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# FY2017 INDICATIVE WORK PROGRAMME AND BUDGET

## CO-REGULATORY FORUM

DATE:

27 November 2015

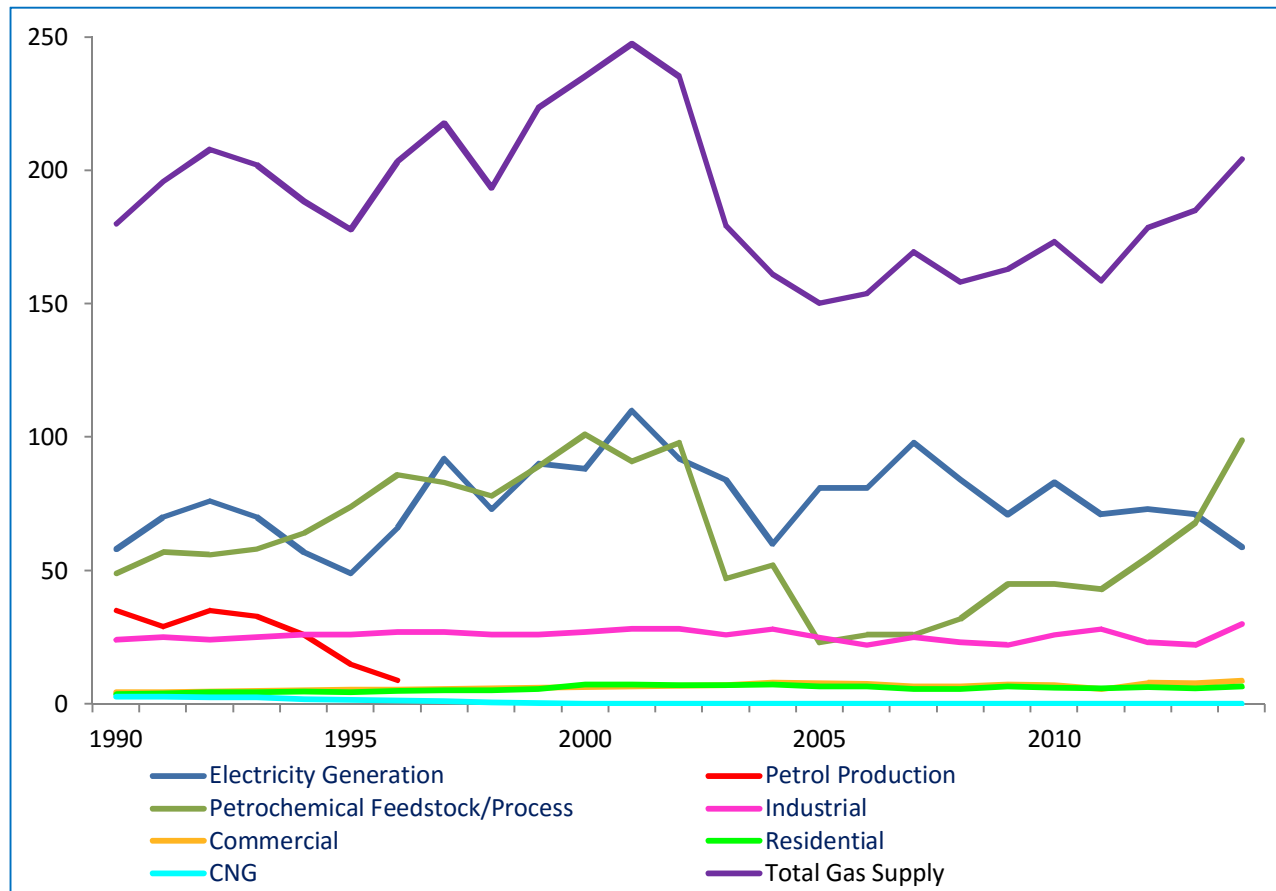


# Agenda

- Strategic / Statutory context
- Proposed Work Programme
- Funding
- Other industry issues ?
- Forum discussion

# Use of gas and size of market continuing to change ...

**Gas Use by Consumer Group 1990-2014**



Source: 2015 Energy in New Zealand

## Gas remains crucial to the NZ economy ...

- ***Gas continues fuel key NZ businesses/industries***
  - 29% gas for electricity generation
    - Contact, MRP plant retirements (MRP to retire coal/gas units); potential peaker developments?
  - 49% gas for petrochemicals
    - Methanex, Ballance Agri-Nutrients
  - 15% gas for other industrial
    - incl Fonterra, NZ Refining, NZ Steel, Oji Fibre Solutions (formerly Carter Holt Harvey Pulp & Paper)
- ***NZ businesses have a strong dependence on gas supply*** - for many, no practical alternative fuel

