Recommendation to Minister of Energy and Resources by Gas Industry Co to make Gas (Levy of Participants) Regulations 2015

Date issued: March 2015

About Gas Industry Co.

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

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

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

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

Executive summary

Pursuant to section 43ZZB of the Gas Act 1992, Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2015, designed to total $3,916,821, on the following basis:

- From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of $6.97 for each ICP for each retail customer.
- From every industry participant on the first day of each month, a wholesale levy rate of 1.12c/GJ based on gas purchases made directly from gas producers during the previous month.

Gas Industry Co remains reliant on the annual levy to provide the effective governance of the downstream gas sector that Part 4A of the Act requires, but aims to do that at least cost to consumers. This Levy Recommendation delivers on this by continuing to achieve flat-to-dropping Levy Funding Requirement ('LFR') and Total Work Programme Costs ('TWPC'). It is built upon broad support from industry stakeholders, demonstrated through annual consultation. Gas Industry Co believes that the recommended levy continues to represent good value for gas consumers and the wider industry, and to underpin the sector governance outcomes achieved in the ten years that the co-regulatory regime has been in place.

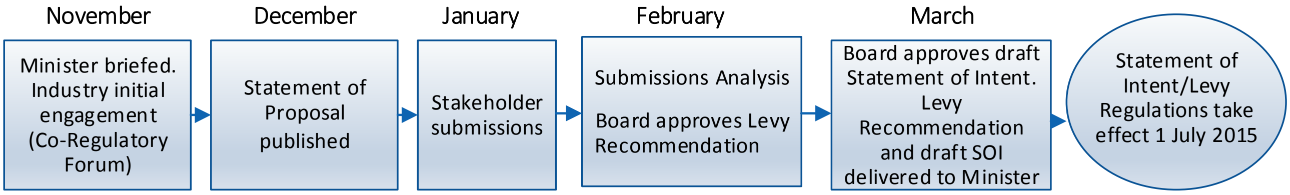
Gas Industry Co was established in 2004 to perform the role of the 'industry body' under Part 4A of the Act. At the end of 2014, it marked 10 years' service in this role. This particularly reflected on successful transition to a well-functioning and well-governed industry serving over a quarter of a million New Zealand homes and businesses. Appendix A summarises developments for the industry over that period and Gas Industry Co's contribution to those, including:

- Gas continues to be a key contributor to New Zealand, at around 21% of primary energy supply. Concerns 10 years ago about the 'winding down' of the dominant Maui field and the need to diversify supply have been addressed through 15 currently-producing fields and around 13 years' P50 reserves.
- Largely voluntary industry governance arrangements have developed to match that increased diversity and complexity, through a mix of formal rules and regulations (e.g. critical contingency management, reconciliation, switching) and non-regulated schemes administered by Gas Industry (e.g. retail contracts, distribution contracts).
- Changes to the governance of switching and reconciliation have contributed to development of retail competition, and customer numbers and volumes have grown.

- Open-access gas transmission continues to operate under industry multi-lateral codes, with Gas Industry Co oversight, including in relation to code changes.

Gas Industry Co is funded principally through a levy on 'industry participants'. Part 4A of the Act provides for the levy to be promulgated through annual regulations, on recommendation to the Minister by the industry body. This paper provides that recommendation ('Levy Recommendation') for the year commencing 1 July 2015 (FY2016).

Section 1 describes the framework for this Levy Recommendation. Gas Industry Co develops its annual Recommendation through a consultation process with industry participants who would pay the levy ('levy payers') and other stakeholders. Gas Industry Co uses this process to also develop its draft Statement of Intent, which is required to be provided to the Minister by section 43ZQ of the Act. The Minister has traditionally met with the GIC Board each November to overview key elements of the Company proposals for the next year, and the Levy Recommendation and draft Statement of Intent are provided to him or her the following March ahead of implementation from July. The diagram below sets out principal steps in the combined process:



This combined process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated TWPC covering all activities to be undertaken by the industry body in FY2016. Where provided for in the relevant gas governance regulations, these activities are funded through market fees, but the majority of Gas Industry Co's funding comes from the levy.

Gas Industry Co's Levy Recommendation and Statement of Intent together meet statutory requirements, including administering existing gas governance regulations, and address Government and industry priorities for improved governance in other areas through the ongoing Work Programme. The Work Programme is consistent with the powers and objectives provided for Gas Industry Co and has regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS).

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

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

With the competing demands of a finite budget and the desire to restrain costs imposed on levy payers, Gas Industry Co must prioritise the Work Programme projects. Priority projects are driven by a matrix of:

- statutory and policy requirements;
- maintaining momentum on existing and committed projects; and
- attending to new work that is seen as a priority by the Company and stakeholders.

Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of organisational support services to the Company as a whole. There is a specific focus on delivering cost efficiency and value for money.

