Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2016

EXECUTIVE SUMMARY

Pursuant to section 43ZZB of the Gas Act 1992 (the Act), 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 2016, totalling $3,913,060, on the following basis:

- **From every gas retailer a retail levy based on one twelfth of the annual retail levy of $6.92 for each ICP.**
- **A wholesale levy rate of 1. 15c[1]/GJ levied on gas purchases made directly from gas producers during the previous month.**

Gas Industry Co remains principally reliant on the annual levies to provide the effective governance of the 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 with the Company's flat-to-dropping profile over recent years in its levy funding requirement. The contents of the Levy Recommendation achieved broad support from industry stakeholders, demonstrated through a robust annual consultation process. Gas Industry Co believes that the recommended levy continues to represent good value for gas consumers and the wider industry.

The Company, which was established in 2004 to perform the role of the 'industry body' under Part 4A of the Act, has been operating for 11 years as a well-functioning and well-governed industry body. Key points:

- *Gas continues to be a key contributor to New Zealand, at around 23% 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 10 years' P50 reserves.*
- *To address that increased diversity and complexity, Gas Industry Co has developed a mix of formal rules and regulations (e.g. critical contingency management, reconciliation, switching) and non-regulated arrangements (e.g. retail contracts, distribution contracts, transmission interconnection).*
- *These have contributed to the development of a healthy downstream gas market. Key indicators include:*

    (a) With recent new entries, there are now 11 retail gas brands owned by nine different retail companies.

    (b) Nearly 99% of gas customers are connected to a network where eight or more retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.

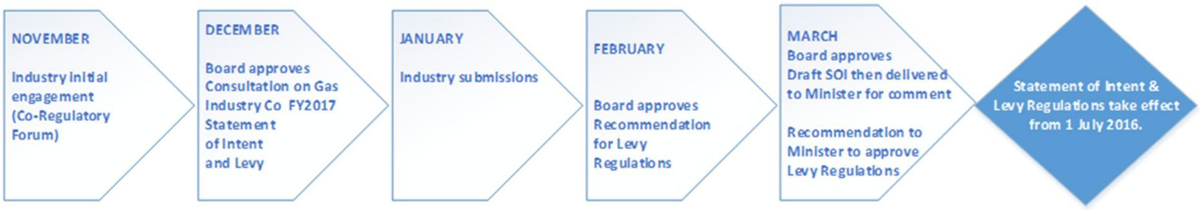
[1] LFR requirement same as FY2016, wholesale gas volume estimate 6PJ lower

(c) *Market concentration, as measured by the Herfindahl-Herschman Index has decreased significantly in all regions since the commencement of the formal switching regime in 2009 as new retailers increase market share and incumbent retailers' share has declined.*

- *The annual rate of switching by gas consumers for the past 12 months is 19.6% compared with 22% in the electricity sector. Gas consumer switching rates have been over 17% for the past two years.*
- *56% of residential consumers have switched retailer at least once in the past five years; 64% of small commercial and 72% of large commercial sites have switched at least once.*
- *In December 2015, the average time for a switch to be completed was 2.45 days; the 12-month average time is 4.4 days.*
- *Average annual unaccounted-for gas (UFG) over the past year stands at about 1.0% (compared with about 2% in 2009).*
- *Open-access gas transmission continues to operate under industry bi-lateral codes, with Gas Industry Co oversight. The proposed consolidation of ownership of the two gas transmission systems will aid Gas Industry Co's work in converging current code arrangements. Gas Industry Co will continue to work closely with the Commerce Commission to align this code convergence work with economic regulation of gas pipelines.*
- *The importance of Gas Industry Co's work is evident in a market where the currently low international oil price is affecting the upstream investment needed to replenish or grow gas reserves – upstream investment (especially for offshore investors) is underpinned by confidence in a healthy, well-governed downstream market providing a 'sink' for potential new gas finds.*

Section 1 of this paper describes the framework for this Levy Recommendation. Gas Industry Co develops its annual Levy 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 Gas Industry Co Board each November to overview key elements of the Company proposals for the next financial year, and the Levy Recommendation and draft Statement of Intent are provided to him or her the following March, ahead of implementation of the levy regulations from 1 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 Total Work Programme Costs (TWPC) covering all activities to be undertaken by the industry body in FY2017. 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). A detailed description of strategic alignment with Government policy objectives and outcomes is included as Appendix C.

In performing its statutory role and in its industry consultation, the Company employs a Corporate Strategy goal – *Optimise the contribution of gas to New Zealand* – with its purpose being *to provide effective governance and leadership for the gas industry.* The following strategic objectives also form part of the Corporate Strategy and are used to frame the proposed FY2017 Work Programme set out in this Levy Recommendation:

- 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 New Zealand's energy needs

With the competing demands of a finite budget and a constant focus on containing 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's aim is to deliver value in both its operational workstreams and in the provision of non-operational support services to the Company. There is continued focus on delivering cost efficiency and value for money.

Section 2 of this Levy Recommendation details the consultation process undertaken for FY2017's levy proposals, including costs, leading to this Levy Recommendation and the draft Statement of Intent. Consultation with the industry is one of the conditions to be met before any recommendation can be accepted by the Minister. In summary, there was broad support for Gas Industry Co's Strategy, role, Work Programme and costs. Useful suggestions were made on aspects of the Work Programme, a number of which can be accommodated within existing workstreams (e.g. consideration of gas transmission pricing issues as part of transmission access convergence work). Two new suggestions have been included in the Work Programme, in relation to additional assistance for new entrant gas retailers and gathering information on the effects of inter-fuel competition and the scope for efficiency losses in relation to 'closed LPG networks'.

This Levy Recommendation (and the accompanying draft Statement of Intent) have been approved by Gas Industry Co's Board of Directors.

The FY2017 Work Programme includes meeting statutory requirements, such as the administration of existing gas governance regulations, and also seeks to address Government and industry priorities through the completion of key project deliverables. It continues and develops existing multi-year workstreams. This Work Programme reflects significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Act and the GPS.