# *We have good governance of customer markets ...*

## **Customer choice**

- Increase to **11 retail brands**
- Nearly 99% of customers have a **choice of at least 8 retailers** at their gas gate
- Customer **churn rate robust at around 19% p.a.**

## **Competition**

- Retail market concentration (retailers/customers) has **reduced in all regions since 2009**
- Average **switching time down around 5 business days**

## **Efficiency**

- Annual **unaccounted-for gas (UFG) has reduced by 60%** to an average 1% (of injected volumes)

## **Compliance/Standards**

- **High level compliance** across all rules/regulations; 'substantial' alignment with retail contract benchmarks and distribution contract principles

## **Transparency**

- Monthly customer **data published and reported** widely

# Increase to 11 retail brands



Mercury Energy



# Gas is returning to forefront of retail offerings

**genesis ENERGY** Need a hand? Talk to us on 0800 300 400

The first big change in natural gas for years

Switch now and save

Natural gas. It's been a great option for decades, but when it comes to the way Kiwis buy it, not a lot has changed.

Until Now!

With our three revolutionary new gas plans starting from just \$79 a month on a 12 month plan, you get the freedom to use more than you pay for.

<p><b>Gas Essentials Plan</b></p> <p>Pay a flat monthly rate of</p> <p><b>\$79</b></p> <p>a month</p> <p>Use up to \$103 a month over 12 months on a 12 month plan</p>	<p><b>Gas Plus Plan</b></p> <p>Pay a flat monthly rate of</p> <p><b>\$99</b></p> <p>a month</p>	<p><b>Gas Unlimited Plan</b></p> <p>Pay a flat monthly rate of</p> <p><b>\$129</b></p> <p>a month</p>
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**Contact** Plans Products Perks Help

## Piped gas on tap

With piped gas you're hooked up to our gas supply for continuous hot water, snugly warmth and great cooking.

Gas **Trustpower**

We're cooking, showering and heating with gas. At Trustpower, we connect homes and businesses around the North Island to reticulated (plumbed) natural gas. We also deliver LPG (bottled gas) to most areas around New Zealand. Both services link you to Trustpower's quality service.

Reticulated gas

At Trustpower, we're ready to connect your home or business to reticulated (plumbed) natural gas, wherever there's a gas line for us to tap into. If you're currently with another gas provider, you can

**pulse energy** My Account Join Contact Home

### Moving House?

Pulse Energy will help you pack your electricity bags and turn the lights on in your new home!

Find out more

About **pulse energy** Grey Power Customer Hub Gas

**nova energy** YOUR HOME YOUR BUSINESS ABOUT US COVERAGE AREAS CONTACT US

Bill Comparison Calculator Why Nova Our Energy Mix How to Switch Pricing Tips and Tools Order LPG Join Now

Home / Your Home / Our Energy Mix

## Our Energy Mix

**Electricity**

Nova Energy's electricity generation comes from a mix of energy types including renewables. We are also exploring future electricity generation technologies such as tidal.

**Natural Gas**

Natural gas is available in the North Island and is the efficient and eco-friendly way to heat your water and your home. Piped natural gas is constant and as gas only heats the water as you use it, you'll never have to deal with running out of hot

IN THIS SECTION

- Electricity
- Natural Gas
- LPG

# Gas distributors are also playing their part

the gas hub  
Your natural gas connection

About FAQs Links Legal Contact Us Competition Winners

Natural Gas feels better all over

Get Connected

Benefits Of Natural Gas Gas At Home Gas Appliances Gas In Action Using Natural Gas

I love that the water is still hot when my turn comes.

**Natural gas feels better all over**

Nothing quite compares to natural gas. A natural gas home is warm, dry and luxuriously comfortable. For most people, natural gas also offers big savings over electricity. It simply feels better all over.

If you live in Wellington, Taranaki, Manawatu or Hawkes's Bay, we can probably connect your home for free - that's a saving of around \$2,000. Choose hot water or central heating and ensure your home is within 40 metres of the gas pipe in your street - with easy access. Read about our free connection conditions here.

How much could you save?  
Calculate & compare the cost of hot water at your place.

