Transmission Access work stream

The purpose of this work stream is to develop consistent terms and conditions for access, including balancing arrangements, across transmission networks.

Gas Industry Co issued a consultation paper on the transmission access framework in October 2007, which included draft transmission access regulations and draft compliance regulations. These regulations will form the foundation of the transmission access framework within which transmission system owners will develop their operating codes.

In parallel with the development of the access framework, Vector has been developing its transmission code (the VTC).

It is expected that the proposed transmission access regulations will come into effect towards the end of 2008. Transmission system owners will then have a prescribed period of time within which to amend their operating codes to make them compliant with the regulations.

Effective balancing of transmission pipelines remains a concern of Gas Industry Co. To clarify the issues, a review of the MPOC and VTC balancing regimes will be completed, and an issues paper released for consultation, before the end of 2008. Depending on the outcome of this review, further policy development work may be required over 2008/09.

Upstream Reconciliation work stream

Now that matters in relation to downstream reconciliation are at the statement of proposal stage, it is timely to consider what changes, if any, are required to upstream reconciliation processes.

An issues paper will be prepared on upstream reconciliation by October 2008. If changes are considered to be necessary, the issues paper will be followed by an options paper in which alternative arrangements will be canvassed.

Distribution Contracts work stream

With the Minister's agreement, Gas Industry Co made a decision to defer work on access arrangements for distribution pipelines until a final determination was made by the Commerce Commission on its terms of control for certain gas distribution networks owned by Vector and Powerco. In October 2007, the Commission released its final authorisation for price control of Vector and Powerco for consultation. Gas Industry Co has accordingly now begun to scope its review.

Gas Industry Co believes that there may be synergies in connecting this work with its analysis of retail contracts. This will be examined once the issues paper has been completed.

It is assumed for the purposes of the work programme that Gas Industry Co will have completed the 'problem definition' phase of its policy process (i.e. will have released a distribution issues review paper for consultation and received submissions from industry participants) by June 2008.

Assuming that Gas Industry Co believes there is a case for intervention, it is expected the work stream will follow the process developed from our experience across other initiatives. Broadly that consists of a high level discussion paper(s) on the options to meet the identified problems, then the release of a statement of proposal setting out the detailed arrangements and finally a recommendation to the Minister.

Q6: *Do you agree that the work programme set out above is appropriate to achieving the objectives, outcomes and tasks set in the GPS?*

5.5 Indicative Budgets for 2008/09 and 2009/10

Assumptions

The indicative budgets set out below are based on the following assumptions:

- A new GPS on Gas Governance will be issued before the 2008/09 year. The work programme and budget on which budgets are based include provision for the expected requirements of the new GPS.
- All major work streams will involve concept development, the development of options for consultation, the development of a statement of proposal, MED approval of the preferred option, the preparation of a recommendation to the Minister, Ministerial approval and an implementation phase. Gas Industry Co has applied judgement based on experience to date in determining the key activities and timetable for each work stream.
- Gas Industry Co's expenditure over 2005/06 and 2006/07 has been retrospectively allocated to the Company's current work streams, to enable the current budget to be considered in the context of budget and actual expenditure over the last three years. To do this, Gas Industry Co has made a number of assumptions about how previous expenditure should be allocated. A degree of caution should, therefore, be exercised when comparing current budget figures, with historical financials.
- It is assumed that Gas Industry Co will fund the implementation of industry arrangements through dedicated fees. As such, the following costs are not included in the budget, as they will be funded separately through dedicated fees:
 - the costs of the Rulings Panel and investigators which are recovered through dedicated fees in the compliance regulations;
 - the capital costs associated with the development of the switching registry and the ongoing fees of the Registry Operator;
 - the ongoing fees of the Allocation Agent appointed under the proposed downstream reconciliation rules;
 - the costs associated with the appointment of a Critical Contingency Operator, the review of by an expert adviser on proposed Outage and Contingency plans and the preparation and publication of a Communications Plan as well as ongoing fees of the Critical Contingency Operator and any industry experts under the proposed contingency management regulations; and
 - the costs recovered through the proposed wholesale market arrangements.

Indicative budgets and key features

A detailed breakdown of the Company's work stream expenditure is presented in the table below for the period 2005/06 to 2008/09.

Actual and Budget Expenditure

	2005/06 Actual	2006/07 Actual	2007/08 Budget	2008/09 Budget
Effective operation of the co-regulatory model				
Corporate Services	616,244	508,712	677,518	822,214
Co-regulatory Framework	-	-	-	107,823
Legal	-	-	100,000	198,490
Compliance and Enforcement	153,065	76,753	243,884	183,247
Strategic issues for the gas industry	103,421	324,746	207,163	627,486
Improvement of consumer outcomes	162,104	122,035	198,335	251,137
Improvements to the retail market				
Switching and Registry	323,895	252,088	246,036	208,887
Downstream Reconciliation	139,770	285,496	229,712	192,402
Development of wholesale market arrangements				
Wholesale Market	509,005	368,392	457,945	307,739
Outage and Contingency Management	159,515	312,500	281,119	327,803
Review of infrastructure access arrangements				
Access to Gas Processing Facilities	119,562	93,508	140,663	29,597
Transmission Access	271,776	481,685	671,815	618,187
Upstream Reconciliation	-	-	-	207,015
Distribution Access	38,039	25,879	248,145	186,647
Sub Total	2,596,396	2,851,794	3,702,335	4,268,674
Board Costs	243,800	236,588	237,600	261,980
Overheads	659,925	547,029	603,876	496,448
Total	3,500,121	3,635,410	4,543,811	5,027,102

Key features of these indicative budgets are that:

- total expenditure is budgeted to increase in 2008/09 reflecting the high levels of policy development and implementation work being undertaken;
- for implementation the Company will receive funds from dedicated fees under particular gas governance arrangements. These fees principally relate to costs of the relevant service providers. The proportion of total expenditure funded from the annual levy will thus decrease;
- the Corporate Services budget will increase in 2008/09 reflecting greater activity on internal report and project management activities;
- the budget for Strategic Issues for the Gas Industry is higher in 2008/09 reflecting a provision for new GPS activities;

- the budget for Improvement of Consumer Outcomes has increased in 2008/09 reflecting work in relation to the consumer complaints scheme, retail contract terms and conditions and other consumer outcomes; and
- work in relation to upstream reconciliation will commence in 2008/09. The budget for this work stream reflects the significant policy development work that is expected to be required.

It is important to note that these are indicative numbers. Firm numbers will not be available until the strategic plan is finalised in April/May 2008.

Q7: Do you agree that the indicated budgets are appropriate to the proposed work programme?

5.6 Risks

There are a number of risks that could adversely impact on Gas Industry Co's ability to achieve its work programme and to remain within its budget, which have implications for the levy.

A summary of these risks and the mitigation strategies that have been put in place is provided below.