Section 2 of this Levy Recommendation describes consultation undertaken on the FY2016 proposals, including costs, leading to this Levy Recommendation and the draft Statement of Intent. Consultation is one of the conditions to be met before a levy recommendation can be accepted by the Minister. In summary, there was a high level of industry acceptance of the proposed work programme and associated costs in the Statement of Proposal and those have been included in this Levy Recommendation and the draft Statement of Intent. Both documents have been approved by the Gas Industry Co Board of Directors.

Appendix B sets out the FY2016 Work Programme. In summary, this largely continues the FY2015 Programme, focussing on our core market governance role under existing rules and regulations, and continuing our key multi-year projects aimed at further improving governance arrangements. This position reflects the significant progress made over recent years in substantially addressing the goals set for Gas Industry Co and the industry in the Act and the GPS. We anticipate that FY2016 will see a continuation of the Company's work on transmission issues. Implementation of the changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) will be largely completed and the work on the gas registry changes well advanced. Substantial work will continue in relation to gas balancing and we expect to be trialling D+1 in the gas allocation/reconciliation workspace.

Section 3 sets out the recommended FY2016 Levy Funding Requirement, including the relevant levy methodology and levy rates for FY2016. We are pleased to report that the FY2016 Levy Funding Requirement of $3.92m is slightly less than the corresponding figure for FY2015

($3.94m). This has been driven by reductions in Direct Work Programme Costs. We also expect TWPC for FY2016 will be slightly lower than for FY2015, continuing the trend of recent years.

Recovering the levy through a retail and a wholesale component, as in previous years, remains appropriate. The Levy Recommendation includes some reweighting to the retail levy component compared to the wholesale component to reflect expected work focus in the coming year.

Appendix C provides background financial information. In particular:

(a) Gas Industry Co's Board of Directors continues to implement a policy of refunding any unutilised levy funds annually (including in 2014), unless specific needs dictate otherwise.

(b) The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the [250,000] residential gas consumers would pay only approximately $7.25 per annum, or around 0.85% of their annual gas bill. Larger consumers pay more, proportionate to their wholesale gas purchases, but the largest consumers who together consume around 75% of supply, and their representative body, are active participants in consultation and have raised no objections.

Contents

1 Framework for Levy Recommendation

1.1 Introduction

The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Act.

Gas Industry Co develops its annual Recommendation through a consultation process with levy payers and other stakeholders. Gas Industry Co uses this process to also develop its draft Statement of Intent, which includes an annual Work Programme and associated levy funding requirements for the next financial year, and provides an indication of further activity through the following two years.

Gas Industry Co is responsible for developing and recommending gas governance arrangements, including rules and regulations. These arrangements cover a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, retail market development, and consumer protection.

Gas Industry Co has two main sources of funding: an industry levy and market fees. The remaining source is a $5,000 p.a. fee paid by each of its 11 shareholders.

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

Gas Industry Co must publish a formal estimate of market fees for each set of rules or regulations around March 2015. Collected market fees are applied to actual expenses incurred for each set of rules or regulations; any shortfall is collected in the following year's market fee. Similarly, any excess fees must be returned to the market fee payers in a year-end 'wash-up'.

The levy funds the industry body's main costs that are not covered by market fees, including direct workstream costs and organisational costs. Part 4A of the Act provides for a levy to be promulgated through annual regulations, on recommendation to the Minister by the industry body. This paper provides that recommendation ('Levy Recommendation') for the year commencing 1 July 2015 (FY2016).

Gas Industry Co's role

The overall purpose of Part 4A of the Act is to 'provide for the governance of the gas industry'. Gas Industry Co is required to achieve this through developing gas governance arrangements that meet the objectives of the Act and of the GPS. Under the Co-Regulatory model, it is required to consider regulatory and non-regulatory options; to consult with stakeholders; and to recommend any regulation to the Minister, who has power of approval.

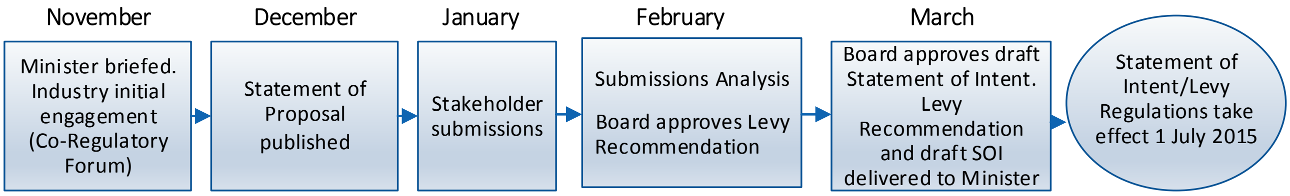
The primary objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Other industry body objectives in the Act are:

- facilitating and promoting the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
- minimising barriers to competition in the gas industry;
- maintaining or enhancing incentives for investment in gas processing facilities, transmission, and distribution; and
- subjecting delivered gas costs and prices to sustained downward pressure.