Take a look at **Special Offers**

Keep up to date **Subscribe Now**

Search the **Appliance Directory**

**Natural Gas offers you the ultimate in:**

Comfort Control Cost

**Gas at Home**

Hot water Heating Cooking

**Using Natural Gas**

Environment Safety & Reliability Healthy Homes Efficiency & Affordability

Special Offers

Vector

Electricity Gas Solar Smart technology Outages News Investor centre About Contact

Get the lifestyle you demand

Gas is a clean burning, instant, efficient and economical source of energy

HOME / GAS / RESIDENTIAL

**In this section**

Residential

- Connections
- Login to my gas orders
- Pricing
- Smart energy use
- What you need to know

Business

- Developers and consultants
- Retailers and shippers
- Safety

Connect to gas and discover the benefits of living with a clean, instant, efficient and economical source of energy. For endless hot water, precise control when cooking, heating or to enhance your outdoor entertaining, gas delivers the lifestyle you demand.

**Your gas options**

Use the residential price estimator tool to check for gas coverage in your area, request an estimate and apply

**GasNet**

Home About Us Consumer Links Requests Disclosures Vacancies Contact Us

consumer

- Safety Information
- Connecting to Natural Gas**
- In an Emergency
- Renovations & Alterations
- Feedback & Complaints
- Outages & Emergencies

Consumer » Connecting to Natural Gas

**Connecting to Natural Gas**

**Contact Your Retailer**

In all instances where you are looking to connect to gas - whether a property is already connected to gas or not - you must contact your retailer who will make the necessary arrangements for you.

GasNet is unable to act on a request that has not been accepted by the retailer, except where it is an emergency or where the requested information is of a general nature. Although at times this may appear confusing and inefficient, the process is essential because your gas supply and any problems that may occur are the retailer's responsibility; GasNet is contracted to the retailer, not the consumer, for provision of the network and metering services.



