



## FY2013 Indicative Work Programme and Budget Co-regulatory Forum

18 November 2011

## Agenda

- Strategic context
- Work programmes
- Funding
- Initial feedback
- Forum discussion

## New Zealand Energy (1)

- NZ Energy Strategy – 'role for energy in NZ economy'
- Government's goal: 'NZ to make the most of its abundant energy potential, for the benefit of all New Zealanders'
  - Develop resources – Petroleum Action Plan
  - Secure and affordable energy – competitive gas markets (GPS; ensure competitive gas market delivers fair and efficient gas prices); reliable electricity supply
  - Efficient use – business energy efficiency; warm homes
  - Environmental responsibility – environmental management, reduce emissions (ETS)
- Limit on new thermal generation removed

## New Zealand Energy (2)

- Electricity Statement of Opportunities 2010
  - 1.8% pa forecast demand growth for electricity to 2020 (cf 1.9% pa forecast economic growth; 2% pa electricity demand growth to 2009)
  - Electricity supply scenarios:
    - Sustainable Path – sustainable electricity development, carbon charge \$60/tonne, no new large gas discoveries, high gas price, some gas-fired baseload decommissioned, renewables and new technologies developed, backed by gas-fired peakers for security of supply, big demand-side participation
    - High Gas Discovery – major new gas discoveries, low gas prices, old thermal plant replaced by more efficient gas-fired plant, new CCGTs and gas-fired peakers built

## New Zealand Gas Story (1)

- Gas remains an important contributor to New Zealand economy – through electricity generation, businesses, homes
- NZ Gas Story now built upon:
  - Gas remains an important fuel of choice for NZ, including in context of security of supply and sustainability goals
  - Government support for resource extraction
  - Private sector ownership/investment and competitive customer markets
  - Economic regulation of monopoly infrastructure
  - Governance arrangements that drive efficient markets
  - Customer confidence in the gas supply chain

## New Zealand Gas Story (2)

- Key challenges:
  - Producing more gas - big gas or little gas?
  - Predicting future gas demand
  - Delivering infrastructure needed to meet (any) demand growth
  - Creating competitive markets; confident consumers and other investors
  - Can domestic markets accommodate expected gas price increases?
  - Does the whole gas story stitch together for end users (and who is telling it?)

# Gas Industry Performance – Consumer Gas

## **Customer choice**

- Registry – approx 250,000 customers
- 93% of customers have a choice of 6 or more retailers at their gas gate

## **Competition**

- Switching Rules have tripled the rate of churn to around 15.5% / annum as at the end of September (cf electricity at 20%) – an uptick under ‘what’s my number campaign’!
- Average time to process switches around 6 days (Switching before the rules used to take weeks / months)

## **Efficiency**

- Annual unaccounted-for gas (UFG) has reduced by 30% to about 1.5% (of injected volumes)

## **Compliance/Standards**

- High level compliance across all rules/regulations

## **Transparency**

- Customer numbers and volume market shares published
- Switching gains / losses readily available
- Market information routinely reported by the media

## Gas Industry Co Role

- Gas industry body under Part 4A Gas Act; Government Policy Statement
- Co-regulator – can recommend regulations
- Principal objective (of regulation) to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner
- Other objectives:
  - The facilitation and promotion of the **ongoing supply of gas** to meet New Zealand's energy needs, by providing **access to essential infrastructure and competitive market arrangements**
  - **Barriers to competition** in the gas industry are minimised
  - **Incentives for investment** in gas processing facilities, transmission, and distribution are maintained or enhanced
  - Delivered **gas costs and prices** are subject to sustained downward pressure