Risk	Description	Mitigation Strategy
New unbudgeted work stream	The new GPS, the Minister or industry participants may request that an addition, large piece of work be undertaken.	The Work Programme and Budget includes the new GPS priorities that have been signalled to management and a limited contingency provision for unforeseen events.
Unbudgeted extension of an existing work stream	Unforeseen circumstances require a significant piece of work to be undertaken on an existing work stream.	The Work Programme and Budget includes a limited contingency provision for unforeseen events. One area which has been particularly difficult to forecast is Gas Industry Co's compliance costs. The Budget assumes a high degree of compliance by industry participants with the new arrangements.
Regulatory setting risk	Delays in the establishment of rules or regulations (or in passing amendments to the Gas Act) required to give effect to an industry arrangement. Delays could be caused by concerns from the Minister or officials, particularly if these concerns are raised late in the development of a recommendation, or because of other competing demands on parliamentary processes.	A structured approval process for proposed arrangements will be agreed with officials and recorded in a MOU between Gas Industry Co and MED. Quarterly Reports provided to the Minister and a 'no surprises' policy in relation to recommendations. Ongoing liaison with officials following a recommendation to the Minister to implement rules, regulations or amend the Gas Act.

Risk	Description	Mitigation Strategy
Industry disagreement	Industry disagreement over a particular issue that has a bearing on a proposed arrangement could delay the progress of a work stream.	The use of industry working groups and ongoing liaison with industry to identify and, where possible, address issues as they arise.
Internal capacity constraints	Internal capacity constraints could cause slippage in Work Programme milestones and could impact on the Budget due to a greater reliance on external consultants.	The process of developing the Work Programme has facilitated discussions about the sequencing of activities and the allocation of internal resources.
External capacity constraints	The ability of external parties to provide input into the development of industry arrangements could cause slippage in Work Programme milestones.	The Company intends to adopt a policy of allowing 4 weeks for consultation on discussion papers and 6 weeks for consultation on statements of proposal

6 Levy Funding Requirement

Calculation of the 2008/09 levy funding requirement is based on the following methodology:

- allocation of direct costs to each work stream;
- allocation of indirect costs based on the proportion of total direct costs of each work stream;
- deduction of revenue from dedicated fees from the relevant work streams;
- deduction of other revenue, allocated proportionally based on direct costs; and
- application of a proportion of over- or under-recoveries of the levy to the retail and wholesale areas of activity.

6.1 Direct and indirect costs

As noted above, the cost allocation methodology requires that indirect costs are identified and allocated on a proportional basis to direct costs. The following table presents those indirect costs for 2008/09 that are unable to be allocated on the basis of work content.

Indirect Costs

	Budget 2008/09
Indirect Expenditure	
Corporate	822,214
Legal	198,490
Co-regulatory Framework	107,823
Overheads	496,448
Board Costs	261,980
	<u>1,886,955</u>
Creation of equity reserves	100,000
Indirect expenditure plus reserve contribution	<u><u>1,986,955</u></u>

The following table presents Gas Industry Co's direct costs under the retail and wholesale work areas, and allocates the indirect costs noted above on a proportional basis.

Direct and Indirect Costs

	Direct 2008/09	Proportion of Costs	Indirect Allocation	Total 2008/09
Retail Work Programme Costs				
Strategic Issues for the Gas Industry (partial allocation)	313,743	10.0%	198,524	512,267
Compliance and Enforcement (partial allocation)	91,624	2.9%	57,976	149,599
Switching and Registry	208,887	6.7%	132,175	341,062
Downstream Reconciliation	192,402	6.1%	121,744	314,146
Distribution Access	186,647	5.9%	118,102	304,749
Consumer Outcomes	251,137	8.0%	158,909	410,046
	1,244,440	39.6%	787,430	2,031,869
Wholesale Work Programme Costs				
Strategic Issues for the Gas Industry (partial allocation)	313,743	10.0%	198,524	512,267
Compliance and Enforcement (partial allocation)	91,624	2.9%	57,976	149,599
Wholesale Markets	307,739	9.8%	194,724	502,463
Outage and Contingency Management	327,803	10.4%	207,420	535,223
Access to Gas Processing	29,597	0.9%	18,728	48,325
Transmission Access	618,187	19.7%	391,163	1,009,350
Upstream Reconciliation	207,015	6.6%	130,991	338,006
	1,895,708	60.4%	1,199,525	3,095,233
Total Expenditure	3,140,147	100.0%	1,986,955	5,127,102

Both Strategic Issues for the Gas Industry and Compliance and Enforcement are listed under both of the retail and wholesale work programme areas. This is because both work streams encompass retail and wholesale related work. Gas Industry Co has reviewed the work programme for each of these work streams and determined that the costs should be allocated 50:50 across retail and wholesale. This decision reflects the assumption that work will be fairly even spread across retail and wholesale related matters.

6.2 Dedicated fees

As noted above, where implementation costs are significant, Gas Industry Co will fund implementation through dedicated fees.

These fees will cover the establishment and operation of gas governance arrangements. Therefore, where staff are working directly on the implementation of gas governance arrangements, their costs will be covered through a dedicated fee.

For 2008/09, five of Gas Industry Co's work streams will have dedicated fees as follows:

- **Compliance and Enforcement:** the costs of the Rulings Panel and investigators;
- **Switching and Registry:** the capital costs associated with the development of the switching registry and the ongoing fees of the registry operator;
- **Downstream Reconciliation:** the ongoing fees of the allocation agent appointed under the proposed Downstream Reconciliation rules;
- **Outage and Contingency Management:** the costs associated with the appointment of a Critical Contingency Operator, the review of by an expert adviser on proposed Outage and Contingency plans and the preparation and publication of a

Communication Plan as well as ongoing fees of the Critical Contingency Operator and any industry experts; and

- **Wholesale Market:** the costs recovered through the proposed wholesale market arrangements.

Gas Industry Co has estimated the proportion of internal costs that will be recovered through these dedicated fees. This is presented in the table below.

Adjustment for Dedicated Fees

	Total 2008/09	Fee Prop. of Costs	Dedicated Fees	Total 2008/09
Retail Work Programme Costs				
Strategic Issues for the Gas Industry (partial allocation)	512,267	0.0%	-	512,267
Compliance and Enforcement (partial allocation)	149,599	10.0%	(14,960)	134,639
Switching and Registry	341,062	10.0%	(34,106)	306,956
Downstream Reconciliation	314,146	10.0%	(31,415)	282,731
Distribution Access	304,749	0.0%	-	304,749
Consumer Outcomes	410,046	0.0%	-	410,046
	2,031,869		(80,481)	1,951,389
Wholesale Work Programme Costs				
Strategic Issues for the Gas Industry (partial allocation)	512,267	0.0%	-	512,267
Compliance and Enforcement (partial allocation)	149,599	10.0%	(14,960)	134,639
Wholesale Markets	502,463	5.0%	(25,123)	477,340
Outage and Contingency Management	535,223	5.0%	(26,761)	508,462
Access to Gas Processing	48,325	0.0%	-	48,325
Transmission Access	1,009,350	0.0%	-	1,009,350
Upstream Reconciliation	338,006	0.0%	-	338,006
	3,095,233		(66,844)	3,028,389
Work Programme Costs Minus Dedicated Fees	5,127,102		(147,325)	4,979,777

6.3 Other revenue and over- and under-recoveries of the levy

To determine the levy funding requirement, work programme costs need to be adjusted for other revenue and over-and under-recoveries of the levy.