# Future gas scenarios/challenges a key GIC focus



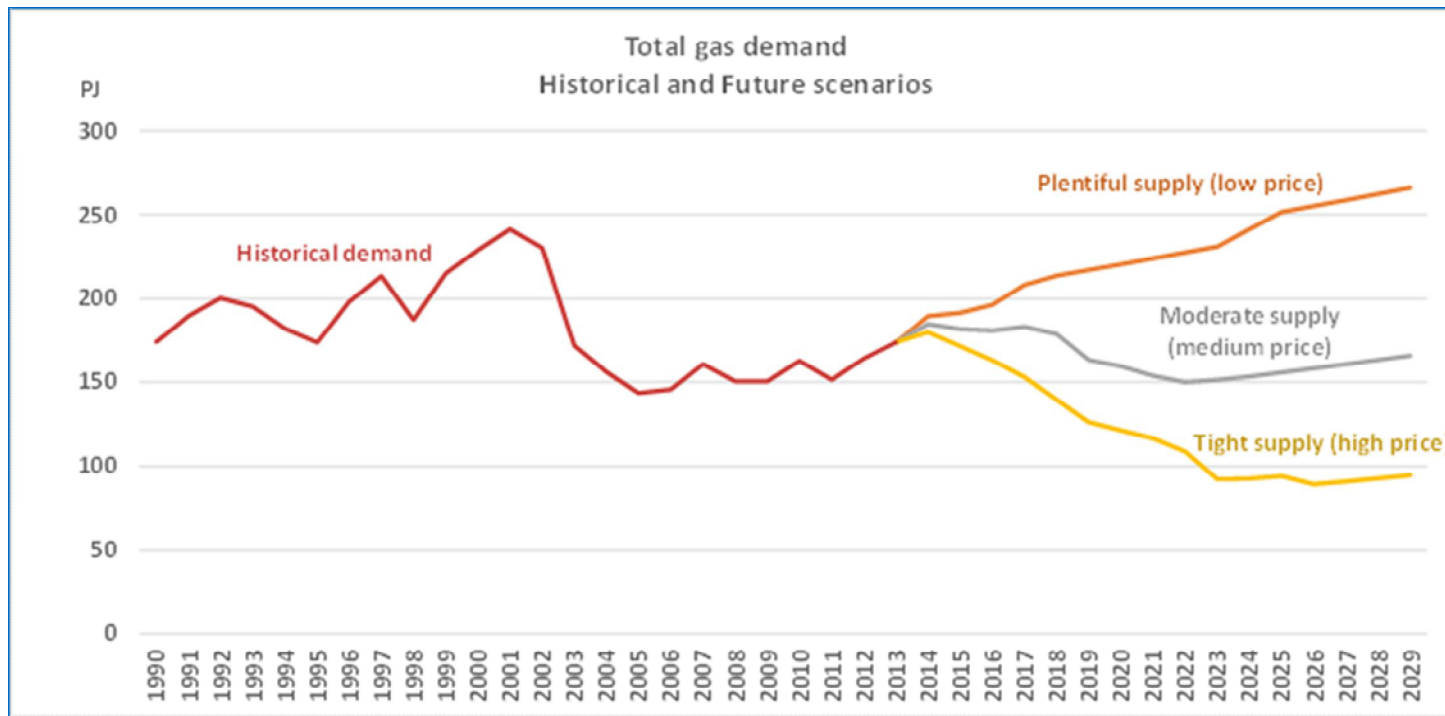
Woodward Partners



Discussion Paper: Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand

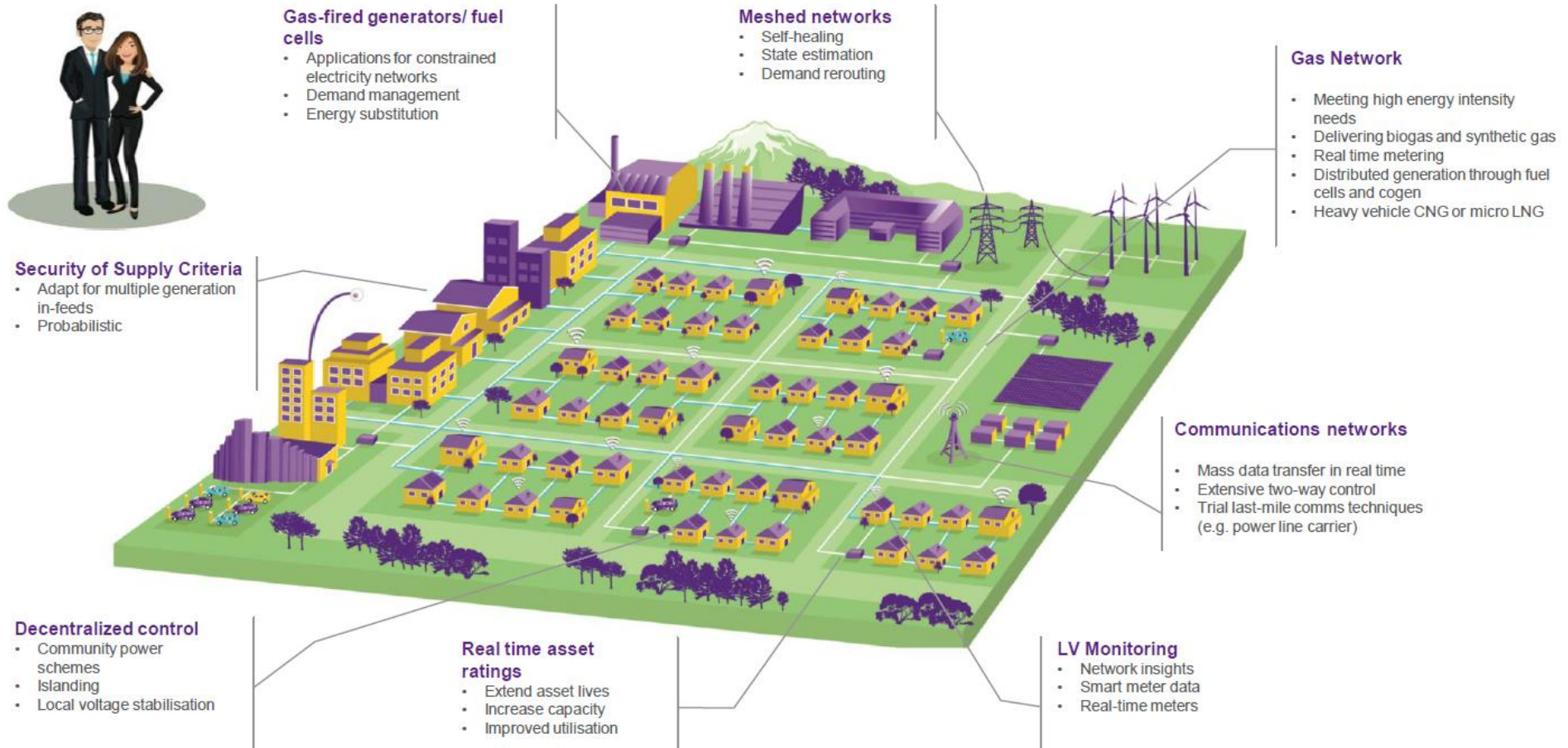


# There's a range of future NZ gas supply scenarios...



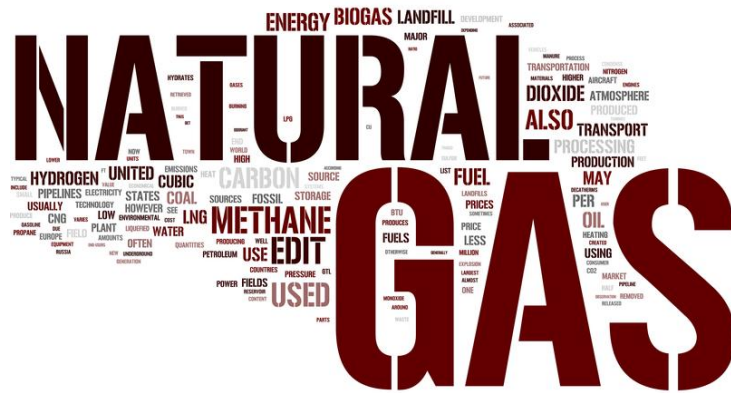
Concept Consulting: Long term gas supply and demand scenarios 2014