Appendix A sets out the proposed FY2017 Work Programme in full.

Section 3 sets out the recommended FY2017 Levy Funding Requirement, including the relevant levy methodology and levy rates for FY2017. The FY2017 Levy Funding Requirement of $3.91m has dropped slightly against the corresponding figure for FY2016 ($3.92).

Appendix B provides background financial information. In particular:

Gas Industry Co's Board of Directors continues to implement a policy of refunding any unutilised levy funds annually unless specific needs dictate otherwise. At its March 2016 Board meeting, the levy refund for FY2015 was approved by the Board.

The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the [268,000] residential gas consumers would each pay only approximately $7.27[2] per annum, or around 0.76% of their annual gas bill. Larger consumers pay more proportionate to their wholesale gas purchases but the largest consumers, who together consume the majority of supply, are active participants in consultation and have raised no objections to the levy rate.

[2] Source: Energy in NZ 2015 (information provided by MBIE)

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 Levy 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 (in cases of proposed regulation) 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 further standing funding 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 of those arrangements.

Gas Industry Co must publish a formal estimate of market fees for each set of rules or regulations two months prior to the start of the new financial year. Collected market fees are applied to actual expenses incurred for each set of rules or regulations; any shortfall or excess fees must be collected or returned to the market fee payers in a year-end 'wash-up'.

The levy funds the industry body's main costs including direct workstream costs and organisational costs. Part 4A of the Act provides for a levy to be collected through annual regulations, on recommendation to the Minister by the industry body. This paper provides that recommendation for the year commencing 1 July 2016 (FY2017).

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 when recommending gas governance arrangements are:

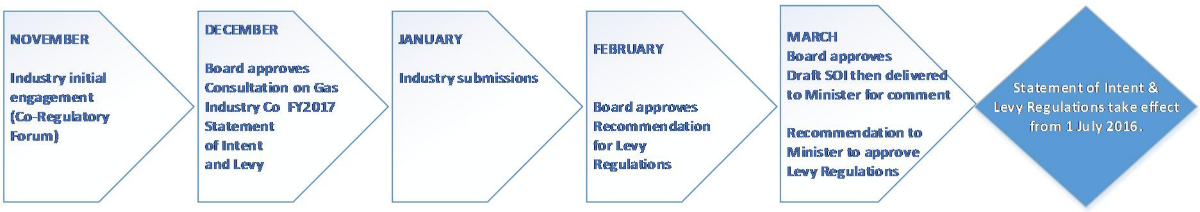
- facilitating and promoting the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;

- minimising barriers to competition in the gas industry;
- maintaining or enhancing incentives for investment in gas processing facilities, transmission, and distribution;
- subjecting delivered gas costs and prices to sustained downward pressure;
- risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
- consistency with the Government's gas safety regime is maintained.

The April 2008 Government Policy Statement on Gas Governance (GPS)[3] 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 set out principal steps in the combined process.



This 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 FY2017. Approximately 68 percent of Gas Industry Co's funding comes from the levy.

Gas Industry Co's Levy Recommendation and Statement of Intent together meet statutory requirements, 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 objective provided for Gas Industry Co and has regard to the objectives and outcomes as set out in the 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 a number of years to frame the proposed work programme, and are accordingly part of the FY2017 proposals included in stakeholder consultation. These Objectives are supported by a set of overarching principles underpinning how we set out to achieve them.

Strategic Goal: *Optimise the contribution of gas to New Zealand*

Purpose: *Provide effective governance and leadership for the gas industry*

[3] Further information can be found in Appendix C.

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 New Zealand's energy needs*

Principles:

Fairness; independence; openness and transparency; impartiality; evidence-based decision-making.

Process for Developing the Work Programme and Levy Recommendations

As illustrated in the process chart above, development of a given financial year's Work Programme, Levy Recommendation and Statement of Intent 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 in the following year, with indications forward for at least the following two years.

The following factors are then particularly considered in the process:

Statutory roles

Gas Industry Co has a number of statutory obligations 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 they 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 the Company and stakeholders.

Examples include:

- supporting the D+1[4] pilot scheme that has been put in place to provide retailers with the information they need to operate successfully under market-based balancing.[5]

[4] D+1 refers to a system of daily allocations on the day following. This information provides pipeline users, i.e. retailers with the information they need to be able to operate successfully with market-based balancing. The daily allocations estimate each retailer's sales for the previous day and that information, when compared with their respective purchases, provides information about their respective positions, i.e. whether they are balanced, long, or short.

- based on the outcomes of the D+1 pilot, moving to codify the D+1 allocation process into the Downstream Reconciliation Rules and associated changes to the Allocation Agent's role and system; and
- completing the vision for transmission code convergence and moving on to bringing about a converged set of arrangements so as to eliminate the current inefficiencies.

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 27 November 2015. Forum feedback provided a number of useful discussions and suggestions but nothing major to add substantially, or detract from, our proposals. We referred to these suggestions appropriately in our Consultation Paper.

Changing priorities

It is always possible that unplanned, unbudgeted work might need to be undertaken in any one year. For example, FY2016 has seen us prepare a research paper to address major gas user concerns over transmission security and reliability. 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, 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.

Similarly, existing priorities may reduce in light of market developments. This could result in work and expenditure being reduced, deferred, or even (in rare cases) stopped.

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 had a continuous focus on delivering efficiency and value for money. Since the implementation of an organisational support cost review in FY2013, we have been able to successfully maintain downward pressure on support costs for each of the past 4 years[6]. We expect to maintain a similar position in FY2017.

As well, we have carefully considered how each line item in the Work Programme should be budgeted. Some areas are demand-driven (such as code changes and interconnection reviews) 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.

[5] Market-based balancing, introduced on 1 October 2015, is designed to improve efficiency by cashing-out excess imbalance at pipeline receipt and delivery points. This incentivises pipeline users to self-balance where it is cost-effective for them to do so, or to face market-based prices where it is more efficient for the transmission owner to balance on their behalf.

