

Analysis of Submissions on *Statement of Proposal on FY2015 Strategy, Work Programme & Levy*

Background

On 11 December 2013, Gas Industry Co released its Statement of Proposal with respect to the work programme outlined in its FY2015 Statement of Intent and the levy funding requirement for the year ending 30 June 2015. While Gas Industry Co is a privately held company, it operates as a not-for-profit organisation and undertakes the performance of a public function. As such, the Company's activities are to a large extent 'stakeholder driven' and thus submissions and feedback from stakeholders on this Statement of Proposal by 7 February 2014.

The detailed Work Programme proposed in the Statement of Proposal included meeting statutory requirements, such as the administration of existing gas governance regulations, and also sought to address government and industry priorities through the completion of deliverables of key projects. The Company's recommendations for gas governance arrangements are also required to be 'consistent with the government's gas safety regime'. The Statement of Proposal was prepared after taking into consideration feedback received at the Co-regulatory Forum held at Gas Industry Co's offices on the 28 November 2013.

Parties responding

Submissions were received from the following:

Contact Energy Limited

Genesis Energy Limited

Major Gas Users Group

Maui Development Limited

Methanex Limited

Mighty River Power Limited

Powerco Limited

Vector Limited

Summary of submissions and Gas Industry Co Comments

Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2015? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and the GPS.		
Submitter	Response	Gas Industry Co comment
Contact Energy Limited	Appreciate that GIC has recently facilitated work on gas quality but would like to see Gas Quality workstream officially facilitated by GIC (with inclusion in activities/forecast activities/resources and, for 'quality' to be redefined as per obligations set out in Gas (Safety & Measurement) Regulations and include gas: pressure (of supply to customers); odourisation; quality; and measurement.	<p>Gas Industry Co welcomes the comments from submitters broadly supporting the Work Programme. We are pleased to see that, on the whole, we are addressing the key issues of concern to stakeholders. We have grouped our comments into the following categories: Metering, Gas Quality, Transmission Investment, and Other.</p> <p>Metering</p> <p>We first note that there was never a proposed 'oversight scheme' for gas metering. In developing the Work Programme for FY2014, we asked the industry if it felt that work was needed to examine the metering sector with a view to determining <i>if</i> there were issues in this area and thus if some form of oversight or governance was required. Responses at the 2012 Co-regulatory Forum and in submissions were negative in the majority. There was similar discussion at the 2013 Co-regulatory Forum, and a number of participants suggested waiting for the metering sector to settle down given the recent purchase of the Contact Energy metering business, the Commerce Commission review (see below), and the ongoing roll-out of smart metering in some areas.</p> <p>While Gas Industry Co does have some "oversight" of metering through regulation, there is no requirement that each area is regulated. We do, however, maintain a watch over all areas of the industry to gauge if further investigation and review is needed. For example, we have no arrangements regarding LPG at this time, but we</p>
Genesis	No	
Major Gas Users Group	Programme should include focus on governance arrangements re gas quality. Believe there is a risk of non-conforming gas entering the system. MGUG contends that the 'by exception' approach to monitoring compliance with ICAS and p/l codes no longer meets RPO standards. They support TSO's placing greater requirements on themselves to monitor, feedback and report on adequacy of quality controls.	
Maui Development Limited	<p>Would prefer that GTIP focus move to regulatory projects as well as placing greater emphasis on design of investment test for gas transmission pipelines – particularly to help facilitate smaller investments (CPP costs only justifiable for larger investments). Believe that incentives for such investments by TSO's are lacking and this should be area of major concern to GIC in light of its efforts on GTIP.</p> <p>Would also like to encourage larger effort on Balancing. Would support additional work to review better incentives for self-balancing. Expect this work would be related to work for D+1 reconciliation, which should be introduced in all transmission systems.</p>	