Gas Industry Co receives other revenue through annual fees and interest. It is estimated that the Company will receive \$153k in other revenue in 2008/09, which comprises \$100k from annual fees and \$53k in interest income.

As at 30 June 2007, Gas Industry Co has a retained earning balance of \$379,753. This figure represents the over-recovery/under-spend the Company has made on the retail and wholesale levy over 2005/06 and 2006/07.

For the purposes of setting the 2008/09 levy, it is assumed that no surplus will be made over the current financial year, 2007/08. Any surplus/deficit that is made over 2007/08 will be factored into the 2009/10 levy calculation.

Gas Industry Co faces uncertainties around the level of revenue it receives, due to the volatility of wholesale gas volumes, and around the level of expenditure, which is influenced by the issues revealed in policy development, outcomes of consultation and requests from the Minister and industry participants.

To provide a buffer against this uncertainty, Gas Industry Co has decided to bring through only a proportion, i.e. \$200,000, of its levy over-recovery to date. This is consistent with the policy set out in section 4.6 above. The breakdown of this figure between the components of the levy is as follows:

- Retail over-recovery of levy of \$18,264; and
- Wholesale over-recovery of levy of \$181,736.

6.4 2008/09 Levy funding requirement

The table below presents the retail and wholesale levy funding requirement for 2008/09.

	Budget 2008/09
Retail Work Programme Costs	1,951,389
Allocation of Other Revenue	(60,933)
Under (Over) Recovery of Levy	(18,264)
Total Retail Levy Funding Requirement	1,872,192
Wholesale Work Programme Costs	3,028,388
Allocation of Other Revenue	(92,822)
Under (Over) Recovery of Levy	(181,736)
Total Wholesale Levy Funding Requirement	2,753,830
Total Levy Funding Requirement	4,626,022

Q8: *Do you agree with the calculation of the funding requirements including the allocation of costs between the wholesale and retail work programmes and the carrying over of some of the accumulated surplus?*

7 Proposed Levy

The following volume assumptions have been made to calculate the levy rates for 2008/09:

- ICP numbers for 2008/09 will be approximately 250,000. This is the estimate that was used to calculate the 2007/08 levy rate and has been reconfirmed through discussions with industry participants.
- Wholesale gas volumes will be 145 PJ in 2008/09.

Based on these assumptions, the table below presents the calculation of the retail and wholesale levies for 2008/09:

Gas Industry Company Levy Calculation

	Budget 2008/09
Retail Levy Funding Requirement	1,872,192
Projected ICP Numbers	250,000
Levy Rate (\$/ICP)	7.49
Wholesale Levy Funding Requirement	2,753,830
Wholesale Gas Volume Projection (GJ)	145,000,000
Levy Rate (cents/GJ)	1.90

The proposed levy rates for 2008/09 are:

- Retail levy of \$7.49 per annum payable on each ICP. This is a 8.5% reduction on the 2007/08 rate, which was \$8.18 per annum payable on each ICP; and
- Wholesale levy of 1.90 cents per GJ of gas purchased directly from gas producers. This is a 1.6% reduction on the 2007/08 rates, which was 1.93 cents per GJ.

Q9: *Do you agree that it is appropriate to decrease the levy for 2008/09 to the levels set out above given the requirements of the indicated work programme and Gas Industry Co's statutory obligations?*

Appendix A: Recommended Format for Submissions

To assist the 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
Q 1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?	
Q 2: Do you agree with the proposed policy for funding the implementation of gas governance arrangements?	
Q 3: Do you agree with the proposed indirect cost allocation methodology?	
Q4: Do you agree with the proposed approach to balancing levy revenue against relevant expenditure, over several years ?	
Q5: Do you agree that the strategic goals proposed are an appropriate basis for providing work programme and cost inputs for levy setting?	

QUESTION	COMMENT
Q6: Do you agree that the work programme set out above is appropriate to achieving the objectives, outcomes and tasks set in the GPS?	
Q7: Do you agree that the indicated budgets are appropriate to the proposed work programme?	
Q8: Do you agree with the calculation of the funding requirements including the allocation of costs between the wholesale and retail work programmes and the carrying over of some of the accumulated surplus?	
Q9: Do you agree that it is appropriate to decrease the levy for 2008/09 to the levels set out above given the requirements of the indicated work programme and Gas Industry Co's statutory obligations?	

Appendix B: Work Programme Details

This Appendix presents Gas Industry Co's detailed work programme and budget for 2008/09.

Work Area 1: Effective Operation of the Co-regulatory Model

This strategic priority area includes the following work streams:

- Corporate Services;
- Compliance and Enforcement;
- Legal; and
- Co-regulatory Framework.

Corporate Services Work Stream

The Gas Act imposes a number of accountability requirements on Gas Industry Co, which reflects the transparency required of an organisation with a statutory power to levy funds.

The Corporate Services work stream encompasses Gas Industry Co's statutory reporting requirements and the 'back office' functions of the company, including finance, levy development, website development, IT infrastructure, human resources, office management and other overheads. Board costs are separately identified in the budget.

Progress to 30 June 2008

The milestones for the Corporate Services work stream encompass all the activities in relation to the statutory obligations of the Company set out in the Gas Act and Companies Act.

The Company has achieved, or is on track to achieve, all of its milestones for 2007/08. Further detail about the Company's progress against its milestones is summarised in the table below.

Actual expenditure for this work stream in 2005/06 was high, reflecting the support provided by consultants during the establishment phase of the Company. The actual spend for 2006/07 was lower than 2005/06 actual, but higher than budget, due to higher than expected levels of activity on developing the process for policy development (note, work in relation to the process for policy development is now included in a separate work stream for 2008/09 – Co-regulatory Framework). The budget for 2007/08 reflects further activity in relation to developing best practice policy development processes.

Work Programme for 2008/09

As the milestones for the Corporate Services work stream are obligations under statute, the milestones for 2008/09 are the same as the current financial year.