[6] As per Annual Reports Financial Statements – Table of Operating Expenditure

We otherwise try 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 any surplus can be returned to levy payers at year-end under the Gas Industry Co Board's standing policy.

2. Consultation Process and Outcomes

2.1 Levy Consultation Process

To better ensure a levy recommendation is accepted by the Minister, the industry body consults with stakeholders on the levy rate of amounts (section 43ZZD(2)(b)).

Gas Industry Co consults on all aspects of its Work Programme, including costs and any forward indication for subsequent 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.

2.2 Key Steps in FY2017 Consultation Process

This consultation process was commenced at the annual Co-Regulatory Forum on 27 November 2015. Feedback from this Forum was generally positive, although a number of questions and suggestions were addressed in the paper *Consultation on Gas Industry Co FY2017 Statement of Intent and Levy.* (Consultation Paper) published on 15 December 2015.

The Consultation Paper:

- set out Gas Industry Co's strategic direction and supporting rationale;
- described the work that Gas Industry Co would undertake in FY2017 and the estimated costs to carry out this work;
- outlined the calculation and amount of the Levy Funding Requirement for FY2017; and
- proposed levy rates for FY2017.

The Consultation Paper included a proposed Work Programme attached as Appendix A. In summary, this largely continues the FY2016 Programme, focussing on our core market governance role under existing rules and regulations and continuing our key multi-year workstreams 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 FY2017 will see:

- completion of the vision for converged transmission access arrangements and commencement of the implementation phase;
- a high-level review of the status of distribution contracts and consideration of whether the distribution principles scheme is meeting its objectives or a different approach needed;
- considering any findings from the review of market-based balancing (MBB) and consideration of any changes that may be needed; and
- completion of the first round of participant audits under the Switching Rules.

The Consultation Paper indicated a Total Work Programme Cost and a Levy Funding Requirement similar to FY2016.

As well as being sent directly to known stakeholders, the Consultation Paper was also published on the Company's website. Submissions on the Consultation Paper were received from Vector Limited, Nova Gas Limited, Methanex New Zealand Limited, Major Gas Users Group (MGUG), Colonial First State Global Asset Management ('Colonial First State'), Genesis Energy Ltd and Powerco Limited.

All submissions and an *Analysis of Submissions* are published on Gas Industry Co's website. In summary, there was broad support for Gas Industry Co's Strategy, role, Work Programme and costs. Useful suggestions were made on a number of aspects of the Work Programme, a number of which can be accommodated within existing workstreams (e.g. consideration of gas transmission pricing issues as part of transmission access convergence work). Two new suggestions have been included in the Work Programme, in relation to additional assistance for new entrant gas retailers and gathering information on the effects of inter-fuel competition and the scope for efficiency losses in relation to 'closed networks'.

3. FY2017 Levy Funding

3.1 Levy Funding Summary

The costs corresponding to the Work Programme (set out in Appendix A) 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 FY2017 Levy Funding Requirement of $3.91 is slightly less than the figure for FY2016 ($3.92m). We have managed to hold costs at the same level while absorbing market increases.
- Total Work Programme Costs have increased from FY2016 as they allow for the development and implementation of D+1 which is a key component supporting implementation of market based balancing.
- The levy methodology used in previous years remains appropriate
- The retail levy rate has decreased slightly from FY2016. While the required funding is similar to that of last year, calculations also take into account the different number of ICPs. The wholesale levy shows a small increase from FY2016 as, while the Levy Funding Requirement is similar, wholesale gas volumes have been estimated at 6PJ lower in FY2017.

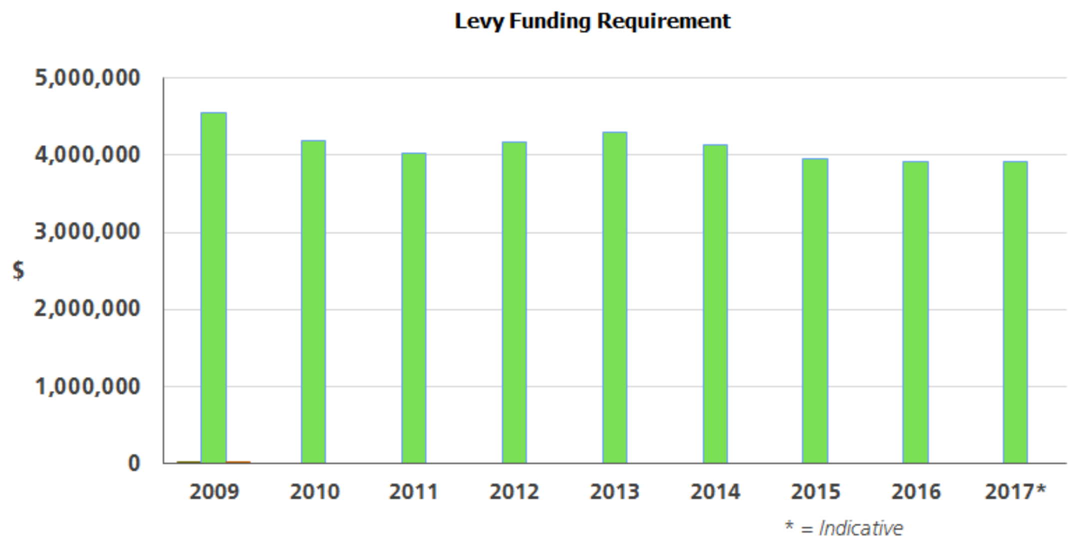
3.2 Levy Funding Calculation and Trends

Table 1 following provides details of the levy funding calculation.