# Issue 1: what's gas's role in an integrated smart energy future?



Source: Powerco

# Issue 2: what's gas's role in a lower carbon future?



Source: Energy Efficiency & Conservation Authority (EECA)

## A short-medium term advantage:

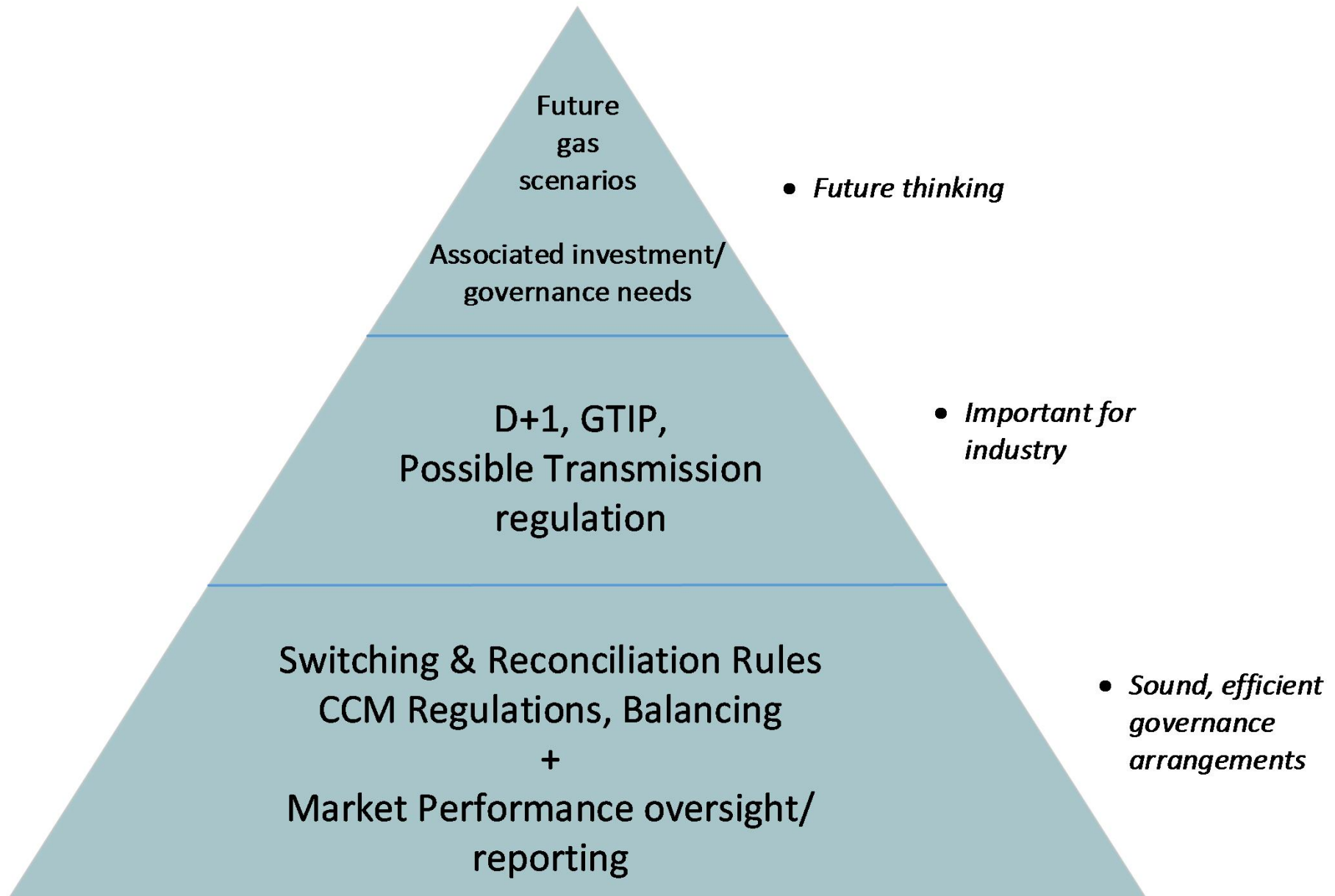
- A lower carbon transition fuel
- Geothermal and hydro are limited
- Wind, solar and wood will take time
- Gas equipment built to last
- Home grown, so less economically volatile