Reflecting the growing scope and scale of the company, industry participants have called for greater transparency around the organisation's activities. In addition, the Company has identified the need to improve internal reporting and project management practices. To address these requirements, additional budget for a Corporate Services Manager, who will focus on internal reporting and project management, has been included in the 2008/09 budget.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved	N/A	\$616,244
	Regular reporting to industry	Quarterly reports (July, October, January, April)	Achieved – Newsletters sent bi-monthly		
	Liaison with industry	Hold briefing day (August 2005) Regular meetings with CEO's and regulatory officers (two per annum)	Achieved – Industry seminar held in December 2005, numerous meetings with industry participants held during the year		
2006/07	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved	\$465,700	\$508,712
	Prepare annual report	Annual report for 2006/07 to Minister by September 2006	Achieved		
	Prepare strategic plan	Strategic plan for 2008 – 2010 to the Minister by June 2007	Achieved		
	Develop and consult on levy	Recommendation on 2007/08 levy to the Minister by May 2007	Achieved		
2007/08	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved to date	\$677,518	
	2008/09 Levy	2008/09 Levy Recommendation to Minister by 31 March 2008.	On track		
	Annual Report	Annual Report to Minister by 30 September 2007.	Achieved		
	AGM	Hold AGM by 31 December 2007.	Achieved		
	Prepare 2010 – 2012 Strategic Plan	Strategic Plan to Minister by 31 May 2008.	On track		

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter		\$822,214	
	2009/10 Levy	2008/09 Levy Recommendation to Minister by 31 March 2009.			
	Annual Report	Annual Report to Minister by 30 September 2008.			
	AGM	Hold AGM by 31 December 2008.			
	Prepare 2011 – 2013 Strategic Plan	Strategic Plan to Minister by 31 May 2009.			

Compliance and Enforcement Work Stream

In addition to developing gas governance arrangements, Gas Industry Co needs to ensure that there are systems in place to ensure the new arrangements are complied with and can be enforced. Accordingly, the Compliance and Enforcement work stream has been created, which sit across all Gas Industry Co's gas governance initiatives.

Progress to 30 June 2008

This work stream, which was initially part of the Switching and Registry work stream, was split out in the 2007/08 Work Programme as it ties into a number of work streams.

Gas Industry Co had originally planned to implement the compliance regime to support the proposed switching rules based on a central gas registry, which was expected to be the first governance arrangement to 'go live'.

However, as an amendment to the Gas Act was required, this work stream was held in abeyance for some time. This explains the difference between the budget and actual expenditure for this work stream in 2006/07.

The current financial year has seen a compliance regime proposed for six of Gas Industry Co's proposed arrangements. These new compliance arrangements build on the compliance regime proposed in the switching rules, which Gas Industry Co recommended to the Minister in May 2007.

It now appears that switching will not be the first new gas governance arrangement implemented by Gas Industry Co. The compliance regime is now likely to be needed to support the new downstream reconciliation arrangements, which are anticipated to 'go live' on 1 October 2008.

To implement the compliance regime for the new governance arrangements, Gas Industry Co needs to develop procedures for the Rulings Panel and appoint a Market Administrator (most likely from within Gas Industry Co staff), the Rulings Panel and Investigators.

The proposed wholesale market arrangement envisages the Rulings Panel will be used by the agreement of parties for any disputes.

Some implementation work is expected to take place in the 2007/08 year. This is the reason for the rise in expenditure in the current budget.

Work Programme for 2008/09

The milestones and budget for 2008/09 provide for the compliance regime to be amended to include other gas governance arrangements developed by Gas Industry Co. It is important to note that the budgeted numbers for 2008/09 include design establishment and market administration costs, but not the fees for the Rulings Panel members and Investigators.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Develop compliance regime to support new arrangements	As required, develop compliance and enforcement mechanisms for new gas governance arrangements.	Achieved at a later date	N/A	\$153,065
2006/07	Develop compliance regime to support new arrangements	As required, develop compliance and enforcement mechanisms for new gas governance arrangements.	Achieved – Recommended compliance arrangements for switching	\$192,400	\$76,753
2007/08	Investigate compliance and enforcement requirements of new gas governance arrangements.	As required, compliance and enforcement requirements for new gas governance arrangements investigated.	Achieved – Compliance regimes developed to support new arrangements including downstream reconciliation, gas processing, wholesale market, outage and contingency management and transmission access.	\$243,884	
	Implement compliance regime to support new switching arrangements.	Compliance regime in place within three months of central gas registry “Go Live” date.	Not Completed – Registry ‘go live’ date delayed until 1 March 2009. Implementation now planned to coincide with ‘go live’ date for downstream reconciliation arrangements and wholesale market		
2008/09	Implement compliance arrangements	Compliance arrangements gazetted by 1 July 2008 Compliance regime ‘go live’ by 1 October 2008		\$183,247	

Period	Activity	Milestones	Progress	Budget	Actual
	Amend compliance regime	As required, regime amended to support new gas governance arrangements, such as switching.			

Legal Services Work Stream

The legal services work stream provides internal, non-work stream related, legal advice and company secretary services to the organisation.

To date, this work stream has been included within the corporate services work stream. The decision was made to split out internal legal services to provide greater transparency.

Work Programme for 2008/09

Gas Industry Co's experience to date of the regulatory and statutory processes it is required to follow has highlighted that a number of substantive legal issues can (and do) arise. This has seen the Company make three different proposals to the Minister to amend the Gas Act in the current financial year. External legal support has also been required in respect of matters involving shareholders and the Board. Provision has been made in the Work Programme and Budget for 2008/09 for a number of issues to arise that require substantive external legal advice and significant liaison with Officials.

In addition, provision has also been made to review the Company's constitution, as proposed by a shareholder at the Company's AGM.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Legal Advice	As required, advice to Gas Industry Co Review the Company's constitution by December 2008		\$198,490	

Co-regulatory Framework Work Stream

The policy development framework in the Gas Act is complex and Gas Industry Co has received a number of submissions on its process for implementing gas governance arrangements. The Company is constantly reviewing its processes to ensure their efficiency, internal consistency and compliance with best regulatory practice.

In the current year, Gas Industry Co has undertaken an internal review of the policy development stages, cost benefit analysis, cost allocation principles and inter-governmental approval processes.

Work Programme for 2008/09

In the 2008/09 year, Gas Industry Co will continue the reviews currently underway and will publish guidelines on a number of matters that are of interest to stakeholders:

- Cost benefit analysis;
- Cost allocation;
- Consultation policy; and
- General framework for levy setting.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Establishment of general framework for policy implementation (including approach to cost benefit, cost allocation and consultation).	Publish guidelines on the general framework for policy implementation (including approach to cost benefit, cost allocation and consultation) by December 2009.		107,823	
	Develop guidelines for annual levy.	Publish guidelines on the annual levy by December 2009.			

Work Area 2: Strategic Issues for the Gas Industry

Gas Industry Co is obliged to report to the Minister of Energy on:

- the performance and present state of the gas industry; and
- Gas Industry Co's performance and achievement of its objectives.

Industry participants have advised the Company that they would like Gas Industry Co to undertake a higher level of problem definition analysis, planning and review work, before development commences on new gas governance arrangements.

In addition, the Government has now adopted a new policy framework in the NZES, which has significant implications for the gas industry, and is about to issue a new GPS on gas governance.

In view of these factors, Gas Industry Co has created a new work stream to encompass all the activities Gas Industry Co does in relation to the strategic issues for the gas industry.