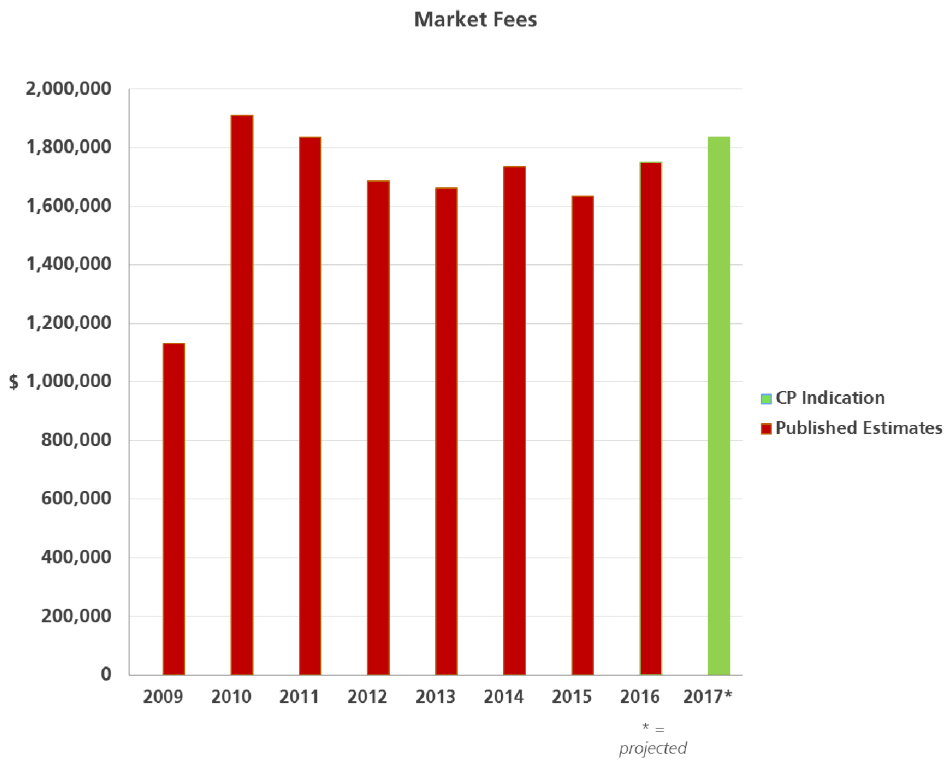
Table 1: Levy Funding Requirement Calculation

Strategic Objective (Components of each objective can be found in Appendix A)	TWPC $	Indicative Market Fees $		Levy Funding Requirement $	
		Wholesale	Retail	Wholesale	Retail
Strategic Objective 1: Promote efficient, competitive and confident gas markets	804,669				804,669
Strategic Objective 2: Facilitate efficient use of and investment in, gas infrastructure	1,240,384			1,240,384	
Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body	3,538,075	567,000	1,269,000	734,308	967,767
Strategic Objective 4: Develop and communicate the role of gas in meeting New Zealand's energy needs	165,931			83,808	82,123
TOTAL	**5,749,060**		**1,836,000**		**3,913,060**

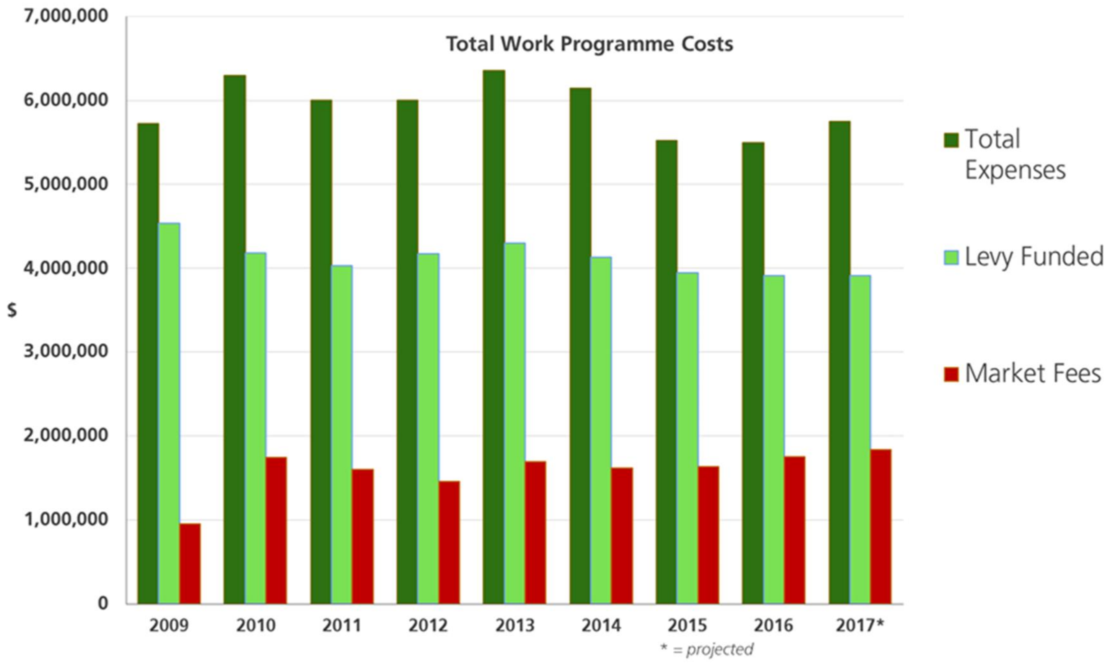
The following chart shows the Levy Funding Requirement has been dropping over time (actual levy for FY2009-15, forecast for FY2016 and recommended for FY2017).



The following chart shows published market fee estimates to FY2016 and the Consultation Paper indication for FY2017.



Based on the combination of the FY2017 Levy Recommendation and indicative market fees in the charts above, Total Work Programme Costs are expected to be $5,749,060 for FY2017, as against $5,666,821 in FY2016. [We advised in our Levy Recommendation in March 2015 that our Total Work Programme Costs for FY2016 were $5,491,821. This included an indicative market fee amount of $1,575,000 which, was subsequently updated in April 2015, once the market fees were struck, to $1,750,000. The net effect of this is that our indicative Total Work Programme Costs for FY2017 increase by $82,239.]



3.3 Proposed Levy Methodology and Rates

Gas Industry Co's existing levy methodology:

(a) Is based on a 'beneficiary pays' approach and a set of Levy Principles (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.