Methanex	No additional items	maintain a liaison with that segment of the industry to determine if further action is needed.
Mighty River Power	<p>Would like to see GIC consider reinstating proposed Oversight Scheme for GMS Agreement as this is only area in downstream gas supply chain where GIC has no oversight.</p> <p>Would like to see GMS services offered to market under fair and competitive terms and conditions. It is similar to Distribution Oversight Scheme in meeting Gas Act objectives by minimising competitive barriers, enhancing incentives for investment in GMS equipment due to participants able to operate in fair market and potentially delivers downward pressure on gas prices through a competitive market.</p>	<p>In the case of metering, we have not identified any specific issues that warrant detailed investigation to date, including in relation to such matters as unfair metering service terms. However, including in light of submissions on such matters as development of gas smart metering technology, we are planning to prepare an information and discussion paper in this area, likely in Q2 or Q3 2014.</p> <p>We also note that the Commerce Commission has expressed a concern that there may be limited competition in the delivery of gas metering services and would consider whether it should undertake an inquiry into gas metering services under Part 4 of the Commerce Act</p> <p>It is also possible for us to address multiple segments together. The current work on Gas Quality has the potential to consider the “measurement” aspect of quality, which would include discussing with the industry the criteria that might or should apply to gas metering equipment and arrangements.</p>
Powerco	<p>Support programme with focus on addressing capacity issues. Would prefer to see projects completed such as Rule Change projects which will free up resources to focus on new areas of work.</p> <p>Supports GIC’s proposal to review governance arrangements for Interconnection. Believe review should extend to how guidelines have been applied to pre-existing connection points.</p> <p>Believe FY2016 will look very different as should focus on new work. Would like to see GIC review requirements associated with Smart Metering.</p> <p>Pleased to see GIC’s active involvement in progressing Gas Quality work stream. Also believe GIC need to remain in leadership role in relation to IEP as industry body facilitating will ensure work progresses and acceptable solution is found.</p>	<p>Gas Quality</p> <p>The concerns and suggestions raised by submitters about improving gas quality arrangements are acknowledged. Recent developments on what is known as the Gas Quality Protocol should go some way to addressing these matters – further details will be available in a discussion paper targeted to be released in March 2014.</p> <p>In brief, as suggested by industry, Gas Industry Co has agreed to step in and facilitate further development of the</p>
Vector	No need to include any further items in proposed work programme. Agree with GIC’s intention to focus on core governance roles (including GTIP) and statutory obligations.	

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Protocol. Work on that document includes providing for some of the detail sought by Contact, MGUG, and Powerco in their submissions.

We also acknowledge Vector's concern to avoid unnecessary regulatory overlap, and that the primary existing regulations were promulgated through MBIE's Energy Safety group (now part of Worksafe). However, as demonstrated by Gas Industry Co's prior work in this area, the industry issues are complex and spread throughout the gas sector. The proposed Protocol is aimed at addressing such issues that are not addressed by either the existing regulations or other bodies' workstreams. Gas Industry also has both technical expertise and a track record in developing non-regulatory solutions to industry issues, which is the reason that industry has asked for its assistance.

Transmission Investment

We acknowledge that "examining regulatory investment test" was included in the original GTIP programme. However, the primary focus of the GTIP has been, and should remain for the current period, on matters of allocation and associated pricing

The "examining investment test" project was included in the GTIP at a time when North Pipeline constraints led to concerns about whether there was need for larger new transmission investment. That need has now eased, and larger new investment is more likely to be associated with a major new gas find (and with a number of years to develop).

We also note that issues around gas infrastructure investments, including smaller investments, are subject to the Commerce Commission's Part 4 price path regime. That is newly established, and the first CPP has only recently been approved. For these reasons, we also do not propose

		<p>to focus on investment test matters in the near future.</p> <p>Gas Industry Co accordingly still believes that there is value in considering whether a regulatory investment test has a place. This is best done once there is some experience of how significant investments will take place under the new Commerce Act Part 4 economic regulation arrangements, and some understanding of how pipeline access arrangements will signal the need for new investment. Gas Industry Co may consider commissioning research on how investment tests fit in the NZ context and in other jurisdictions, and whether they should be considered as part of the Part 4 arrangements.</p> <p>Interconnection</p> <p>We acknowledge Powerco's submission that the Interconnection Guidelines do cover pre-existing connection points, and can include those in the scope of our proposed review.</p> <p>Other</p> <p>We note that the Rule Changes workstream is an annual line item that sets aside funding for the review of governance arrangements as required. As such, we do not envisage a formal 'completion' of that workstream, but the costs associated should reduce as we cycle through the arrangements and require less review of the rules and regulations.</p>
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Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2015? Please provide reasons for your response.

Submitter	Response	Gas Industry Co comment
Contact Energy	No	

Limited		<p>Gas Industry Co welcomes the support from submitters for the relevancy and appropriateness of the proposed work programme for FY2015.</p> <p>It is important for the Company to ensure that its programme meets a balance of competing priorities, including the need to address Government objectives, be cost-effective (in terms of levy funding required), and be manageable in terms of the industry having capacity to respond to and participate in the consultative process.</p> <p>We have replied to Vector's suggestion regarding Energy Safety in the comments for Question 1.</p>
Genesis	No	
Major Gas Users Group	No	
Maui Development Limited	No	
Methanex	Work Programme is appropriate and no exclusions required.	
Mighty River Power Limited	No	
Powerco	No	
Vector	<p>Reiterate that Energy Safety should assume regulatory responsibility for retailers' proposed IEP. Would like to see GIC liaise with CC and Energy Safety on the matter to ensure any overlapping information disclosure requirements are avoided.</p> <p>Supports GIC's initiatives which remove/avoid unnecessary regulation and compliance costs, particularly on the following projects: Information Gathering; Gas Processing; Downstream Reconciliation; Retail Gas Contracts Oversight Scheme; Distribution Principles; and SOP not reviewing metering arrangements as a priority.</p>	