# Gas Industry Co Strategy

- **STRATEGIC GOAL: Optimise the Contribution of Gas to New Zealand**

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

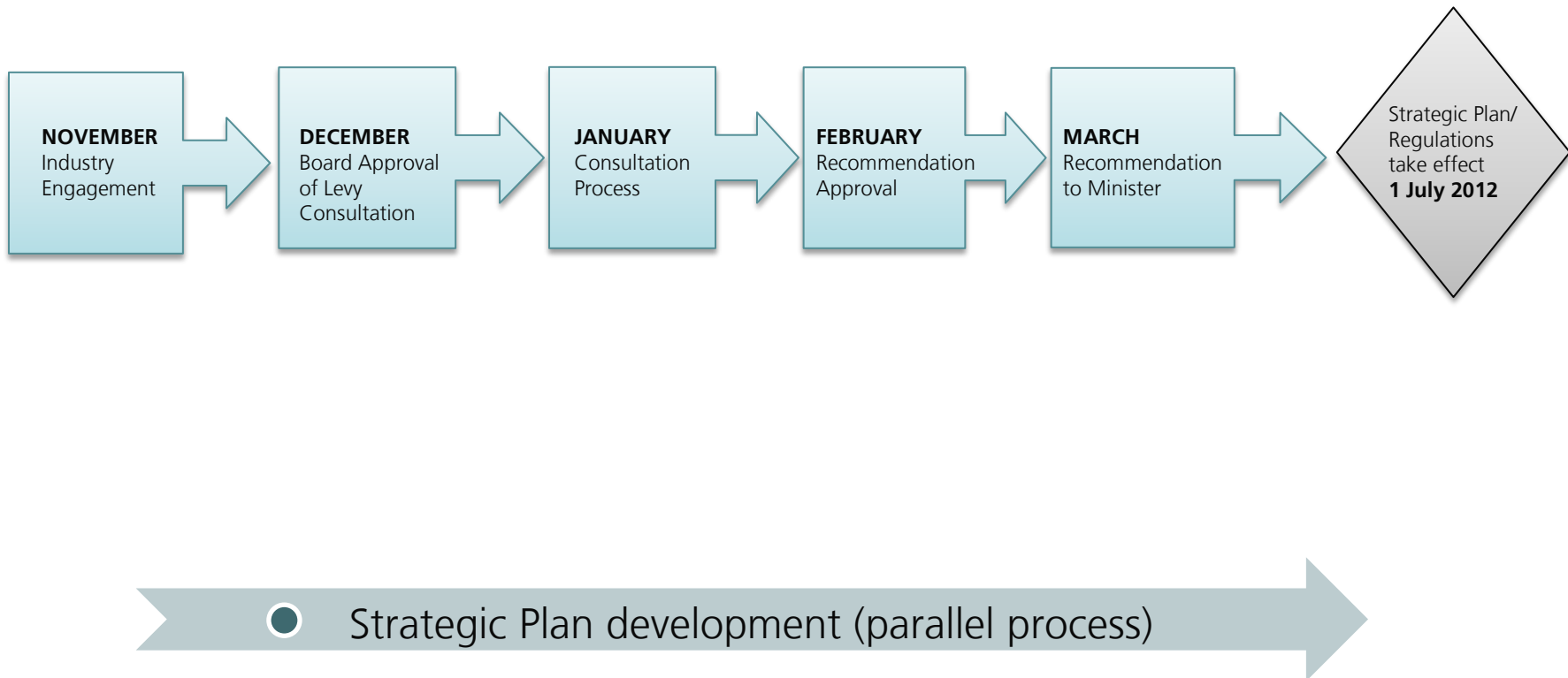
- **PURPOSE: Provide leadership for the Gas Industry and the New Zealand Gas Story**

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

- **OBJECTIVES:**

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

# FY2013 Strategic Plan and Levy Development Process



## Indicative Work Programme

- Statutory Accountability
- Transmission Capacity
- Committed/Ongoing

# Statutory Accountability

## Access to gas processing

### Forecast activities FY2013

- Receive and publish returns from processing facility owners
- Receive reports from access-seekers (if any)