Progress to 30 June 2008

Gas Industry Co completed a baseline performance review of the gas sector in December 2006, which was not included in the 2006/07 budget. This explains the variance between the budget and actual expenditure figures in 2006/07. This review suggested ongoing monitoring of different sectors of the gas industry once gas governance arrangements were completed and new information became available.

In addition, the Company's experience to date is that numerous other strategic matters arise through out the year – the two most relevant examples include submissions on the draft NZES and the review of part 4 of the Commerce Act – which require Gas Industry Co input.

Work Programme for 2008/09

Provision has again been made in the work programme for 2008/09, for the Company to participate in the "strategic debate" on matters affecting the gas industry.

In addition, Gas Industry Co understands that the release of a new GPS on gas governance, which supports the Government's stated aim of a low emission energy future, will set out a number of areas of action for the Company that promote the Government's recently announced policy objectives for the energy sector.

The budget for the 2008/09 year allows for work to explore the issues raised by the new GPS. This is consistent with requests from industry participants that the Company spend more time up front on "problem definition".

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Strategic Advice	As required, provide advice to Minister on strategic issues affecting the gas industry.	Achieved – Advice to Board on Strategic Issues Report.	N/A	\$103,421
2006/07	Baseline performance review	Complete baseline performance review by September 2006.	Achieved – Baseline performance review provided to Minister in December 2006.	\$72,500	\$324,746
2007/08	Strategic Advice	As required, provide advice to Minister on strategic issues affecting the gas industry.	On Track.	\$207,163	
2008/09	Strategic Advice on new GPS matter	As required, provide advice to Minister on strategic issues affecting the gas industry		\$627,486	

Work Area 3: Improving Consumer Outcomes

A key expectation of the Minister of Energy, and Government, of the co-regulatory model is that it delivers improved outcomes for gas consumers. The Minister has the power to directly regulate on a range of consumer issues under the Gas Act and has requested advice from the Gas Industry Co on a number of these matters.

This work stream includes activities in relation to:

- consumer complaints scheme;
- retail contract terms and conditions; and
- other consumer outcomes.

Progress to 30 June 2008

The first two recommendations Gas Industry Co made to the Minister related to the areas of consumer complaints (early 2005) and retail model contracts (June 2006).

These were followed by recommendations on low fixed charges, increased transparency of invoices and disconnection practices. However, progress in implementing these arrangements has been less than satisfactory due to complexities arising from the need for joint governance of a combined electricity and gas complaints scheme and the inability to achieve industry agreement on increased standardisation of disconnection practices or on amendments to the Electricity and Gas Code of Practice within the expected timeframes. This has resulted in a revised approach to these matters.

Gas Industry Co's milestones for 2007/08 provided for recommendations to the Minister on disconnection issues by April 2008 and the investigation of any consumer issues requested by the Minister within nine months of the request.

Gas Industry Co reported to the Minister in November 2007 that it had been unable to achieve industry agreement on disconnection arrangements and proposed, as an alternative, to consider a regulatory solution as part of a wider investigation into contractual arrangements in the retail sector (including a review of its earlier recommendation that the EGCC Code of practice could act as a benchmark contract for the terms of supply between retailers and consumers).

Work Programme for 2008/09

The focus of this work stream over 2008/09 will be to:

- work with the Electricity Commission on a joint governance approach to the approval and monitoring of a multi-fuel dispute resolution scheme;
- reconsider its recommendation on model contracts in the light of difficulties experienced in progressing code of practice changes and making the code mandatory;

- review the contractual arrangements for metering, distribution and energy services to ascertain whether consumer needs are being met by the various providers; and
- work with other government agencies to improve the quality of information available to consumers about their energy choices.

The budget has been increased in 2008/09 to reflect the increase in activity in the work programme.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Consumer Complaints – Incorporation of land owner / occupier disputes in disputes scheme	Recommendation of expanded scheme to Minister for Approval by December 2005 Implementation of Scheme by April 2006	Not Achieved – There were delays in finalising amendments to the Scheme relating to land access for electricity lines companies	N/A	\$162,104
	Retail Model Contracts: Research retail contract issues and design retail model contract guidelines Consult on proposed new arrangements and analyse submissions	Complete report on retail contract issues and develop guidelines and model contract arrangements by August 2005 Complete consultation and report on preferred arrangements by November 2005	Achieved at a later date. Report to Board in October 2005 Consultation paper released in November 2005 Recommendation to Minister made in May 2006		
2006/07	Develop consumer issues report	Issue consultation paper on consumer issues by September 2006	Not required – as Gas Industry Co provided advice on a range of consumer issues in June 2006.	\$125,093	\$122,035
	Prepare consumer issues recommendations report	Consumer issues report to the Minister by December 2006	Not achieved – Further advice on disconnection due in December 2006. This milestone was not met (see below).		
2007/08	Develop new disconnection/reconnection arrangements.	If required, provide a recommendation to the Minister on disconnection arrangements by April 2008.	Not Completed - In November 2007 Gas Industry Co advised the Minister that it did not recommend separate arrangements for disconnection, but would consider this issue as part of wider review of consumer contract arrangements.	\$198,355	

Period	Activity	Milestones	Progress	Budget	Actual
	Consumer issues investigation.	If required, provide a recommendation to the Minister on consumer issues within nine months of request.	In progress – following delays in implementing retail model contracts and other matters, investigation is being undertaken on alternative ways to improve consumer outcomes.		
		Hold consumer forum by June 2008.	Completed - Consumer forum held on October 11, 2007.		
2008/09	Ensure all gas consumers have access to a dispute resolution service free of charge	Joint approval of a multi-fuel dispute resolution service by December 2008		\$251,137	
	Ensure all gas consumers are protected by benchmark terms and conditions	Advise Minister on revised approach (if required) by August 2008			
	Ensure the current “unbundled” arrangements for the supply of gas are meeting gas consumers needs	Problem definition and issues review paper released for consultation by August 2008			
	Ensure gas consumers have the information they require to make informed choices about their energy retailer and fuel type	Hold discussions with the EC, MED and the EGCC regarding information disclosure by March 2009.			

Work Area 4: Improvements to the Retail Market

The primary discipline on retail prices is competition amongst retailers. Therefore, a focus for the company over the past two years has been the development of retail market systems to promote competition. This work is expected to come to fruition in the coming financial year with the implementation of new governance arrangements for switching customers and the allocation of downstream gas quantities.

Switching and Registry Work Stream

The purpose of this work stream is to encourage retail competition, through the development of efficient and effective switching arrangements.

Progress to 30 June 2008

Following extensive analysis, development and consultation, Gas Industry Co made recommendations to the Minister in May 2007 for rules to give effect to the proposed switching arrangements and regulations to enforce those rules.

The implementation of the proposed switching arrangements, however, required an amendment to s43G(2) of the Gas Act to enable the proposed rules to be mandatory on all industry participants. This amendment was made in September 2007.

Clarification was also required on whether the approach to funding of the registry might require amendments to the switching rules and a further round of consultation. Clarification has now been obtained and it is expected that minor amendments will be made to the rules shortly, enabling the rules to commence in February 2008.