The GPS expands the Act's principal objective to include consideration of fairness and environmental sustainability. It also sets out specific tasks or outcomes that the Government wishes Gas Industry Co and the industry to pursue, and against which it must report to the Minister.

Making levy regulations

As noted above, Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. The diagram below sets out principal steps in the combined process:



This combined process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated Total Work Programme Costs covering all activities to be undertaken by the industry body in FY2016. Where provided for in the relevant gas governance regulations, these activities are funded through market fees, but the majority of Gas Industry Co's funding comes from the levy.

Gas Industry Co's Levy Recommendation and Statement of Intent together meet statutory requirements, including administering existing gas governance regulations, and address Government and industry priorities for improved governance in other areas through the ongoing Work Programme. The Work Programme is consistent with the powers and objectives provided for Gas Industry Co and has regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS).

Gas Industry Co's corporate strategy

The Board of Gas industry Co has developed a Corporate Strategy that assists in the delivery of its statutory role. The supporting Objectives below have been used over recent years to frame the proposed work programme, and are accordingly part of the FY2016 proposals included in stakeholder consultation:

Strategic Goal: Optimise the Contribution of Gas to New Zealand

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

Purpose: 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 product through to customers, and on competitive markets and ongoing investment of all stages. Gas Industry Co will be a leader, building on its statutory role as industry body, in making the next phase in the New Zealand Gas Story a success.

Objectives:

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

1.2 Process for developing the work programme and levy Recommendations

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

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

Statutory roles

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

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

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

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

Committed and/or ongoing projects

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

Examples include:

- a second phase review of the Downstream Reconciliation process to consider improved allocation methodologies (including D+1);
- finalising the transition activities required to implement amendments to the Switching Rules; and

- continuing the counterfactual design process for the Transmission Access and Pricing Project alongside the industry-led process, as recommended by the PEA.

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

Stakeholder-identified priority work

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

Gas Industry Co's recommendation takes into consideration feedback received on the Corporate Strategy and a Draft Work Programme at the Co-regulatory Forum held at Gas Industry Co's offices on 28 November 2014. Forum feedback generally accepted the Draft Programme, including the one new workstream proposed in relation to gas metering.

Changing priorities

Although it is always possible that unplanned, unbudgeted work might need to be undertaken in any one year – for example, recent years have seen us review the Critical Contingency Management Regulations and aspects of the Switching Rules – the Company prefers not to budget amounts for this sort of contingency in order to keep the levy funding requirement at a reasonable level. However, and given the limited resources at Gas Industry Co's disposal, this means that should unplanned work be required to be performed, the Company will need to reassess its capacity to deliver on planned milestones as set out in the Statement of Intent.

Cost efficiency

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

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

We otherwise endeavour to make maximum use of in-house resources and expertise and only outsource where that adds genuine value.

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

2 Consultation Process and Outcomes

2.1 Levy consultation process

One of the conditions to be met before a levy recommendation can be accepted by the Minister is that the industry body has consulted with industry participants on the levy rate or amounts (section 43ZZD(2)(b)).

Gas Industry Co consults on all aspects of its Work Programme, including costs and any forward indication for subsequent years requests to be included in the Statement of Intent, and engages with interested stakeholders, including gas and electricity industry participants, and major end-users who account for approximately 75% of gas consumption in New Zealand, including through their representative body (the Major Gas Users Group).

2.2 Key steps in FY2016 consultation process

The consultation process commenced with a briefing on key elements of the FY2016 proposals for the Minister and Gas Industry Co Board in November 2014. Details of these proposals were then presented to stakeholders at the annual Co-Regulatory Forum, also in November 2014. Feedback during the Forum was generally supportive.

In December 2014, Gas Industry Co released a Statement of Proposal on the FY2016 draft Statement of Intent and Levy which can be accessed on the Company's website Statement of Intent and Levy

This paper:

- set out Gas Industry Co's strategic direction and the rationale for that mission;
- described the work that Gas Industry Co would undertake in FY2016 and the estimated costs;
- outlined the calculation of the Levy Funding Requirement for FY2016;
- proposed the levy funding and rates for FY2016.

The Statement of Proposal included a proposed Work Programme attached as Appendix B. In summary: this largely continues the FY2015 Programme, focussing on our core market governance role under existing rules and regulations and continuing our key multi-year Work

Programmes aimed at further improving governance arrangements. This position reflects the significant progress made over recent years in substantially addressing the goals set for Gas Industry Co and the industry in the Act and the GPS. We anticipate that FY2016 will see a continuation of the Company's work on transmission issues. Implementation of the changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) will be largely completed and the work on the gas registry changes well advanced. Substantial work will continue in relation to gas balancing and we expect to be refocussing on D+1 in the gas allocation/reconciliation workspace.