## Gas Industry Co role

- **Gas industry body** under Part 4A Gas Act; Government Policy Statement
- Co-regulator – **regulated and non-regulated governance arrangements**
- Principal objective to **ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable 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

## GPS outcomes are well advanced, including:

GPS Outcome	Status
<b>Contractual arrangements between gas retailers and small consumers</b> adequately protect the long-term interests of small consumers.	Retail Gas Contracts Benchmarks Oversight Scheme
Effective and efficient <b>customer switching arrangements</b> that minimise barriers to customer switching.	Gas (Switching Arrangements) Rules 2008
Accurate, efficient and timely arrangements for the <b>allocation and reconciliation of downstream gas</b> quantities.	Downstream Reconciliation Rules 2008: <ul style="list-style-type: none"> <li>• D + 1 trial underway</li> </ul>
Gas industry participants and new entrants are able to <b>access transmission pipelines</b> on reasonable terms and conditions.	Active workstreams: <ul style="list-style-type: none"> <li>• Transmission Access &amp; Pricing</li> <li>• Balancing</li> <li>• Interconnection</li> </ul>
Sound arrangements for <b>critical gas contingency management</b>	Gas Governance (Critical Contingency Management) Regulations 2008
Efficient arrangements for the <b>short-term trading of gas</b> .	emsTradepoint wholesale market platform developing
All small gas consumers have effective access to a <b>complaints resolution system</b>	Electricity and Gas Complaints Commission – no significant gas consumer issues



## Wider industry work and flexibility important

- GIC Work Programme always subject to changing industry issues/priorities - e.g.
  - transmission pipeline sales
  - transmission security/reliability review
- Industry has own work issues/programmes – discuss later



# Gas Industry Co's Strategy again frames our Work Programme

- **STRATEGIC GOAL**

- Optimise the contribution of gas to New Zealand

- **PURPOSE**

- Provide effective governance and leadership for the gas industry

- **OBJECTIVES**

- Promote efficient, competitive and confident gas markets
- Facilitate efficient use of, and investment in, gas infrastructure
- Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
- Develop and communicate the role of gas in meeting NZ's energy needs

- **PRINCIPLES**

Fairness; Independence; Openness and transparency; Impartiality;  
Evidence-based decision making

# Proposed Work Programme

## Objective 1:

Provide efficient, competitive and confident gas markets

# Distribution Principles Scheme

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>• Check that incremental progress has continued to be made. If progress has stalled then identify reason(s) and consider whether any changes are required to the scheme</li> </ul>	<ul style="list-style-type: none"> <li>• If FY2016 monitoring identified changes required then complete those.</li> <li>• Continue monitoring the scheme and the extent to which distributors and retailers are re-contracting under new use of system agreements.</li> <li>• If incremental progress continues to be made then continue with monitoring, but if progress stalls then review and consider whether any changes are required to the scheme</li> </ul>	<p>Distribution contracts are efficient</p>

# Retail Contracts Scheme

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>For any new-entrant retailers, review alignment of retail contracts with benchmark terms under the scheme</li> </ul>	<ul style="list-style-type: none"> <li>Adjust retail contract benchmarks as needed to keep the benchmarks aligned with consumer law changes</li> <li>Next full retail contracts review will occur in FY2018-2019</li> </ul>	<p>Small consumer contracts are fair and reasonable</p>

# Consumer

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>Liaise with approved complaints scheme (EGCC) and maintain communication/alignment with the Commerce Commission and Electricity Authority</li> </ul>	<p>Continue liaison. No other major activity identified.</p>	<p>Small consumers have access to an effective complaints scheme</p>

# Regulation and rule changes

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"><li>Pilot scheme for D+1 allocations established</li></ul>	<ul style="list-style-type: none"><li>Continue D+1 allocations under the pilot scheme</li><li>Prepare and consult on amendments to Downstream Reconciliation Rules and associated design/tendering/development/testing of a production system</li></ul>	An efficient market structure for the provision of gas