### Indicative milestone(s)

- Report to Minister in FY2014 whether rules should be extended or repealed

## Downstream reconciliation

### Forecast activities FY2013

- Monitor allocation agent
- Assess ongoing performance of the rules
- Monitor allocation results, commission audits as required
- Making determinations

# Switching

## Forecast activities FY2013

- Monitor gas registry service provider
- Assess ongoing performance of the rules
- Monitor switching statistics

# Critical contingency management

## Expected position FY2012

- BAU
- Address issues arising from October 2011 Maui outage

## Forecast activities FY2013

- Monitor CCO under the Service Provider Agreement
- Appoint/monitor service providers as required
- Monitor exercises and events as required
- Administer contingency pool as required
- Any remaining work from 2011 Maui Pipeline outage

## Compliance

### Forecast activities FY2013

- Perform MA role
- Assist Investigator & Rulings Panel as required
- Monitor regulations for effectiveness

## Strategic plan & annual report

### Forecast activities FY2013

- Prepare/publish Strategic Plan to meet statutory timeframes. Requires Ministerial approval
- Publish Annual Report, provide copies for tabling in the House

## NZ Gas Story

### Expected position FY2012

- Initial development of substantive report on the performance and state of the New Zealand gas industry

### Forecast activities FY2013

- Report completed

### Objective

- Report provided to the Minister



# Capacity Related Work

## Bridge commitments

### Expected position FY2012

- Preliminary report on tender results (subject to sufficient data)
- Capacity bulletin board working
- Power station capacity trading

### Forecast activities FY2013

- Monitor tenders
- Monitor capacity trading activity

### Objective

- Industry participants and major users better informed about North Pipeline capacity availability
- Enhanced capacity usage and trading

## GTIP

### Market projects

### Expected position FY2012

- Options considered for access and pricing on Vector system
- Consultation on preferred option

### Forecast activities FY2013

- If regulatory solution preferred, prepare and consult on a Statement of Proposal
- If non-regulatory, facilitate VTC change request process

### Objective

- More efficient capacity allocation processes, increased information available to market participants

## Supply/demand model

### Expected position FY2012

- Engage consultant to build supply/demand model for scenario analysis
- Work with industry to develop representative scenarios

### Forecast activities FY2013

- Use model to assist with testing investment options for transmission or non-transmission alternatives

### Objective

- Range of scenarios that can assist stakeholders to assess need for and timing of investment in transmission or alternatives

## Testing investment options

### Expected position FY2012

- No activity

### Forecast activities FY2013

- Investigate options for implementing new transmission capacity where that is required
- Work closely with Commerce Commission and other stakeholders

### Objective

- Clear pathway to investment identified
- Broad industry input into transmission solutions

## PEA/PSA

### Expected position FY2012

- Meetings as required
- Advice to Gas Industry Co on access and pricing matters

### Forecast activities FY2013

- Advice provided in response to requests from Gas Industry Co

## Information gathering project

### Expected position FY2012

- Statement of Proposal released for consultation
- Regulations drafted and 'workshopped'
- Submissions analysed and changes incorporated

### Forecast activities FY2013

- Recommendation to the Minister
- Work with PCO to finalise regulations
- Backstop information regulations in place

### Objective

- Backstop information regulations available to settle particular issues

# Committed/Ongoing

## Transmission pipeline balancing

### Expected position FY2012

- MPOC change request outcome known
- Review status of balancing issues
- Report progress to Minister

### Forecast activities FY2013

- Depends on outcome of MPOC change and feedback from Minister/MED
- If further action needed, likely to be subsumed by or at least delayed until outcome of GTIP access and pricing work

### Indicative milestone(s)

- Provide advice to Minister on balancing market developments by February 2012

## Interconnection

### Expected position FY2012

- Review Sidewinder
- Request information from pipeline owners on access/interconnection requests
- Review where necessary