The following further suggestions made at the Co-Regulatory Forum were taken up as part of the workstreams described in the Statement of Proposal:

a) Development of LPG and 'future options/scenarios' sections of our NZ Gas Story.

b) Development of an 'industry roadmap' adding wider industry proposals to our own Work Programme. For example, this could include transmission system owner proposals such as code changes under development and replacement of OATIS (the Open Access Transmission Information System).

c) Monitoring of the emsTradepoint wholesale gas market to be made more explicit in the Work Programme.

d) Review of allocation groups.

The Statement of Proposal indicated a Total Work Programme Cost (TWPC) and a Levy Funding Requirement (LFR) slightly lower than the preceding FY2015.

Gas Industry Co called for submissions from interested parties as a precursor to the formulation of this Recommendation to the Minister for the required levy regulations. Submissions closed on 7 February 2014.

As well as being sent directly to known stakeholders the Statement of Proposal was also published on the Company's website. Submissions on the Statement of Proposal were received from: Mighty River Power; Genesis Energy; Vector Limited; Maui Development Limited; Contact Energy; Methanex; and Powerco.

Submitters generally supported the Work Programme and budget, with several congratulating Gas Industry Co on achieving a decrease in the Levy Funding Requirement.

The Submissions and an Analysis of Submissions are available from the Gas Industry Co website.

3 FY2016 Levy Funding

3.1 Levy funding summary

The costs corresponding to the Work Programme set out in Appendix B and supporting this Levy Recommendation are broken down in the following tables, and the relevant levy methodology and levy rates are then distilled. In summary, the:

- recommended FY2016 Levy Funding Requirement of $3.92 million is slightly less than the corresponding figure for FY2015 ($3.94million). This has been driven by reductions in Direct Costs of workstreams. We also expect Total Work Programme Costs for FY2016 will be lower than for FY2015, continuing the trend of recent years.
- levy methodology used in previous years remains appropriate.
- levy rates are reweighted towards the retail levy component compared to the wholesale component, to reflect expected work focus in the coming year.

3.2 Levy funding calculation and trends

Table 1 following provides details of how the Levy Funding Requirement is derived from the Total Work Programme Costs (‘TWPC’). This has been split into the retail and wholesale levy components.

Table 1: Levy Funding Requirement Calculation by Strategic Objective

Strategic Goal	**TWPC $**	**Indicative Market Fees $**		**Levy Funding Requirement $**	
		Wholesale	**Retail**	**Wholesale**	**Retail**
Strategic Goal 1: Deliver effectively on Gas Industry Co's accountabilities as industry body *Comprising: Downstream Reconciliation; Switching; Critical Contingency Management; Compliance.*	2,792,930	525,000	1,050,000	466,443	751,487
Strategic Goal 2: Build and communicate the New Zealand Gas Story *Comprising: New Zealand Gas Story; Statement of Intent and annual Report; Other Reporting.*	203,600			101,800	101,800
Strategic Goal 3: Facilitate efficient use of, and investment in, infrastructure *Comprising: Transmission Access and Pricing; Supply/Demand Model; Transmission Pipeline Balancing; Code Changes and Appeals; Interconnection; Metering.*	1,337,675			1,337,675	
Strategic Goal 4: Promote efficient, competitive, and competent markets *Comprising: Retail Contracts Oversight Scheme; Distribution Principles; Retailer Insolvency; Gas Quality; Metering; Regulation and Rule Changes.*	1,157,617			163,439	994,178
TOTAL	5,491,821	1,575,000		3,916,821	

*** Totals may not add due to rounding*

Chart 1 following shows the Levy Funding Requirement has been dropping over time (actual levy for FY2009-14, forecast for FY2015 and recommended for FY2016).