(b) Has two components: a wholesale component based on energy quantities of gas and a retail component that is apportioned based on ICP market shares. These components are derived according to the cost allocated to each part of the annual work programme. In years when the Work Programme focusses on retail issues, such as FY2016, the retail levy rate will increase while the wholesale levy will decrease. The converse is true when the focus shifts to the wholesale workstream.

The 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 it remains fit-for-purpose for FY2017.

Applying the above levy methodology to derive the levy rates for FY2017:

- As shown in Table 1 above, the LFR is $3,913,060.

- Also referring to Table 1 above:
  (a) Strategic Objective 1 is entirely levy-funded and has a retail levy component of $804,669.
  (b) Strategic Objective 2 is entirely levy-funded and has a wholesale levy component of $1,240,384.
  (c) Strategic Objective 3 has a retail levy component of $967,767 and a wholesale levy component of $734,308. The balance of work for this objective is funded through market fees of $1,269,000 (retail component) and $567,000 (wholesale component) giving TWPC of $3,538,075.
  (d) Strategic Objective 4 is split as to $82,123 for the retail levy component and $83,808 for the wholesale levy component giving a total of $165,931.
- The resulting total retail levy component is $1,854,560 ($1,847,465 FY2016) and total wholesale levy component is $2,058,500 ($2,069,356 FY2016). The levy components reflect limited change compared with last year. Differences in rates in FY2017 are largely due to the different numbers of ICPs and GJs used in the calculations.

  In summary:
  (a) The GTIP work will continue its focus on convergence of the transmission arrangements on the Vector and Maui pipelines. It is expected that this process will be made easier by the transactions that will place the ownership of both pipelines with one entity. This work is covered by the wholesale levy.
  (b) Ongoing projects in the retail space include the D+1 pilot programme that will need to continue at least until the outcome of the transmission convergence arrangements is known. At that point it will become clear whether D+1 continues to be required (in which case that will need to be incorporated into the Downstream Reconciliation Rules) or whether a different approach is needed.
- The wholesale levy rate has been calculated using an assumption of 179PJ (179,000,000GJ) of gas consumption during the year (FY2016 185PJ).
- The retail levy rate is calculated using the current number of ACTIVE-CONTRACTED entries in the gas registry of 268,000 (FY2016 265,000).

This results in the following levy rates:

- Wholesale levy – 1.15c/GJ (up from 1.12c/GJ in FY2016, a 2.68% increase)

- Retail levy - $6.92/ICP per annum (down from $6.97/ICP in FY2016, a 0.72% decrease).

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

Table 2: Levy Funding Requirements

	2016/17 ($)		
	Retail	**Wholesale**	**Total**
Direct costs	1,125,903	1,247,446	2,373,349
Indirect costs	728,657	811,054	1,539,711
Total levy funding requirement	**1,854,560**	**2,058,500**	**3,913,060**
Basis of apportionment	Per ICP	Per GJ	
Number	268,000	179,000,000	
Levy rate	$6.92	1.15	

4. Recommendation

Pursuant to section 43ZZB of the Gas Act 1992 (the Act), 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 2016, totalling $3,913,060, 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 $6.92 for each ICP for each retail customer.
- From every industry participant on the first day of each month, a wholesale levy rate of 1.15c[7]/GJ based on gas purchases made directly from gas producers during the previous month.

[7] LFR requirement similar to FY2016, wholesale gas volume estimate 6PJ lower

Appendix A Work Programme

Strategic Objective 1: Promote efficient, competitive, and confident gas markets

1.1 Retail Gas Contracts Oversight Scheme

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme that assesses retailers posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the most recent full review in 2015 having shown 'substantial' compliance. The next full review is scheduled for FY2018.

Forecast activities FY2017

- Review retailer contracts on an exceptions basis (i.e. review new entrants and changed contracts).
- Publish compliance levels for individual retailers by exception.

Resources

This work will require 0.1 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 independent assessor.

1.2 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 by an Independent Assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. Checks with retailers and distributors in FY2015 and FY2016 identified that incremental changes continue to be made. In addition, the practice is to make those incremental changes available to retailers that have executed earlier versions of the distribution contracts.

One submitter considers that closed, reticulated LPG networks represent a 'significant and unreasonable barrier to retail competition'. This is a matter that has been raised intermittently and it may be appropriate to place this on the work programme for FY2018. We will undertake some preliminary work in FY2017 to seek views from retailers and network owners.

Forecast activities FY2017

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

Resources

This work will require 0.05 FTE for monitoring assuming that there is no requirement to amend the principles themselves. Any formal evaluations, if required, will be contracted out to an Independent Assessor.

1.3 Assistance to new entrant retailers

In FY2015 and FY2016 Gas Industry Co has prepared and published three documents that describe the requirements and procedures associated with each of gas quality, gas measurement, and gas reconciliation. These are useful descriptions of current practice in the gas industry and provide reference material for existing and new industry participants. A submission on the Consultation Paper acknowledged that new retailers should "…help drive product innovation and price competitiveness for consumers" but also expressed the concern that new entrant retailers present a risk "…in that they may not all have the same level of understanding as to the safety and operational nuances in the gas markets". That submission recommended that Gas Industry Co "[e]nsure it has clear processes in place for monitoring and providing guidance to new gas retailers".

In fact Gas Industry Co already offers basic assistance to new entrant gas retailers to alert them to the various obligations they face under the Gas Act and associated tertiary legislation. However, this is not well-known as the activity takes place face-to-face and, given the sensitivity associated with a potential new entrant making the decision of whether and when to commence trading, is confidential.

To better formalise this activity Gas Industry Co will publish a list of the various requirements on new entrant retailers, as well as links to the requirements and procedures documents, so that all industry participants have the security of knowing that potential new retailers are made aware of their obligations.

1.4 Retailer insolvency

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that 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 issued a *Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements* in May 2015. With the framework set, it is not expected that any routine activity will be required in FY2017 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations for reports under those rules).

Contingent activities FY2017

- Make urgent recommendation for regulations in unlikely event of retailer insolvency.