## Objective 2:

Facilitate efficient use of, and investment in,  
gas infrastructure

## Transmission access and pricing

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>• Bi-annual refresh of the supply/demand outlook</li> <li>• Vision for converged governance arrangements defined</li> <li>• Continued monitoring of the state of the gas transmission markets</li> </ul>	<ul style="list-style-type: none"> <li>• Work on transmission access and pricing project to implement converged governance arrangements</li> <li>• Continued monitoring of the status of the gas transmission market</li> </ul>	To ensure that transmission pipeline access arrangement transparently provide for the efficient utilisation of physical capacity and effectively signal the need for efficient investment in additional capacity

## Transmission pipeline balancing

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>• Continue monitoring market-based balancing (MBB)</li> </ul>	<ul style="list-style-type: none"> <li>• Undertake MBB post-implementation review</li> <li>• Continue monitoring (MBB)</li> </ul>	Efficient pipeline balancing arrangements



## Wholesale market

Expected position FY2016	Forecast activities FY2017-19	GPS Outcome
<ul style="list-style-type: none"> <li>Monitor activity and developments with emphasis on MBB</li> </ul>	<ul style="list-style-type: none"> <li>Continue monitoring</li> </ul>	Efficient arrangements for the short-term trading of gas

## Code changes

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"> <li>Perform agreed role in relation to proposed MPOC changes</li> <li>Make submissions on proposed changes to the VTC where appropriate</li> </ul>	Efficiently meet GIC obligations in relation to code changes and appeals

## Objective 3:

Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

# Downstream reconciliation

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"> <li>• Monitor Allocation Agent</li> <li>• Assess ongoing performance of the Rules</li> <li>• Monitor allocation results, commission performance audits as required</li> <li>• Event audits at gas gates with anomalous levels of UFG</li> <li>• Make determinations under the Rules as required</li> </ul>	<p>To establish a set of uniform processes that enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities</p>

# Switching

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"> <li>• Monitor Gas Registry Operator</li> <li>• Assess ongoing performance of the Rules</li> <li>• Monitor switching statistics</li> <li>• Complete baseline performance audits</li> <li>• Make determinations under the Rules as required</li> </ul>	<p>To establish a set of gas switching and registry arrangements that will enable consumers to switch efficiently and satisfactorily between competing retailers</p>

# Critical contingency management

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"><li>• Monitor Critical Contingency Operator</li><li>• Assess ongoing performance of the Regulations</li><li>• Appoint/monitor experts as required</li><li>• Monitor exercises and events as required</li><li>• Administer contingency pool as required</li><li>• Process applications for designations and renewals as required</li></ul>	To achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply

# Compliance

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"><li>• Perform Market Administrator role</li><li>• Assess ongoing performance of the Regulations</li><li>• Assist Investigator and Rulings Panel as required</li><li>• Monitor compliance trends for indications of regulatory inefficiency</li></ul>	To provide an efficient, low-cost monitoring and enforcement regime for gas governance rules and regulations

## Objective 4:

Develop and communicate the role of gas in meeting New Zealand's energy needs

# New Zealand Gas Story

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"><li>• Annual update of New Zealand Gas Story</li><li>• Continue Gas Story presentations for interested stakeholders</li></ul>	Provide public information on the performance and state of the gas sector

## Statutory reporting

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"> <li>• Prepare/publish Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication</li> <li>• Prepare/publish Annual Report; meet requirements for tabling in Parliament</li> <li>• Prepare/publish quarterly reports to the Minister</li> </ul>	<p>Meet reporting requirements of the Gas Act and GPS and report on the performance and present state of the gas industry</p>

## Other reporting

BAU activities FY2017-2019	GPS Outcome
<ul style="list-style-type: none"> <li>• Compliance reporting</li> <li>• Industry performance measures</li> <li>• Switching statistics</li> <li>• Other 'state and performance' reporting</li> </ul>	<p>Fulfil statutory requirements for good information to be available on the performance and present state of the gas industry</p>