Chart 1: Levy Funding Requirement

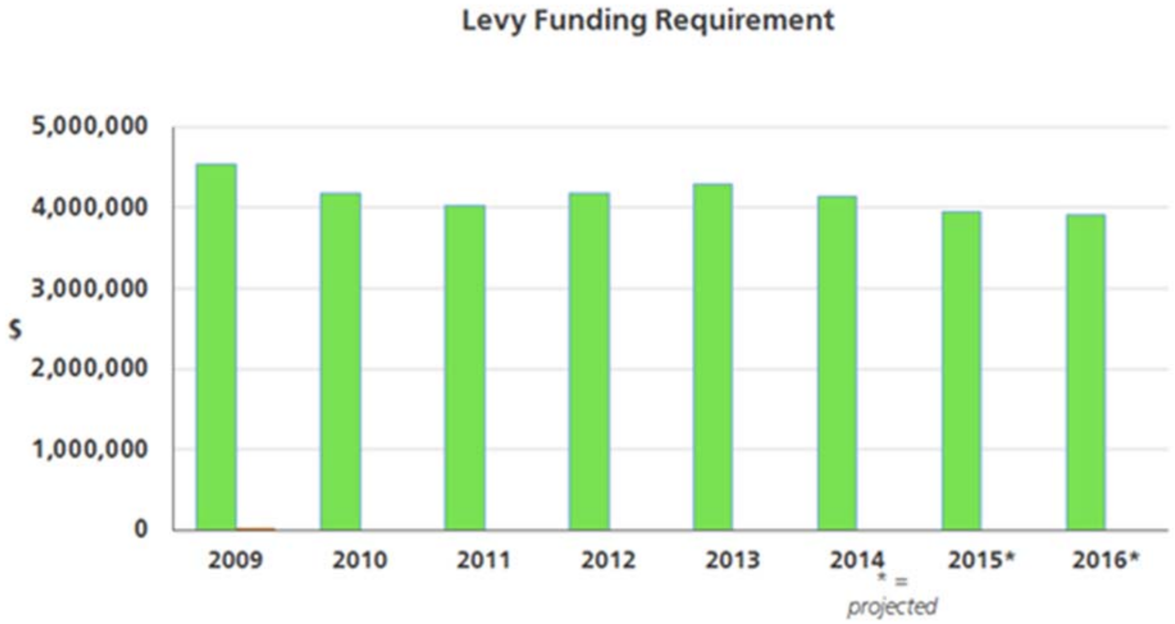
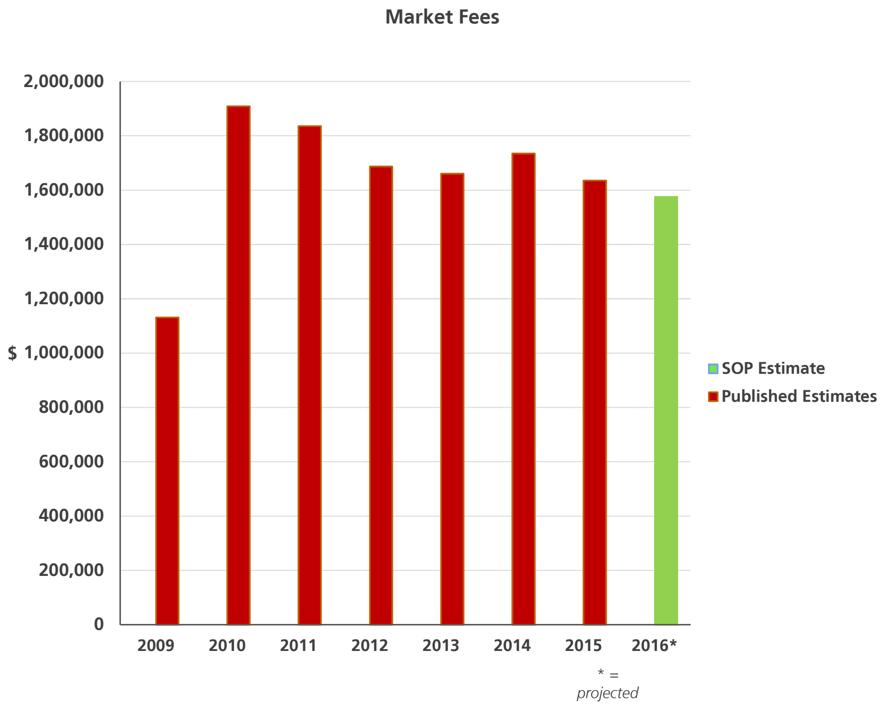