### Forecast activities FY2013

- Dependent on inter-connection activity

### Indicative milestone(s)

- Provide advice to Minister of any new interconnection issues by 2013

## Code changes & appeals

### Expected position FY2012

- Process current MPOC change request

### Forecast activities FY2013

- Process MPOC change requests and VTC appeals as required

## Gas quality

### Expected position FY2012

- Report results of investigation into operational arrangements for managing gas quality
- Consider options for improvement

### Forecast activities FY2013

- Consider options for addressing any remaining gas quality issues

### Indicative milestone(s)

- Provide ongoing updates to Minister on progress of gas quality issues

## Retail rule changes

### Expected position FY2012

- Consult on options for DR, develop and issue SoP by year-end
- Progress changes to Compliance Regulations
- Amend switching rules to include metering parameters in gas registry?

### Forecast activities FY2013

- Implementation group to address transition issues in DR rule changes
- Finalise DR rule amendments, provide recommendation to Minister
- Remaining switching and/or compliance work

### Indicative milestone(s)

- Issue Statement of Proposal during FY2012

## Arrangements to address retailer insolvency

### Expected position FY2012

- Commission report on options to address transition arrangements
- Evaluate options and seek feedback via consultation

### Forecast activities FY2013

- Dependent on feedback received in FY2012
- May range from regulated option to market solution

### Indicative milestone(s)

- Advice to the Minister in FY2013



## Retail contract benchmarks

### Expected position FY2012

- Review of Benchmarks following Transitional Assessment
- Consult with Retailers on any amendments
- Meet with the Retailers to discuss next annual assessment

### Forecast activities FY2013

- Annual Assessment in July 2012
- Publication of individual assessments

### Indicative milestone(s)

- Delivery of Annual Assessment to Minister

## Distribution principles

### Expected position FY2012

- Revised principles published

### Forecast activities FY2013

- Design evaluation process & consult
- Evaluate UoSAs against principles and report

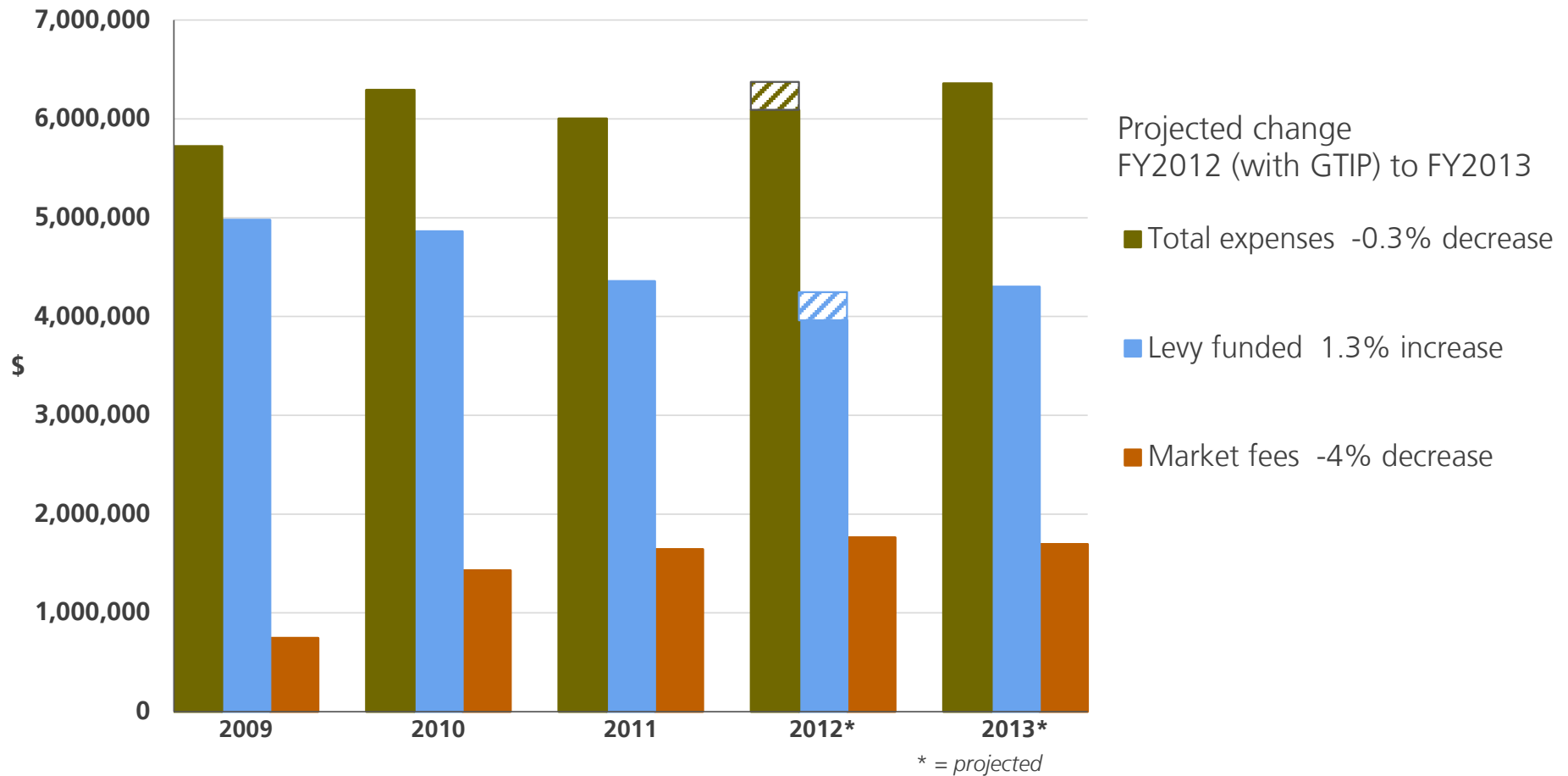
### Indicative milestone(s)

