INFORMATION PAPER

Guideline for industry participants regarding payment of the Levy and Market Fees

August 2019

GAS INDUSTRY COMPANY LIMITED

1. Introduction and purpose

Gas Industry Co has two main sources of funding:

1. A levy on industry participants that must be paid in accordance with the requirements of the Gas (Levy of Industry Participants) Regulations (the Levy Regulations) to recover Gas Industry Co's costs.
2. Market fees that must be paid in accordance with the relevant gas governance rules and regulations to recover costs relating to the administration of those rules and regulations (such as the contractually-agreed costs of service providers and other direct costs relating to the monitoring of those rules and regulations).

The purpose of this Guideline is to provide industry participants with guidance on when they must pay the levy and market fees and how the levy and market fees are determined.

For further information regarding the legislative authority for the levy, the principles that underpin the levy and the levy structure, please refer to Gas Industry Co's "Statement of Levy Principles" available here.

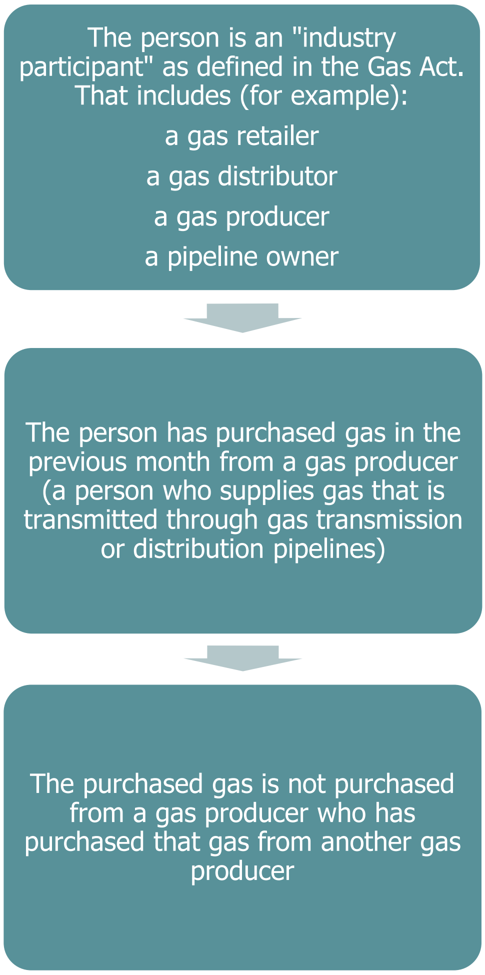
2. Levy

The Levy Regulations require persons who are industry participants to pay a wholesale gas levy and a retail gas levy.

2.1 Wholesale gas levy

The Levy Regulations require every person who is an industry participant on the first day of any month to pay GIC a wholesale gas levy. The wholesale gas levy is calculated by applying a levy rate to the volume of gas purchased during the previous month by the industry participant from gas producers.

In summary, the wholesale gas levy will be required to be paid if all of the following are satisfied:



The third requirement above ensures that the levy is not paid twice (i.e. it is only paid on the initial transaction). The core principle is that the levy should be paid on the first purchase of the gas, not subsequent purchases.

Where gas is purchased from the eTp market, then the purchasing party will not need to pay the levy on the volume of gas purchased.

The following examples illustrate how the obligation to pay the levy works in specific scenarios.

Examples 1 to 4 below demonstrate the obligation to pay the levy where the purchase of gas from producer X is the initial (first) purchase of that gas:

> ***Example 1:*** *Producer X sells gas to Y. In this case Y is the party who is liable to pay the levy as the party who purchases gas directly from a gas producer.*

> ***Example 2:*** *Producer X sells gas to third parties through subsidiary company Y. In this case Y is the party who is liable to pay the levy as the party who purchases gas directly from a gas producer.*

> ***Example 3****: Producer X offers gas for sale via the eTp market. Y purchases gas from the eTp market. In this case the levy is paid by eTp. Y is not responsible for paying the levy.*

> ***Example 4:*** *Producer X sells gas to the transmission system owner (TSO) for the purpose of pipeline balancing. The TSO will be responsible for paying the levy.*

Example 5 below demonstrates the obligation to pay the levy where the purchase of gas from producer X is not the initial (first) purchase of that gas:

> ***Example 5:*** *Producer X has a contract to sell gas to Y. In order for producer X to meet its obligation to supply the gas to Y, producer X purchases gas from a third party (where producer X's purchase of gas from the third party is the initial (first) purchase of that gas) and onsells that gas to Y. In this case producer X is responsible for paying the levy. Y is not responsible for paying the levy.*

In order for Gas Industry Co to determine that the amount of the wholesale levy paid is correct, every industry participant who is liable to pay the wholesale gas levy for a month must provide Gas Industry Co with a written return stating the total number of GJ of gas purchased during the previous month from each gas producer. That return must be provided no later than the due date for payment of the levy and must contain separate line items for the volume of gas purchased from each gas producer and the volume of gas purchased from gas producers who have purchased gas from other gas producers.

Every gas producer who has sold gas must supply Gas Industry Co with a written return stating the total number of GJ of gas sold to each of its customers during the previous month. That return must be provided no later than the end of the month in which the levy is due.

The above returns must be certified as correct by a director of the industry participant or any other authorised person.

The Levy Regulations contain specific requirements for industry participants to keep information to enable Gas Industry Co to establish the correct amount of the levy payable.