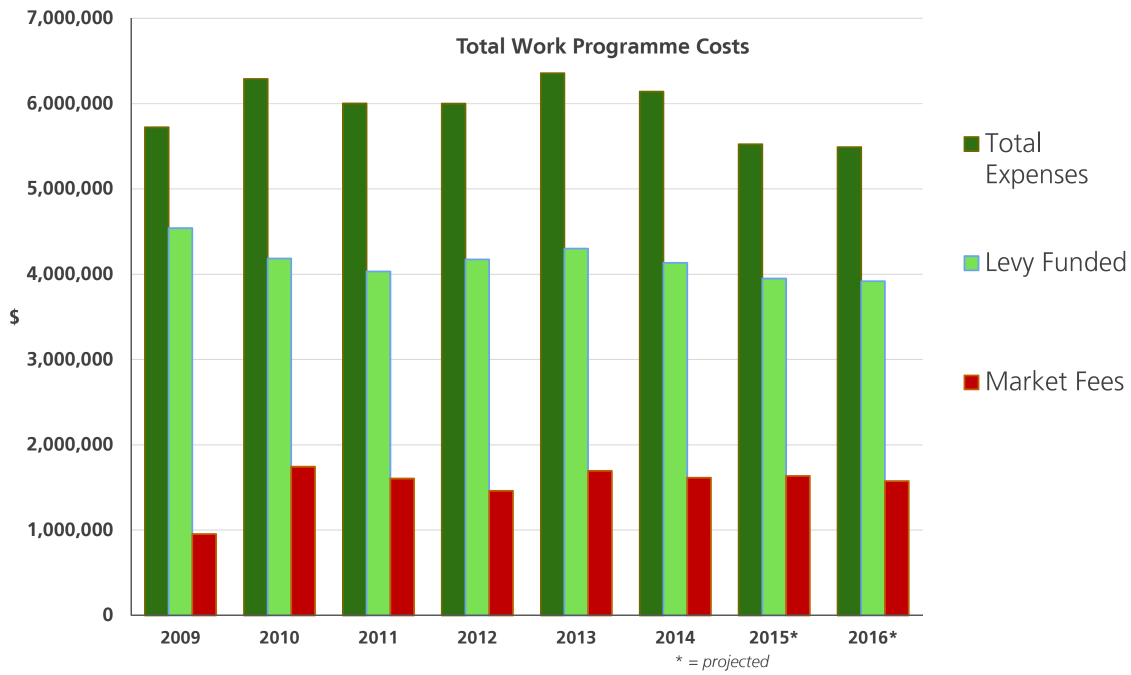
Chart 2 following shows published market fee estimates to FY2015 and the Statement of Proposal indication for FY2016 have also been dropping.

Chart 2: Market Fees



Based on the combination of the FY2016 Levy Recommendation and indicative market fees above, Total Work Programme Costs are expected to drop from $5,528,038 budgeted for FY2015 to $5,491,821 budgeted for FY2016. As shown in chart 3 following this continues a flat-to-dropping trend established in recent years.

Chart 3: Total Work Programme Costs



3.3 Proposed levy methodology

Gas Industry Co's existing levy methodology:

- is based on a 'beneficiary pays' approach and a set of Levy Principles that were developed in consultation with stakeholders and endorsed by the Gas Industry Co Board. In summary, those Principles are economic efficiency, rationality, simplicity, equity, and revenue sufficiency. The full Principles are available on Gas Industry Co's website.

- has two components: a wholesale component (apportioned based on energy market shares) and a retail component (apportioned based on ICP market shares). These components are derived according to the cost allocated to each part of the annual work programme, i.e. wholesale and retail. In years when the Work Programme focusses on retail issues, such as FY2016, the retail levy will increase while the wholesale levy will decrease.

The levy methodology is then applied to derive the wholesale and retail levy components and rates as follows:

- Direct costs are assigned to the appropriate area of activity: retail or wholesale.
- Costs recovered through market fees are deducted from the relevant areas of activity.
- The indirect costs are allocated between the retail and wholesale areas of activity in proportion to the external portion of the respective direct costs.

This levy methodology has been in place since 2006, including through annual consultations, with only minor refinements and no new issues raised. Gas Industry Co considers that the levy methodology remains fit-for-purpose for FY2016.

3.4 Proposed levy rates

Applying the above levy methodology to derive the levy rates for FY2016:

- As shown in Table 1 above, the LFR is $3,916,821.
- Also referring to Table 1 above:
    a. Strategic Goals 1 and 4 have a retail levy component of $1,745,665 and a wholesale levy component of $629,882.
    b. Strategic Goal 3 is entirely levy-funded and the wholesale levy component is $1,337,675.
    c. Strategic Goal 2 is entirely levy-funded. The TWPC of $203,600 is equally split between wholesale and retail levy components.
- The resulting total retail levy component is $1,847,465 (FY2015 $1,589,487) and total wholesale levy component is $2,069,356 (FY2015 $2,477,580). The levy components accordingly reflect an increase in retail workstream costs and a reduction in wholesale workstream costs compared with the FY2015 equivalents. In slightly more detail:
    a. The past few years have seen a focus on the GTIP work, which is part of the Infrastructure Access workstream, and therefore is covered by the wholesale levy. We are now shifting focus towards projects that are covered by the retail levy.
    b. Ongoing projects in the latter category are work on the second phase review of the Downstream Reconciliation process to consider improved allocation methodologies (including D+1) and finalising the transition activities required to implement amendments to the Switching Rules.
- The wholesale levy rate has been calculated using an assumption of 185PJ of gas consumption during the year (FY2015 190PJ).

- The retail levy rate is calculated using the current number of ACTIVE-CONTRACTED entries in the gas registry which is expected to remain at 265,000 in FY2016.