Gas Industry Co had anticipated that it would take approximately nine months from approval of the rules to implementation. However, once a detailed implementation plan had been developed, this was extended, on the advice of industry participants, to twelve months. Assuming the rules are gazetted by March 2008, the 'go live' date for the gas registry (the central feature of the new switching arrangements) is now March 2009.

Work Programme for 2008/09

The focus of this work stream for 2008/09 will be on the development and implementation of the proposed central gas registry.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Design scope and functionality of appropriate registry for gas customer switching	Complete industry consultation on scope and functionality by August 2005	Partially Achieved – Three consultation papers on new switching arrangements for retail customers released in 2005/06.	N/A	\$323,895

Period	Activity	Milestones	Progress	Budget	Actual
	Appoint service provider to advise on registry solutions and evaluate proposals	Recommendations on preferred registry solution by October 2005	Not Achieved		
	Design rules and protocols for operation of registry arrangements and implement	Completed rules and registry function established by February 2006	Not Achieved		
2006/07	Develop registry and compliance arrangements	Issue proposal on switching and registry arrangements by September 2006	Achieved – Issued statement of proposal on switching and compliance in August 2006	\$247,502	\$252,088
	Prepare recommendations on new arrangements	Recommendation on registry arrangements to Minister by December 2006	Achieved at a later date – Issued recommendations to the Minister on switching and compliance in May 2007		
	Implement central registry and associated compliance regime, if required	Registry system to 'go live' by June 2007	Not achieved – Awaiting amendment of the Gas Act		
2007/08	Implement switching arrangements.	Appoint Registry Service Provider within three months of Switching Rules being gazetted.	On track Preferred registry operator to be appointed by March 2008 Switching rules to be gazetted by March 2008	\$246,036	
2008/09	Implement switching arrangements	Commence registry development by October 2008 Complete registry establishment by January 2009 Registry 'go live' on March 2009		\$208,887	

Downstream Reconciliation Work Stream

Efficient gas markets require a system to allocate and reconcile the various quantities of gas being injected, transported and delivered to industry participants.

The focus of this work stream is on downstream allocation and reconciliation arrangements, which requires the identification of the quantities of gas delivered by each upstream shipper which ships gas to a gas gate and the quantities received (and used) at that gas gate by each retailer which delivers gas to customers on the distribution network downstream of the gas gate.

Progress to 30 June 2008

The original milestones for this work stream were based on the assumption that existing industry codes could be used as a basis for new arrangements. Following analysis and industry consultation this approach was revised. Instead, it was decided a regulatory solution would be required and that it was appropriate to progress the development of downstream reconciliation separately from upstream reconciliation. This has created some slippage in timeframes.

Gas Industry Co released a statement of proposal for new downstream reconciliation rules in September 2007. Submissions have now been received and are being analysed.

If Gas Industry Co needs to consult further on the proposed arrangements as a result of either submissions analysis or the MED review process, the go live date of October 2008 may not be achievable. If this turns out to be the case, the preferred option is to 'go live' with reconciliation on the same date as for switching arrangements, i.e. March 2009.

Work Programme for 2008/09

The work programme for 2008/09 has been prepared on the assumption that the proposed arrangements are approved by the Minister and gazetted in sufficient time to achieve a 'go live' date of October 2008. The most significant piece of work required by Gas Industry Co to implement the new arrangements is the appointment of the Allocation Agent.

In order to meet the proposed milestones, the appointment of the Allocation Agent will need to be run in parallel with the gazetting of the new rules.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review existing gas flow measurement arrangements and issues relating to gas flow inhibiting competition	Report to Gas Industry Co Board by December 2005	Achieved at a later date – Consultation paper released in June 2006	N/A	\$139,770
2006/07	Implement short-term reconciliation fixes	Revised gas transfer code and reconciliation code operational by September 2006	Not applicable – policy approach revised	\$266,942	\$285,496
	Develop proposal on long-term reconciliation arrangements	Issue consultation document on proposed reconciliation arrangements by December 2006	Achieved at a later date – consultation paper issues in January 2007		
	Prepare recommendation on reconciliation arrangements	Recommendation on arrangements to the Minister by June 2007	Not achieved – recommendation delayed by requirement to undertake further consultation		

Period	Activity	Milestones	Progress	Budget	Actual
2007/08	Development of new downstream reconciliation arrangements.	Provide recommendation to Minister on downstream reconciliation arrangements by December 2007.	Possibly delayed – issued statement of proposal in September 2007. Recommendation now expected in Quarter 1 2008.	\$229,712	
	Implement new downstream reconciliation arrangements.	Implementation of new downstream reconciliation arrangements by October 2008.	Potentially Delayed – depends on outcomes of submissions analysis and MED review.		
2008/09	Implement new downstream reconciliation arrangements	Downstream reconciliation rules gazetted by July 2008 Appointment of allocation agent by August 2008 New downstream reconciliation arrangements 'go live' by October 2008		\$192,402	

Work Area 5: Development of Wholesale Market Arrangements

This strategic priority now includes the following work streams:

- Wholesale Market; and
- Outage and Contingency Management.

Wholesale Market Work Stream

Gas Industry Co is taking an incremental approach to the improvement of the efficiency of the wholesale market. The initial focus of this work stream has been on the development of more efficient arrangements for the trading of gas in the short-term.

Progress to 30 June 2008

The Gas Industry Co has focused on two initiatives to improve the short-term trading of gas. They were:

- Standard contract; and
- IT platform for trading gas.

Gas Industry Co has developed and published, in April 2007, a standard contract for the short-term trading of gas. The purpose of the standard contract is to remove a significant barrier identified in an industry survey, which was the transaction costs of negotiating a separate contract for each tranche of short-term gas traded.

During 2006/07, Gas Industry Co issued two discussion papers and developed at a high level its preferred platform design. At the beginning of the 2007/08 year the Gas Industry Co gave an interim report to the Minister on its proposed design noting the features which were still under development. In addition the Minister was advised of the Board's preference to run a market for the trial period principally because the costs of implementing a trial were similar to the costs of a further round of consultation on the detailed design.

The Minister has now approved the preferred approach. In anticipation of approval Gas Industry Co has already developed a functional specification for an IT platform and, through an RFP process, selected a preferred provider to develop the trading platform. Progress has also been made on drafting the market rules and supporting contracts for the platform. Although originally scheduled for the current quarter, it is now expected that the 'go live' for the platform will be the first quarter of 2008.

The complexity of issues throughout this work stream has meant that Gas Industry Co did not progress matters as quickly as originally forecast. This is reflected in the significant variance between budget and actual expenditure for this work stream in 2006/07. The 2007/08 budget includes the expected direct costs of the wholesale market design, but does not include the software development costs. The Board has decided that these costs will be funded out of the general levy. This means that this work stream may go over budget in the current year.