Resources

Addressed by re-prioritisation in the event of a retailer insolvency.

1.5 Gas quality

This workstream originally developed in response to industry participant 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 published a *Gas Quality Requirements and Procedures* document aimed at clarifying current arrangements and making them accessible. We continue to oversee industry-led work in this area, and will consider whether further action is required.

Forecast activities FY2017

- Determine actions to address any remaining gas quality issues.
- Update Requirements and Procedures 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 0.1 FTE.

1.6 Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements. The pilot scheme for delivering daily allocations and daily Balancing Peaking Pool information will have been under way for over six months by the end of FY2016.

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 FY2017 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.

Forecast activities FY2017

- Consider any refinement to D+1 algorithm in light of experience with the pilot scheme.
- If pilot scheme is successful, and subject to gaining clarity on convergence of the transmission arrangements, move to implement by:
    (a) issuing SoP proposing amendments to the Downstream Reconciliation Rules;
    (b) subject to submissions, provide a recommendation to the Minister to amend the Downstream Reconciliation Rules;
- Subject to the Minister accepting the recommendation:
    (a) run a tender for system development; and
    (b) test and implement the system.

Resources

In respect of switching and reconciliation, this workstream will require a significant amount of internal resource of 1 to 1.5 FTE in FY2017 to work with industry working groups; to liaise with the Allocation Agent; to finalise the necessary rules changes, and to address implementation and transition issues.

1.7 Gas measurement

In FY2016 we proposed some high-level work that would review the current contracting arrangements between metering equipment providers and retailers as well as consider the outlook for the introduction of gas smart metering technology. As that work has not yet been done, it is not possible to know what, if anything, might flow from that.

Accordingly, the need for any work in this area in FY2017 will depend on the conclusions from the FY2016 work, whether that work identifies any issues that need to be addressed, and the relative urgency of those.

1.8 Information gathering protocol

In 2012, Gas Industry Co established its Information Gathering Protocol as an industry arrangement (rather than a regulated process as had earlier been proposed). Since that time

Gas Industry Co has made a number of requests for information and, as a general rule, these have been responded to positively by industry participants. Indeed, the D+1 workstream would not have achieved the results so far had it not been for the willingness of allocation participants to support that workstream by providing access to their detailed submissions and allocation results.

We were perturbed by the less than universal response to our request for information in respect of analysing the events surrounding the near-critical contingency incident of 15 April 2015. In the associated report, *Potential Critical Contingency on 15th April 2015 – Analysis of Data*, we noted that we would review the situation.

Since that time we have sent out a request for information from the transmission system owners and the market operator (emsTradepoint) to allow us to both monitor the development of MBB and to undertake a post-implementation review of MBB in calendar 2016.

The purpose for which we are requesting the information is clear – Gas Industry Co is looking to ensure that balancing arrangements are efficient and fit for purpose and an evidence-based, post-implementation review is clearly the best way to establish whether MBB is providing efficient outcomes or not. Accordingly, as discussed at the 2015 Co-Regulatory Forum, we need to be prepared for the possibility that the information may not be provided and that, in order to be able to undertake sound analysis, we may need to recommend regulation to the Minister to ensure that the required information is made available.

Other potential use of the Information Gathering Protocol (or regulation in the event that is not successful) is in relation to the sections below discussing Transmission Access and Pricing and Transmission Security and Reliability.

Contingent activities FY2017

- Consult on regulations to require supply of information to inform analysis of efficiency of MBB compared with the previous balancing arrangements.
- Depending on outcome of consultation, make recommendation to the Minister to regulate for information provision.

Resources

Given that this item is a contingent workstream there is no explicit budget or resource commitment. However, should it prove necessary, i.e. Gas Industry Co is not able to procure voluntary provision of the information, then we shall rearrange priorities in order to free up the resources needed to move this forward.

Strategic Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

2.1 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.

During FY2015 Gas Industry Co consulted on its second options paper *Transmission Access: Options for Improvement Options Paper 2* and, after considering submissions in our *Submissions Analysis - Transmission Access Options for Improvement Paper #2*, concluded that work on a vision for converged transmission arrangements would be valuable as the next step in the journey to achieving efficient commercial gas transmission arrangements.

Forecast activities FY2017

- Depending on FY2016 progress, complete work on 'vision'.
- Move to detailed design and implementation of vision, including consultation as appropriate.

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 up to 1.5 FTE.

2.2 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 as *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. The next update is scheduled to commence in FY2016 with publication expected in FY2017.

Forecast activities FY2017

- 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.

2.3 Wholesale market

The emsTradepoint market (eTp) has now been in operation for over two years 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.

Gas Industry Co intends to continue to monitor activity and developments in the wholesale spot market with a particular focus on the market's role as the source of volume and pricing for transmission balancing. This matter is discussed further in the 'Information Gathering Protocol' section 3.1 (g).

Forecast activities FY2017

- Monitor activity and developments, particularly in relation to MBB.
- Ensure that market information is delivered in a timely fashion to support monitoring.

Resources

This workstream is likely to require 0.1 FTE as the work will be at a low level except for a concentrated period of time when preparing the post-implementation review of MBB.

2.4 Transmission pipeline balancing

Market-based balancing (MBB) was implemented in FY2016 with a go-live date of 1 October 2015. The first month of MBB was characterised by concerns over the lack of non-balancing-related transactions in the wholesale market. This related to:

- many participants (shippers) not knowing their daily positions; and
- the initial default rule creating perverse incentives.

The first of these is being addressed by the introduction of a pilot scheme to provide retailers with daily allocations on a D+1 basis and shippers being provided with their opening positions on business days (for previous business and non-business days). The second issue was addressed by MDL changing the default rule to remove the perverse incentive.

Forecast activities FY2017

- Continue to monitor MBB.
- Undertake a post-implementation review of MBB (subject to obtaining the necessary retailer/shipper and market information for both the MBB and prior periods).
- Based on the post-implementation review, consider whether there are any shortcomings and, if so, how best to address those.

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.