This results in the following levy rates:

- Wholesale levy – 1.12c/GJ (down from 1.30c/GJ in FY2015, a 13.8% decrease)
- Retail levy – $6.97/ICP per annum (up from $5.48/ICP in FY2015, a 27.2% increase)

Table 2 following captures the key elements of the above description in tabular form.

Table 2: Levy Funding Requirements

	2015/16 ($)		
	Retail	**Wholesale**	**Total**
Direct costs	1,128,805	1,252,746	2,381,551
Indirect costs	718,660	816,610	1,535,270
Total levy funding requirement	1,847,465	2,069,356	3,916,821
Basis of apportionment	Per ICP	Per GJ	
Number	265,000	185,000,000	
Levy rate	$6.97/ICP	1.12c/GJ	

4 Recommendation

Pursuant to section 43ZZB of the Gas Act 1992, Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2015, designed to total $3,916,821, on the following basis:

- From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of $6.97 for each ICP for each retail customer.
- From every industry participant on the first day of each month, a wholesale levy rate of 1.12c/GJ based on gas purchases made directly from gas producers during the previous month.

Appendix A Key Industry Developments and Gas Industry Co Achievements 2004-2014

Significant Gas Industry Co Outputs

Many of the GPS outcomes directed at Gas Industry Co have been achieved. Significant outputs have included:

- Development and oversight of the Gas Registry for approximately 264,000 gas consumers
- Development and oversight of gas customer switching rules to facilitate customer switching between retailers. Switching rates have more than tripled and switching times reduced from months to a few days.
- Development and oversight of rules for the reconciliation of downstream gas volumes. These have been instrumental in reducing the volumes of economically inefficient unaccounted-for gas (UFG), and annual savings of $2.5 million through the identification of fraudulent behaviour by a retailer (E-Gas).
- Development and oversight of regulations governing critical contingency events. These regulations have been triggered on three occasions, and were strengthened in March 2014 to incorporate lessons from a major Maui pipeline outage in 2011. The regulations provide for the curtailment of demand and the reservation of available gas to essential users.
- Development and oversight of compliance regulations for the processing and determination of alleged breaches of rules and regulations.
- A benchmarks-based Retail Gas Contracts Oversight Scheme that seeks to ensure retailers' supply contracts with small consumers adequately protect the long-term interests of those consumers. This has seen a substantial improvement in retailers' supply contracts.
- A principles-based Gas Distribution Contracts Oversight Scheme that seeks to ensure terms and conditions of distribution service agreements are clear and reasonable, promote market efficiency and enhance consumer outcomes. Similarly, this has seen a substantial improvement in the quality of distributors' contracts.
- Gas Industry Co processes changes and/or change appeals to the transmission system access codes that govern open access gas transmission throughout the North Island, evaluating such changes against Government policy objectives.
- A protocol setting out expectations for third party interconnections to gas transmission pipelines (both for gas injected into, and taken from, those pipelines).
- The production of various reports and studies that ensure good information exists about the gas industry in New Zealand.

Appendix B Gas Industry Co's Work Programme

In establishing its annual Work Programme, Gas Industry Co determines those issues facing the industry that require immediate attention, while having regard to the GPS. The GPS therefore forms a key input into the development of Gas Industry Co's Work Programme for FY2016.

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

This section sets out the proposed FY2016 Work Programme following consultation with stakeholders. The resulting Levy Funding Requirement and Total Work Programme Costs are then discussed in section 4.

In summary, the proposed FY2016 Work Programme largely continues the FY2015 Programme, focussing on our core market governance role under existing rules and regulations, and continuing our key multi-year Work Programmes aimed at further improving governance arrangements. This position reflects the significant progress made over recent years in substantially addressing the goals set for Gas Industry Co and the industry in the Act and the GPS. We anticipate that FY2016 will see a continuation of the Company's work on transmission issues. Implementation of the changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) will be largely completed and the work on the gas registry changes well advanced. Substantial work will continue in relation to gas balancing and we expect to be refocussing on D+1 in the gas allocation/reconciliation workspace.

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

Downstream reconciliation

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

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

Forecast activities FY2016

- Monitor Allocation Agent.
- Assess ongoing performance of the Rules.
- Monitor allocation results.
- Commission performance and event audits as required.
- Make determinations under the Rules as required.

Resources

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

Switching and registry

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

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

Forecast activities FY2016

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

Resources

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

Critical contingency management

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

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

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

Forecast activities for FY2016

- Monitor the CCO.
- Assess ongoing performance of the Regulations.
- Appoint/monitor experts as required.
- Monitor exercises and events as required.
- Administer contingency pool as required.

- Process applications for designations for critical care, essential services, critical processing, and electricity supply as required.

Resources

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

Compliance and enforcement

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

New rules have typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's quarterly performance reports[1] demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity typically sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various Rules and Regulations.

