

30 March 2016

Hon Simon Bridges
Minister of Energy and Resources
Parliament Buildings
Wellington

Copy

Dear Minister

Draft Statement of Intent FY2017-2019, and Levy Recommendation FY2017

We enclose:

- Gas Industry Co's *Draft Statement of Intent* (SOI) for your review, and we welcome any comments you may have on it.¹ The SOI sets out Gas Industry Co's strategic priorities and Work Programme for financial year 2017 (1 July 2016 to 30 June 2017), and indicatively for the following two financial years FY2018-FY2019.
- Gas Industry Co's *Recommendation on the Industry Levy* (Levy Recommendation) for the financial year 2017.² The annual levy is to recover the principal costs of Gas Industry Co exercising its functions as the 'industry body' appointed under Part 4A of the Gas Act 1992 (the levy meets slightly over two-thirds of our total annual costs, with the remainder being principally met by market fees paid to Gas Industry Co directly by industry participants for services under gas governance rules and regulations). Your roles are to review and, if satisfied, accept the Levy Recommendation, and to propose the making of the annual Levy Regulations.

The SOI and Levy Recommendation have been approved by the Gas Industry Co Board for presentation to you. In essence, these two documents provide Gas Industry Co with the tools it needs to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise fulfil our mandate as the industry body, for the coming year and beyond.

¹ Section 43ZT of the Gas Act 1992 sets out a process under which Gas Industry Co provides a Statement of Intent to the Minister for comment, and for the industry body to consider any comments from the Minister prior to providing the Minister with a final Statement of Intent.

² Under section 43ZZB of the Gas Act 1992, Gas Industry Co may recommend to the Minister of Energy and Resources that regulations be made requiring industry participants to pay a levy to Gas Industry Co.

Industry Consultation Process

The SOI and Levy Recommendation were developed after consultation with stakeholders on strategic priorities; developing a Work Programme and budget that addressed these priorities; issuing a formal Consultation Paper; and considering submissions on that paper. Submitters generally supported the Work Programme and budget, and specifically congratulated Gas Industry Co for continuing to keep downward pressure on costs.

The SOI and Levy Recommendation also respond to initial comments received from the MBIE.

The key priorities are:

- Administering and meeting our responsibilities under existing gas governance arrangements (regulatory and non-regulatory). This includes finalising the transition activities required to implement amendments to the Switching Rules that you have recently approved.
- Progressing multi-year projects to which Gas Industry Co has previously committed and which are supported by our stakeholders.
- The D+1 pilot scheme that has been put in place to provide retailers with the information they need to operate successfully under market-based balancing, which is especially important to us. Based on the outcomes of this pilot, we will also move to codify the D+1 allocation process into the Downstream Reconciliation Rules. Another high priority is work on transmission code convergence, with a view to bringing about a set of arrangements to eliminate current inefficiencies.
- Continuing to provide industry leadership in terms of the *NZ Gas Story*, including looking forward to future scenarios and challenges for the industry.

Draft Statement of Intent

Gas Industry Co is required by the Gas Act to publish each year an SOI containing certain information, including the nature and scope of its intended operations. We are interested in receiving your comments on the Draft SOI for FY2017-2019, which focuses on our Work Programme addressing the following key objectives:

- Promoting efficient, effective and confident gas markets.
- Facilitating efficient use of, and timely investment in, gas infrastructure.
- Delivering effectively on Gas Industry Co's accountabilities as the gas industry body.
- Developing and communicating the role of gas in meeting New Zealand's energy needs.

The Work Programme has been developed having regard to the objectives and outcomes that have been set for Gas Industry Co by the Gas Act and the April 2008 Government Policy Statement on Gas Governance (GPS). It is also designed to meet other statutory accountabilities such as

monitoring and administering existing governance arrangements or reporting requirements under the Gas Act and Companies Act.

In preparing the Final SOI, we will consider any comments you provide and update forecast FY2016 financial information to include actual results for months to be completed.

Levy Recommendation

The Levy Recommendation is structured to particularly fund the following activities:

- Meeting Gas Industry Co's statutory accountabilities (including administration of existing gas governance arrangements).
- Progressing D+1 and transmission code convergence work.
- Completing ongoing workstreams previously agreed with industry stakeholders, or initiated by Ministerial request.

We have continued to apply discipline to our costs to ensure that we deliver value for money in our operations. Our levy funding requirement and total costs have reflected downward pressure on costs since FY2013.

The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the approximately 268,000 residential gas consumers would pay only around \$7.27 per annum, or around 0.76% of a typical annual gas bill. Larger consumers pay more, proportionate to their wholesale gas purchases. The largest consumers who together consume around 75% of supply, and their representative body, are active participants in the consultation process, and have raised no objections to our proposed costs.

Conclusion

We are confident that the Draft SOI and the Levy Recommendation provide us with what we need to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise ensure we can fulfil our mandate as the industry body.

We look forward to your response to these matters.

Yours sincerely



Rt Hon Jim Bolger, ONZ
Chairman

Copy: Jason Jina, Justine Cannon MBIE



Steve Bielby
Chief Executive