2.5 Transmission code changes and appeals

Under a Memorandum of Understanding with the owner of the Maui pipeline, Gas Industry Co has a role in processing MPOC change requests on an 'as required' basis[8]. In addition, the Company is invited to submit on change requests under the VTC.

Details of our work on Transmission code changes and appeals can be found here (MPOC) and here (VTC).

Forecast activities FY2017

- Process MPOC change requests as required.
- Submit on VTC change requests where necessary.

Resources

Although there has been significant activity in this area in recent years, given the focus on balancing through that period, it is likely that recent history is not a good predictor of future activity. Also, equivalent work is expected to be led by Gas Industry Co under the transmission access and pricing workstream (discussed above). Accordingly, the resource requirement will be provided from the shared pool for balancing, interconnection, and code changes.

2.6 Interconnection

Gas Industry Co has established Interconnection Guidelines (Guidelines) that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. We have previously commissioned independent reviews of new interconnections and, in recent years, these have shown that the Guidelines have been adopted by the transmission system owners.

Given this, we do not consider that formal reviews of each new interconnection are required. We will monitor interconnections at a high level and expect that any issues will be brought to our attention.

[8] The MoU will need to be novated to the new owner as part of completing the sale process or a new MoU agreed.

Forecast activities FY2017

- 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 small amount of work required to undertake high-level monitoring it is considered that it is unnecessary to make a specific allowance. If required, external advice will be provisioned from a pool shared with balancing and code changes.

2.7 Gas transmission security and reliability

Gas Industry Co is currently undertaking a review of existing information and requirements associated with gas transmission security and reliability. These are found in several locations, span responsibilities of several regulators, and can be difficult to bring together and interpret.

We expect the review to be completed and it to be discussed with stakeholders during FY2016. Our initial findings are that existing information and arrangements give significant assurance about both standards and performance. However, it is possible that further work may be required around provision of information and oversight of significant transmission investments. The latter falls clearly within the jurisdictions of the Commerce Commission and Worksafe, but might be relevant to Gas Industry Co's powers, including to recommend regulations that require expansions, upgrades or service quality improvements and who should pay for these.

Contingent activities FY2017

- Consider outcomes of the Commerce Commission's planned work relevant to gas transmission disclosure and whether any further improvements appropriate/necessary to achieve relevant objectives/outcomes of the Gas Act and GPS.
- In conjunction with the Commerce Commission and Worksafe, review significant transmission investment proposals.
- In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider need for additional governance arrangements.

Resources

There is no specific provision for this work in FY2017, as the most likely scenario is agreed disclosures and major transmission investments are relatively rare. It is accordingly considered that this can be fitted within the available resources, or priorities adjusted.

Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

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

3.1 Downstream reconciliation

The purpose of the Gas (Downstream Reconciliation) Rules 2008 (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 and/or the Allocation Agent.

The Reconciliation 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 FY2017

- Monitor Allocation Agent.
- Assess ongoing performance of the Reconciliation Rules.
- Monitor allocation results.
- Commission performance and event audits as required:
    (a) performance audit timings to be determined with reference to the result of each participant's most recent performance audit; and
    (b) event audits will be driven by anomalous allocation results and are likely to be a mix of more immediate issues and chronic, low-level issues.
- Make determinations made under the Reconciliation Rules as required.
- In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to be continuing to run the pilot scheme for D+1 allocations until that is either overtaken by changes to the Reconciliation Rules or a better solution identified. These are discussed further under 'Regulation and Rule Changes' section.

Resources

Because allocation is a complex, bottom-up process involving large amounts of data, significant resources are required for this workstream. The need to run and monitor the D+1 pilot scheme has caused us to reassess the requirements and, for planning purposes, it is assumed that this workstream will require a full FTE. The service provider is funded from market fees.

3.2 Switching and registry

The Gas (Switching Arrangements) Rules 2008 (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 six years has been increasing annual rates of customer switching.

Forecast activities FY2017

- Monitor Registry Operator.
- Assess ongoing performance of the Rules.

- Monitor and report on switching statistics.
- Make determinations under the Rules as required.
- In addition, the recent changes to the Switching Rules introduced the requirement for the industry body to arrange performance audits of registry participants. It is expected that baseline audits will commence in FY2016 and be completed in the FY2017 year.

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. The service provider is funded from market fees under the Rules.

A decision was taken in 2015 to extend the service provider appointment for a further (and final) two years under the existing contract, but the expiry of that contract in March 2018 requires us to tender the role. Work is already underway to run a tender process for registry services jointly with the Electricity Authority. While the bulk of the work associated with the tender is expected to be completed in FY2016, depending on the outcome of that tender there will be a range of work require in FY2017 which may include some or all of the following:

- in the event that the result of a tender is to implement a replacement system, there would be a need for extensive user acceptance testing prior to transferring to the replacement system;
- continued use of the existing registry system but transition to a new operator would also require a process to be managed to transfer the system to a new provider and to test those arrangements before cutting over; and/or
- in the event that the outcome of the tender is to continue with the current service provider but to take the opportunity to implement enhancements (e.g. greater use of web services) that would also require a testing and implementation phase.

It is estimated that an additional 0.1 FTE will be required in the FY2017 year (separate from any external resources that would be funded through market fees).

3.3 Critical contingency management

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 (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. However, a number of improvements were developed and implemented in March 2014. In particular, 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 for approving those was moved to Gas Industry Co. As a result, FY2015 was a busy year in this area and, as a result of the designations granted in that year requiring renewal in December 2016, there will be a requirement to provide for that work in FY2017.

Forecast activities for FY2017

- Monitor the CCO.
- Assess ongoing performance of the CCM Regulations.
- Appoint/monitor experts as required.
- Monitor exercises and events as required.
- Administer contingency pool as required.
- Process applications for designations and/or renewals 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 considers that its 'business as usual' arrangements will require approximately 0.2 FTE. However, that may be subject to increase depending on the rate and type of applications received for designations. Given that gas critical contingencies are relatively rare events, Gas Industry Co does not budget internal resources to cover those. Rather, should a critical contingency eventuate, we will re-prioritise resources to meet our obligations under the CCM Regulations for the period concerned.