Work Programme for 2008/09

The focus of this work stream for 2008/09 will be on administering, monitoring and evaluating the proposed voluntary wholesale market trading platform. It is envisaged that once the platform is in operation, a number of rule changes will be required to meet the needs of platform users and ensure the efficient and effective operation of the market.

The work programme anticipates an evaluation of the effectiveness of the trial market 6 to 9 months after its inception. Following that review, a formal recommendation will be made to the Minister about whether it should be continued. If it is decided that the platform should continue, a number of amendments to the platform may be requested. The budget assumes that no major amendments will be required.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review of issues and report to Gas Industry Co on matters associated with: <ul style="list-style-type: none"> Balancing and reconciliation Current and potential future wholesale trading in the New Zealand gas market Current and potential future capacity trading arrangements 	Initial scoping report completed and presented to Gas Industry Co Board by November 2005	Achieved at a later date Report on wholesale market trading released for consultation in March 2006 Balancing and capacity trading were addressed in Transmission Access Report released in June 2006	N/A	\$509,005
2006/07	Develop detailed wholesale market trading arrangements, including any changes to gas specification	Issue discussion paper by September 2006	Achieved	\$620,819	\$386,392
		Revise arrangements to take account of industry feedback and issue discussion paper by December 2006	Achieved		
		Report to the Minister by December 2006	Achieved – Minister advised of preferred approach to short-term wholesale gas market trading		
		Development of trading platform and detailed arrangements by March 2007	Partially achieved – some details such as trading location need to be finalised		
		Prepare recommendation on wholesale market by June 2007	Achieved at a later date – report to the Minister issued in August 2007 on proposed design and intention to hold a trial.		

Period	Activity	Milestones	Progress	Budget	Actual
2007/08	Implement wholesale market arrangements.	Appoint platform provider by 30 November 2007. Platform "Go live" by June 2008.	On track Preferred platform provider for trial selected in September 2007. Service provider contract and market rules are currently being finalised. Expected start of trial is Quarter 1 2008.	\$457,945	
2008/09	Administer, monitor and evaluate wholesale market platform	Report to the Minister on the outcomes of "trial" market within 12 months of platform commencement.		\$307,739	
	Examine other aspects of the efficiency of the medium and longer term wholesale gas market	Scope work and appoint consultants by March 2009. Release "Issues paper" for industry consultation by August 2009			

Outage and Contingency Management Work Stream

In 2005/06, industry participants requested that Gas Industry Co review the arrangements for managing contingency events, as these are currently the subject of a voluntary industry agreement.

Progress to 30 June 2008

In July 2006 the Company issued a discussion paper on issues arising from the current NGOCP arrangements. The original proposal was in essence to convert NGOCP into rules made under Gas Act In response to submissions Gas Industry Co revised its approach from codifying NGOCP to developing a completely new set of arrangements.

In August 2007, Gas Industry Co released a statement of proposal providing for new regulations. The consultation on this statement of proposal largely confirmed the central concepts of the revised approach, but raised a number of detailed design matters that need to be worked through with industry participants.

Gas Industry Co anticipates refining the regulations and releasing them for a further round of consultation before the end of the 2007 calendar year. Consequently, it is not expected that the Company will meet its Strategic Plan milestones for this work stream. Gas Industry Co estimates that this work stream is running approximately 12 months behind the original scheduled dates due to the ongoing complexities.

In 2006/07 (and potentially in 2007/08), the Company under budgeted for this work stream. Accordingly, the Company has increased the budget in 2008/09 to address this.

Work Programme for 2008/09

The Work Programme for 2008/09 will be primarily focused on implementing the new arrangements. This will include:

- Creation of an implementation plan and timetable;
- Appointing the “critical contingency operator”;
- Arranging and holding industry seminars and/or training to introduce the new systems;
- Co-ordinating the handover between the existing NGOCP and the replacement arrangements;
- Managing any change processes as required in the light of experience with the new arrangements; and
- Oversight of the new arrangements including incident reports.
- The external budget for this work stream is the same as we forecast for implementation last year

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Investigate issues in relation to security of supply and gas outage contingency plans	Report to Gas Industry Co board on issues by September 2005	Not Achieved in Plan year – Board received report in July 2006	N/A	\$159,515
2006/07	Develop contingency plan proposal	Issue proposal on gas outage contingency plan for consultation by September 2006	Partially achieved – consultation paper was issued in July 2006, but industry feedback indicated a revised approach was needed	\$191,059	\$312,500
	Develop recommendation on contingency arrangements	Recommendation to the Minister by March 2007	Not achieved – statement of proposal was issued in August 2007 with recommendation to the Minister expected in November 2007		
2007/08	Develop new contingency management arrangements.	Recommendation to Minister on new contingency management arrangements by November 2007.	Not completed – undertaking a further round of consultation on the proposed arrangements. Recommendation now expected in Quarter 4 2007.	\$281,119	

Period	Activity	Milestones	Progress	Budget	Actual
	Implement new contingency management arrangements.	Implement industry arrangements, including Rules and/or Regulations where required to create sound contingency management arrangements by June 2008.	Not expected to be completed – now anticipate that the regulations will be gazetted by December 2008.		
2008/09	Implement new outage and contingency management arrangements	Regulations gazetted by December 2008 Appointing Service providers by February 2009 New arrangements 'go live' by June 2009		\$327,803	

Work Area 6: Review of Infrastructure Access Arrangements

The Company is required to recommend governance arrangements to ensure that industry participants and new entrants can access key infrastructure on reasonable terms and conditions.

This strategic priority includes the following work streams:

- Access to Gas Processing Facilities;
- Transmission Access;
- Upstream Reconciliation; and
- Distribution Access.

Access to Gas Processing Facilities Work Stream

The purpose of this work stream is to ensure that industry participants have reasonable access gas processing facilities.

Progress to 30 June 2008

Following extensive analysis of the need for protocols for access to gas processing facilities, Gas Industry Co made a recommendation to the Minister that:

- facility owners be invited to sign up to an industry arrangement to disclose annually the technical specifications of their processing plants as well as indicative forecasts of spare capacity; and
- if agreement could not be obtained, Gas Industry Co would make a further recommendation to the Minister to regulate for disclosure.

In his reply of 14 March 2007, the Minister advised Gas Industry Co: "... if universal acceptance of the scheme is not forthcoming by mid-2007, I shall expect a formal recommendation from you to regulate for the supply of this information."

Gas Industry Co wrote to the relevant industry participants in April 2007, with a deadline of 30 June 2007, seeking agreement to the proposed information disclosure measures. Despite earlier consultation feedback and receipt of a number of informal positive responses, no industry participants had signed up to the proposed arrangements by the 30 June deadline.

Gas Industry Co has, therefore, developed information disclosure rules and released a statement of proposal in September 2007. It is anticipated that a recommendation to the Minister for rules will be made in February 2008, with the rules likely to be gazetted in June/July 2008.

Work Programme for 2008/09

The 2008/09 year will focus on implementation of the new information disclosure arrangements. The Budget assumes that all parties comply with the new arrangements and that minimal time will be needed from Gas Industry Co staff.