Forecast activities FY2016

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

Resources

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

Statement of Intent and Annual Report

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

Forecast activities FY2016

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

Resources

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

4.1 Strategic Goal: Build and communicate the New Zealand Gas Story

New Zealand Gas Story

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

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

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Other Reporting

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

Forecast activities FY2016

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

4.2 Strategic Goal: Facilitate efficient use of, and investment, in infrastructure

Transmission access and pricing

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

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Supply/demand model

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

Activities FY2015

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

Forecast activities FY2016

- Review and update supply/demand model biannually.

Resources

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

Transmission pipeline balancing

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

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Code changes and appeals

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Interconnection

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

It is expected that this work will continue to be demand-driven as new interconnections arise. The fact that Gas Industry Co reviews the activities after the event ensures that we are aware of issues, if any, which may arise and are well-placed to amend the interconnection guidelines if necessary.

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

4.3 Strategic Goal: Promote efficient, competitive, and confident gas markets

Retail contracts oversight scheme

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

Activities FY2015

- Benchmarks revised.

Forecast activities FY2016

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

Resources

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

Gas Distribution Contracts Oversight Scheme

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Retailer insolvency

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

Activities FY2015

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

Forecast activities FY2016

- Implement in unlikely event of retailer insolvency.

Resources

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

Gas quality

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

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Metering

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

Activities FY2015

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

Forecast activities FY2016

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

Resources

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

Regulation and rule changes

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

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

Activities FY2015

- Downstream Reconciliation:
  - Trial of D+1 commenced;
  - Other options considered.
- Switching:
  - Minister amends Rules;
  - Data cleansing complete;
  - Extra metering fields implemented.

Forecast Activities FY2016

- Downstream Reconciliation:
  - Refine D+1 algorithm in light of experience.

- Evaluate D+1 trial
- If positive, implement by:
  - Expand to daily trial;
  - Recommend changes to Downstream Reconciliation Rules;
  - Appoint service provider
  - Develop D+1 system.

- Switching:
  - Monitor performance of amended Rules.
  - Conduct baseline audits.

Resources

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

Wholesale market

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

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

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

Activities FY2015

- Monitor activity and developments.

Forecast activities FY2016

- Monitor activity and developments.

Resources

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

Appendix C Other Financial Information

This Appendix provides further background on two aspects of Gas Industry Co's finances, namely:

- the Company's Reserves and Board policy for refunding any surplus resulting from over-collection of levies or/and budget underspend.
- Impact on Consumers.

The Company's audited annual Financial Statements are included in its Annual Reports and forecast Financial Statements are included in its annual Statements of Intent (previously titled Strategic Plan up to FY2013). Both can be accessed on the Company's website at Annual Reports and Statement of Intent (SOI).

Gas Industry Co Reserves and Refund Policy

Gas Industry Co's equity balance is made up of three components:

- Industry Advances Reserve;
- Industry Amortisation Reserve; and
- Retained Earnings (comprising shareholder fees).

The **Industry Advances Reserve** contains surplus funds from any net over-collection of levies or/and budget underspend from previous years. Gas Industry Co has determined that it should refund unutilised levies as soon as the annual accounts have been received by shareholders at the Annual Meeting. This also has some similarity with the wash-up arrangements collected under Market Fees. This policy encourages a predictable and stable levy by removing from the levy calculations any variability resulting from a fluctuating level of reserves.

The first such refund, at the end of FY2010, was made to levy payers in November 2011, amounting to approximately $1.5 million. The surplus at the end of FY2011 amounted to approximately $364,000. This was retained during FY2012 to meet the costs of an expanded Work Programme (GTIP) and other unfunded workstreams (CCM Regulations review). As some of this fund was required to meet those costs, the remainder of this reserve amount – around $288,000 – was returned to levy payers in December 2012. The reserve at the end of FY2013 was approximately $509K, which was returned to levy payers in December 2013. The reserve at the end of FY2014 was approximately $562,000 which was refunded to levy payers in December 2014.

The **Industry Amortisation Reserve** represents the unexpended amortisation on capital items purchased with market fees, such as the Switching Registry and Downstream Reconciliation system. For the past five years there was an ongoing annual amortisation cost associated with these assets, which was met from the amortisation reserve. During 2014 the value of the assets and the reserve reduced to zero.

Retained earnings are the accumulation of the shareholders' annual fees, set aside as a reserve against future contingencies and do not impact on the levy calculation. The current balance is approximately $ 540,000

Small impact on consumers

The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the [250,000] residential gas consumers would pay only approximately $7.25 per annum, or around 0.85% of their annual gas bill. Larger consumers pay more, proportionate to their wholesale gas purchases, but the largest consumers who together consume around 75% of supply, and their representative body, are active participants in consultation and have raised no objections.