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

Submitter	Response	Gas Industry Co comment
Contact Energy Limited	No comment on forecast gas volumes. Note they have disclosed their declining take-or-pay obligations as well as current levels of gas stored in Ahuroa.	<p data-bbox="1406 379 2101 504">Gas Industry Co thanks submitters for their feedback. We will continue to liaise with the industry, especially with the power generators and Methanex, to ensure that gas volume projections are as reasonable as possible.</p> <p data-bbox="1406 555 2078 647">Gas Industry Co will consider making enquiries about gas volumes a more formal element of the levy setting process in future rounds.</p>
Genesis	Genesis considers projection is reasonable.	
Major Gas Users Group	No	
Maui Development Limited	No	
Methanex	Gas volume projections are appropriate for FY2015.	
Mighty River Power Limited	MRP believe GIC in good position to make accurate estimate of future gas consumption due to its access to industry-wide information. Based on previous year, MRP believes that GIC's estimate of 190PJ for this year is reasonable.	
Powerco	Considered reasonable and due to increased demand from Methanex	
Vector	Do not believe GIC's projection is unreasonable but assumes it has been informed by data from generators and Methanex. If not, then would like GIC to do so.	

Q4: Do you have any comment on the proposed levy for FY2015?

Submitter	Response	Gas Industry Co comment
Contact Energy Limited	No	Gas Industry Co is appreciative of submitter's recognition of the efforts over recent years to maximise value and seek reductions in the ongoing costs of the organisation. We will continue to apply pressure to our costs wherever possible, so long as that does not affect the quality of our operational work.
Genesis	No	
Major Gas Users Group	No	
Maui Development Limited	MDL appreciate the reduction.	
Methanex	Levy is set at satisfactory level and Methanex supports GIC's continued efforts to focus on core regulatory activities and reduce costs.	
Mighty River Power	No	
Vector	Supports proposed reductions and believe they reflect efficiencies gained by GIC and industry following amendments to various governance arrangements over the years with the resulting streamlining, cost reductions and removal of unnecessary ones.	
Powerco	Congratulates GIC on providing value for money and cost reduction. Welcome lower costs for FY2015. Note that overheads have been reduced but not at expense of quality of service provided.	

Q5: Do you have any suggestions for amending the annual levy regulations

Submitter	Response	Gas Industry Co comment
Contact Energy Limited	GIC should consider whether levy setting process prescribed by levy regulations if efficient for GIC and its stakeholders.	<p>We sympathise with submitters with respect to the need to undertake an annual levy setting process. However, as a levy-funded organisation, drawing its revenue from a legislatively mandated source, we are under the same strictures as other government agencies in needing to assess and justify our funding on an annual basis.</p> <p>With respect to the timing of the levy consultation process, we must seek to deliver a recommendation to meet Cabinet processes and timelines for regulation making. To ensure that we allow a minimum of six weeks (excluding statutory holiday periods) for consultation, we are required to issue the consultation paper shortly before Christmas.</p>
Genesis	No	
Major Gas Users Group	No	
Maui Development Limited	No	
Methanex	No	
Mighty River Power		
Powerco	No	
Vector	No	

General Comments		
Submitter	Response	Gas Industry Co comment
Genesis	Appreciate hard work from GIC over past year and comfortable with scope of proposed work programme for FY2015. Wish to acknowledge GIC's early workshop stakeholder engagement prior to finalising work programme as being effective way of communicating with industry. Consider GIC's current budgeted and forecast levy charge if appropriate and appreciate effort GIC has made to control budget to being lower than previous year's by prioritising its work programme.	Gas Industry Co is grateful to all submitters for their participation in the levy consultation process. It is important for the Company to ensure that its work programme and costs are addressing the issues that are relevant and of concern to stakeholders, while not imposing an unnecessary burden on participants.
Vector	Commends GIC's proposals. Pleased to see levy development process evolving into mechanism to achieve substantial industry agreement over previously contentious process.	
Methanex	Methanex pleased to see GIC's continued commitment to telling 'Gas Story' as they consider positive and visible marketing is essential in developing the gas industry. Methanex recommend that GIC continue the use of advisory and technical groups such as DRAG. Believe they provide significant time and resource savings through identifying key issues, removing minor matters and providing clear pre-consultation advice.	