# Funding



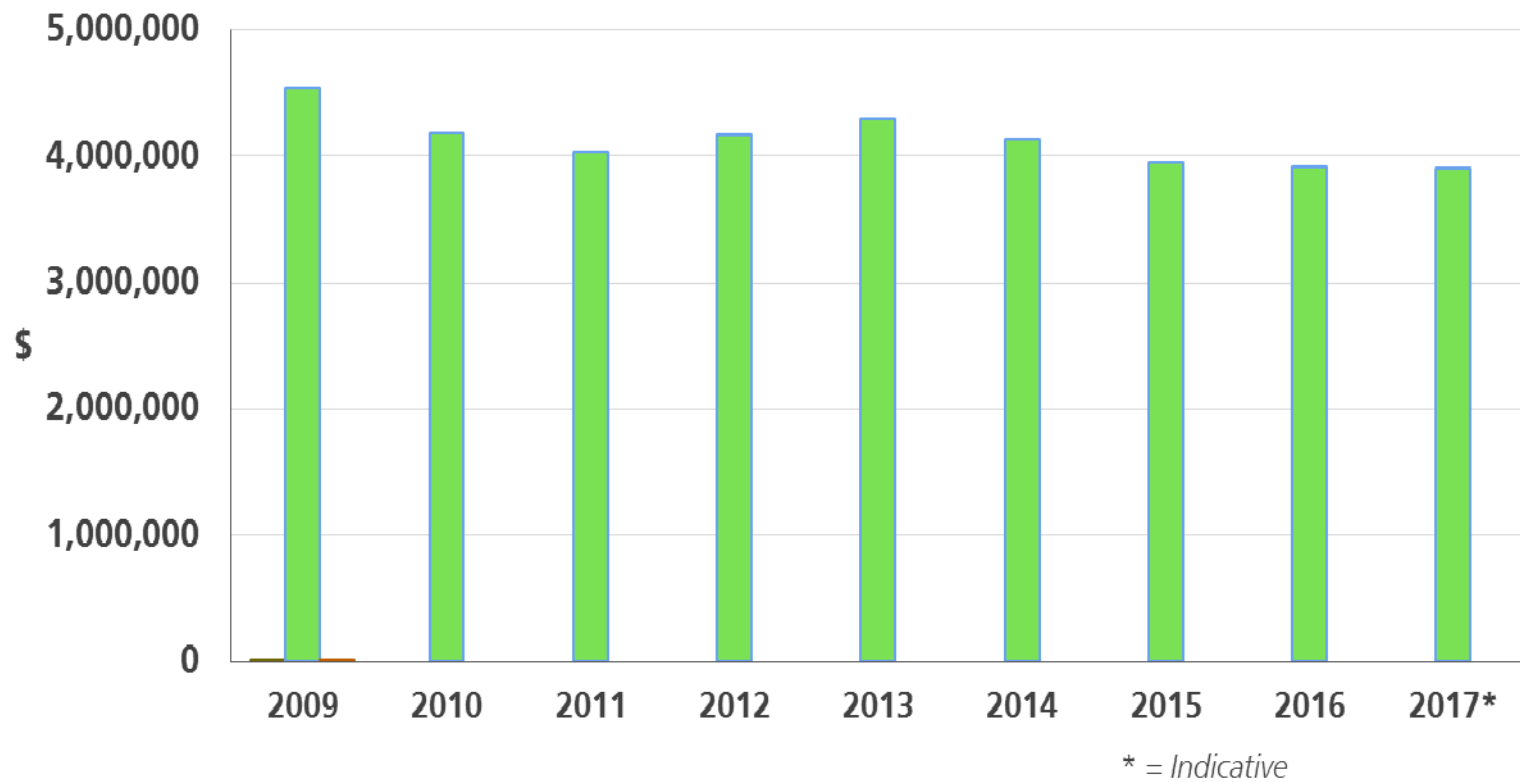
# Establishing the Indicative Work Programme Costs

- FY2017 Work Programme assumes continuation of committed deliverables and statutory roles
- Expenditure expected to be similar to that budgeted for in FY2016
- No contingency built in for unplanned workstreams
- Priorities to be re-ordered in the event of unexpected changes to scope of operations

# Projected FY2017 expenditure

- FY2017 Total Work Programme Costs  
= Levy Funding Requirement + Market Fees
- Levy Funding Requirement remains flat in FY2017
- FY2017 market fees 'placeholder': \$1.8m (c.f. \$1.75m FY2016)
  - Includes provision for D+1 system (if supported/approved)
  - market fees formally assessed in April 2016

# Levy Funding Requirement



## Comparison of FY2016 and FY2017

	<b>FY2016 (published)</b>	<b>FY2016 (forecast)</b>	<b>FY2017 (indicative)</b>
Levy Revenue/Funding requirement (`000)	\$3,916	\$3,804	\$3,907
Wholesale volume estimate (PJ)	185	175	175
Wholesale Levy (c/GJ)	1.12	1.12	1.17
Retail Levy (\$/ICP)	6.97	6.97	6.92

Other industry issues ?

## Other industry issues ?

- Industry proposals outside GIC Work Programme?
- Coordination?