3.4 Compliance and enforcement

The Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) 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/regulations 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.

Introduction of gas governance rules and regulations has 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 demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently 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 FY2017

- Perform the Market Administrator role.
- Assess ongoing performance of the Compliance 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 enforcement activity over the past several years, we do not budget for any increased level of activity.

3.5 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.

Forecast activities FY2017

- 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 the first of these is controlled by shorter print runs and increased use of email and website communication.

Strategic Objective 4: Develop and communicate the role of gas in meeting New Zealand's energy needs

4.1 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.

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 with a third edition published in FY2015. 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 and FY2016 with a large number of stakeholders having attended presentations in Wellington, Auckland, and Taranaki.

Forecast activities FY2017

- Maintain currency of the New Zealand Gas Story as new information comes to hand.
- Continue Gas Story seminars and other communications 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.

4.2 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. During FY2015 and FY2016 Gas Industry Co published three 'requirements and procedures' documents dealing with:

- gas quality;
- gas measurement; and
- gas reconciliation.

Those documents are all available on the Gas Industry Co website and are useful as either reference documents or as introductory documents for new entrants to the industry.

Gas Industry Co has also commissioned 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) and *Possible Commercialisation Options for New Gas Discoveries* (Concept Consulting, 2015).

Forecast activities FY2017

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

Appendix B 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 and/or 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). Both can be accessed on the Company's website at Annual Reports and Statements of Intent.

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 current reserve (FY2015) of approximately $383,000 will be paid back to levy payers following the Board's approval of Management's recommendation to refund in March.

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 FY2015 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 $595,000.

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 268,000 residential gas consumers would each pay only approximately $7.27 per annum, or around 0.76% of their annual gas bill. Larger consumers pay more proportionate to their wholesale gas purchases but the largest consumers, who together consume around the majority of supply, are active participants in consultation and have raised no objections.

Appendix C Strategic Alignment with Government Policy Objectives and Outcomes

Gas Industry Co's Strategic Objectives— delivering effectively on the Company's accountabilities as the industry body; building and communicating the New Zealand gas story; facilitating efficient use of, and investment in, gas infrastructure; and promoting efficient, competitive, and confident gas markets —stretch across all of the Company's objectives and are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company's diverse workstreams all help the Company move toward meeting those objectives and outcomes.

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2017 Work Programme	Future work areas
Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner	• The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible • The gas sector contributes to achieving the Government's climate change objectives … by minimising gas losses and promoting demand-side management and energy efficiency • Energy and other resources used to deliver gas to consumers are used efficiently	• Providing small consumers with an effective complaints process • Ensure contracts adequately protect the long-term interests of small consumers	• Created the Retail Contracts Oversight Scheme in 2010. It provides assurance that standard contracts protect small consumers' long-term interests. • Carried out assessments in 2010, 2011, 2012 and 2015. • Considered that further LPG regulation is not currently needed (FY2015)	• Assessing new entrant retailers • Continue to work with EGCC to identify and address any systemic issues that gas consumers raise • Monitor the LPG market to determine if current non-regulatory arrangements are satisfactory	• Next full Retail Contracts Oversight Scheme assessment will occur in FY2018 • Work with pipeline owners on transmission code changes and convergence

Facilitate and promote the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements		• Provide efficient arrangements for short-term gas trading • Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities	• A private company created a gas trading market in 2013 • D+1 implemented in December 2015	• Refinement of D+1 and beginning the process to introduce D+1 rules into the Downstream Reconciliation Rules	• Implement D+1 rules in FY2018 • Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market
Minimise barriers to competition in the gas industry	• Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users	• Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of downstream gas quantities • Minimise barriers to customer switching • Ensure gas governance arrangements are supported by appropriate compliance and dispute	• Recommended the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the allocation agent • Recommended the Gas (Switching Arrangements) Rules 2008 • Recommended the Gas Governance (Compliance) Regulations 2008; ongoing administration through Market Administrator, Independent	• Refinement of D+1 • Market-based balancing post-implementation assessment • Wholesale market monitoring • Determine the extent to which GIC should support Powerswitch • Continuing Market Administrator work • Progress Transmission Code convergence work	• Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market • Progress Transmission Code convergence work

		resolution processes	Investigator, and Rulings Panel • Continuing work on GTIP		
Maintain or enhance incentives for investment in gas processing facilities, transmission, and distribution		• Provide an efficient market structure for the provision of gas metering, pipeline, and energy services	• Addressed in multiple workstreams, including switching, downstream reconciliation, and GTIP • Revoked Gas Processing Information Disclosure Rules in 2014		
Subject delivered gas costs to sustained downward pressure	• The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible	• Minimise barriers to customer switching • Provide efficient arrangements for short-term gas trading	• Recommended the Gas (Switching Arrangements) Rules 2008 • A private company created a gas trading market in 2013 to replace the Company's trading platform	• Determine the extent to which GIC should support Powerswitch • Continue to publish monthly switching statistics	• Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market •
Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements		• Produce sound arrangements for the management of critical gas contingencies	• Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM	• Critical contingency designations expire in FY2017. Renewal applications will be considered and determined during FY2017. • Working closely with the Commerce	

			designation process • Gas Transmission Security and Reliability Issues Paper released in April 2016	Commission to ensure that security and reliability are adequately reported on	
Maintain consistency with the Government's gas safety regime		• Produce sound arrangements for the management of critical gas contingencies • Provide public information on the performance and state of the gas sector	• Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process • The Company publishes the *New Zealand Gas Story* annually in addition to information available through Company Quarterly and Annual Reports and other publications • Gas Transmission Security and Reliability Issues Paper released in April 2016	• Working closely with the Commerce Commission to ensure that security and reliability are adequately reported on • Transmission code convergence work	• Transmission code convergence work

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:
  - (a) the operation of gas markets;
  - (b) access to infrastructure; and
  - (c) 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'.