- Endorsement by Minister of evaluation scheme

## Establishing the Indicative Work Programme

- Start with expected end-point for current year (FY2012)
- FY2012 work plan expanded by GTIP
  - approximately \$350K additional costs required for this programme
  - assume use of FY2011 surplus (\$360K) to ensure completion
- FY2013 work programme assumes continuation of GTIP and other committed deliverables and statutory roles
- Expenditure expected to be similar from end-point FY2012 to budget FY2013

## Historical and Projected Company Expenses



## Comparison of FY2012 and FY2013 (1)

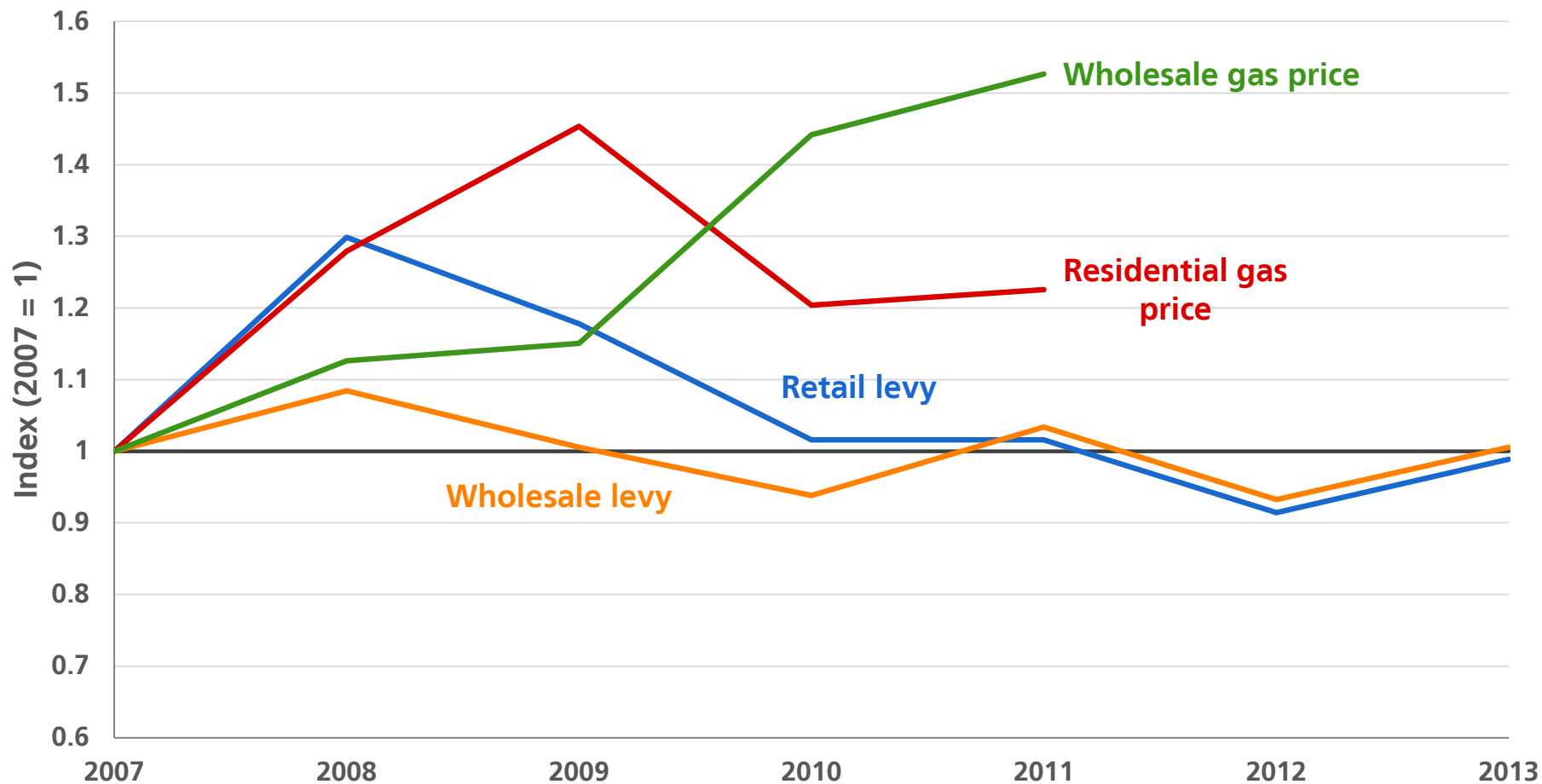
	FY2012 (Pre-GTIP)	FY2013
<b>WPC</b>	\$6,089,841	\$6,357,307
<b>Market Fees</b>	\$1,764,372	\$1,693,925
<b>LFR</b>	\$3,961,665	\$4,299,578
<b>Retail Levy (\$/ICP)</b>	5.76	6.23
<b>Wholesale Levy (c/GJ)</b>	1.66	1.79

## Comparison of FY2012 and FY2013 (2)

	FY2012 (Pre-GTIP)	FY2012 (Incl. GTIP)	FY2013
<b>WPC</b>	\$6,089,841	\$6,373,474	\$6,357,307
<b>Market Fees</b>	\$1,764,372	\$1,764,372	\$1,693,925
<b>LFR</b>	\$3,961,665	\$4,245,298	\$4,299,578
<b>Retail Levy (\$/ICP)</b>	5.76	6.21	6.23
<b>Wholesale Levy (c/GJ)</b>	1.66	1.86	1.79

Costs remain similar when compared to revised expenditure expectations

## Relative changes to gas prices and levy amounts



## Preliminary Feedback – Key Themes

- Transmission/GTIP
- Insolvent retailers
- Downstream Reconciliation Rules review
- Gas quality
- Balancing
- Critical Contingency Management
- Meter owner data on Registry
- Small customers – marketing
- Wholesale market development

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# Forum Discussion