The information collected will be collated and published on the Gas Industry Co's website.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review access arrangements for gas processing facilities	Review access arrangements for gas processing facilities	Achieved	N/A	\$119,562
2006/07	Develop proposed access arrangements for gas processing facilities	Issue proposal on access for consultation by September 2006	Achieved	\$126,319	\$93,508
	Prepare recommendation on access to gas processing facilities	Recommendation on access rules, if required, by December 2006	Achieved – recommendation was for implementation of industry arrangement		
		Implementation by June 2007	Not achieved – facility owners have not responded within timeframes		
2007/08	Implement voluntary arrangements (industry agreement).	Publish collated information disclosure by November 2007.	Not achieved -Industry agreement not reached.	\$140,663	
	OR Investigate regulatory disclosure.	OR Recommendation to Minister by November 2007.	Issues statement of proposal for rules in September 2007 Recommendation to Minister for rules now expected to be made by February 2008		
2008/09	Collect disclosed information.	Publish collated information by August 2008		\$29,597	

Transmission Access Work Stream

The purpose of this work stream is to develop consistent terms and conditions for access, including balancing arrangements, across transmission networks.

Progress to 30 June 2008

Gas Industry Co issued a consultation paper on the transmission access framework in October 2007, which included draft transmission access regulations and draft compliance regulations. These regulations will form the foundation of the transmission access framework within which transmission system owners will develop their operating codes.

In parallel with the development of an access framework, Vector has been developing the VTC.

In addition, Gas Industry Co agreed to undertake certain operational roles under MPOC – principally to oversee change requests. In June 2006, Gas Industry Co and MDL signed a Memorandum of Understanding clarifying the principles and processes by which this role would be performed. Gas Industry Co is yet to receive a formal rule change request from an industry participant. However, change requests are expected before the end of the 07/08 year.

Work Programme for 2008/09

It is expected that the Transmission Access Regulations will come into effect towards the end of 2008. Transmission system owners will then have a prescribed period of time within which to amend their operating code to make them compliant with the regulations.

Effective balancing of transmission pipelines remains a concern of Gas Industry Co. To clarify the issues, a review of the MPOC and VTC balancing regimes will be completed, and an issues paper released for consultation, before the end of 2008.

Milestones and Budget: Progress to Date and Indicative Work Programme.

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Analysis high-level issues	Analysis high-level issues	Achieved	N/A	\$271,776
2006/07	Undertake detailed issues review	Issue discussion paper on transmission pipeline access review by September 2006	Achieved – discussion paper issued in June 2006	\$594,640	\$481,685
	Report findings of issues review	Report to the Minister on the outcomes of the issues review by December 2006	Achieved – in October 2006		
	Prepare proposal on access to transmission pipelines	Issue consultation document on proposed recommendation by March 2007	Achieved in part – consultation documents issued in October 2006 and March 2007		
2007/08	Balancing	Release balancing review issues paper for industry consultation by 31 October 2007 Release balancing review options paper for industry consultation by 31 January 2008	Deferred – due to MDL Commercial Operator instigating a series of workshops following the Maui pipeline overpressure incidents of December 2006 and January 2007	\$671,815	

Period	Activity	Milestones	Progress	Budget	Actual
	Access Framework	Report to Minister on preferred access framework by 31 August Recommendation to Minister on access framework for transmission governance by April 2008	Achieved At risk – due to agreeing to request for an extension of the consultation period on the Transmission Access Statement of Proposal from 7 weeks to 11 weeks		
	MPOC rule change requests	Timely processing of MPOC rule change requests	On track – Rule change proposals expected.		
2008/09	Review balancing operations on Vector and Maui pipelines.	Release balancing review issues paper for industry consultation by October 2008		\$618,187	
	MPOC and VTC code change facilitation and general oversight of the implementation of the new access framework	As required throughout 08/09			

Upstream Reconciliation Work Stream

Progress to 30 June 2008

Now that matters in relation to downstream reconciliation are at the statement of proposal stage, it is timely to consider what changes, if any, are required to upstream reconciliation processes. Some initial work is underway to document these “title tracking” processes. Discussion with key participants in the process will follow.

Work Programme for 2008/09

An issues paper will be developed by October 2008. If changes are considered to be necessary, the issues paper would be followed by an options paper in which alternative arrangements would be canvassed.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Review issues	Release an upstream reconciliation issues paper by October 2008.		\$207,015	

Distribution Contracts Work Stream

Progress to 30 June 2008

With the Minister's agreement, Gas Industry Co made a decision to defer work on access arrangements for distribution pipelines until a final determination was made by the Commerce Commission on its terms of control for certain gas distribution networks owned by Vector and Powerco. In October 2007, the Commission released its final authorisation for price control of Vector and Powerco for consultation. As such, Gas Industry Co has now begun to scope its review (taking into account the Commission's findings) and is on track to meet the milestone set out in the strategic plan. This work was anticipated when the planning for the 2006/07 budget was prepared, hence the increase in the budget for this year.

Gas Industry Co believes that there may be synergies in connecting this work with its analysis of retail contracts. This will be examined once the issues paper has been completed.

Work Programme for 2008/09

It is assumed for the purposes of the Work Programme that Gas Industry Co will have completed the 'problem definition' phase of its policy process (i.e. will have released the distribution issues review for consultation and received submissions from industry participants) by June 2008.

Assuming that Gas Industry Co believes there is a case for regulatory intervention, it is expected the work stream will follow the process developed from our experience across other initiatives. Broadly that consists of a high level discussion paper(s) on the options to meet the identified problems, then the release of a statement of proposal setting out the detailed arrangements and finally a recommendation to the Minister. Learning from our experience to date, we have also built into the internal planning process time for another round of consultation following the statement of proposal.

Given the expected work programme for this work stream, it is expected to be a significant area of expenditure in 2008/09.

Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Research distribution contract issues and design guidelines and model contracts	Complete report on distribution contract issues and develop guidelines and model contract arrangements by October 2005	Not Achieved – work stream deferred due to resource constraints and related Commerce Commission work in this area.	N/A	\$30,039
	Consult on proposed new arrangements and analyse submissions	Complete consultation and report on preferred arrangements by March 2006			

Period	Activity	Milestones	Progress	Budget	Actual
2006/07	Research distribution contract issues and design guidelines and model contracts	Complete report on distribution contract issues and develop guidelines and model contract arrangements	Not Achieved – work stream deferred until related Commerce Commission work in this area is completed.	\$71,186	\$25,879
2007/08	Review current distribution contract arrangements.	Release distribution contracts issues discussion paper for industry consultation by April 2008.	On track to meet milestone	\$248,145	
2008/09	Prepare recommendation on distribution contract arrangements	Release discussion paper on distribution pipelines by August 2008. Release statement of proposal on distribution contracts by April 2009. Recommendation to Minister on distribution pipelines by December 2009.		\$186,647	