2.2 Retail gas levy

Every gas retailer who is an industry participant on the last day of any month must pay to GIC a retail gas levy. The retail gas levy is calculated by applying a levy rate per month for each ACTIVE -CONTRACTED ICP that the registry shows the gas retailer to be the responsible retailer on the first day of the following month.[1]

The retail gas levy is due and payable on the 20th day of the month.

[1] The gas registry and ICPs are defined by rule 5.2 of the Gas (Switching Arrangements) Rules 2008

3. Market fees

The following rules and regulations require the payment of market fees to recover costs relating to the administration of those rules and regulations:

1. Gas (Switching Arrangements) Rules 2008
2. Gas (Downstream Reconciliation) Rules 2008
3. Gas Governance (Critical Contingency Management) Regulations 2008
4. Gas Governance (Compliance) Regulations 2008

3.1 Gas (Switching Arrangements) Rules 2008

The market fees under the Gas (Switching Arrangements) Rules 2008 (Switching Rules) consist of a development fee and ongoing fees.

3.1.1 Development fee

The development fee is a fee payable to meet registry development costs. Those costs include:

1. Capital costs associated with the development of the registry.
2. Costs associated with the appointment of the registry operator.
3. Gas Industry Co's costs in connection with the development and establishment of the registry.

The development fee is payable on the commencement date of the Switching Rules. It is a one-off fee (i.e. there is no requirement for any industry participant to pay the development fee after the go-live date).

3.1.2 Ongoing fees

The ongoing fees are monthly fees to meet the registry ongoing costs for a financial year. Those costs include:

1. The costs payable to the registry operator.
2. The costs of Gas Industry Co associated with the registry and its role under the Switching Rules for a financial year.

Every person who is a retailer on the first business day of a month is liable to pay ongoing fees for that month in accordance with the Switching Rules.

Prior to the beginning of each financial year, Gas Industry Co notifies industry participants of a breakdown of the estimated registry ongoing costs for the following financial year. Ongoing fees for those estimated registry ongoing costs are payable based on each industry participant's share of the total number of ICPs at the first business day of the relevant month. The ongoing fees are determined in accordance with the following:

$$A \times \frac{B}{C}$$

Where:

A equals the estimated registry ongoing costs for that financial year divided by the number of calendar months in that financial year.

B equals the number of ICPs as at the first business day of each month in that financial year for which that person is the responsible retailer.

C equals the total number of ICPs as at the first business day of that month.

For the purpose of the above calculation, the number of ICPs excludes ICPs with a status of NEW or DECOMMISSIONED.

After the end of each financial year, Gas Industry Co determines and publishes a breakdown of actual registry ongoing costs for that year. Gas Industry Co performs a "wash-up" of the registry ongoing costs (i.e. it reruns the above calculation using actual rather than estimated registry ongoing costs) and invoices or issues a credit note to every person who is a retailer on the first business day of a month for the difference between that person's share of the actual ongoing registry fees and the estimated ongoing registry fees.

3.2 Gas (Downstream Reconciliation) Rules 2008

The market fees under the Gas (Downstream Reconciliation) Rules 2008 (DR Rules) consist of ongoing fees.

3.2.1 Ongoing fees

The ongoing fees are monthly fees to meet the ongoing allocation costs. The ongoing allocation costs are:

1. The costs payable by Gas Industry Co to the allocation agent for the services provided (excluding costs relating to approval and registration of deemed profiles or the costs of performance audits and event audits).
2. The costs of Gas Industry Co associated with allocation and its obligations under the DR Rules during the financial year.

Every person who is a retailer on the first business day of a month is liable to pay ongoing fees for that month in accordance with the DR Rules.

Prior to the beginning of each financial year, Gas Industry Co notifies industry participants of a breakdown of the estimated ongoing allocation costs for the following financial year. Ongoing fees for the estimated ongoing allocation costs are payable based on each industry participant's share of the total quantity of gas allocated to all retailers by the allocation agent in the interim allocation in respect of a consumption period that is 5 months before the current month. The ongoing fees are determined in accordance with the following:

$$A \times \frac{B}{C}$$

Where:

A equals the estimated ongoing allocation costs for that financial year divided by the number of calendar months in that financial year.

B equals the total quantity of gas allocated to that person by the allocation agent in the interim allocation across all allocated gas gates in respect of the consumption period that is 5 months before the current month.

C equals the total quantity of gas allocated to all retailers by the allocation agent in the interim allocation across all allocated gas gates in respect of the consumption period that is 5 months before the current month.

After the end of each financial year, Gas Industry Co determines and publishes a breakdown of actual ongoing allocation costs for that year. Gas Industry Co performs a "wash-up" of the ongoing allocation fees (i.e. it reruns the above calculation using actual rather than estimated allocation ongoing costs and the total quantity of gas allocated to the relevant person by the allocation agent in the financial year) and invoices or issues a credit note to every person who is a retailer on the first business day of a month for the difference between that person's share of the actual ongoing allocation fees and the estimated ongoing allocation fees.

3.3 Gas (Critical Contingency Management) Regulations 2008

The market fees under the Gas Governance (Critical Contingency Management) Regulations (CCM Regulations) consist of ongoing fees.

3.3.1 Ongoing fee

Ongoing fees are monthly fees to meet the critical contingency ongoing costs. The critical contingency ongoing costs include:

1. The costs payable by Gas Industry Co to the critical contingency operator in respect of that financial year.
2. The costs payable to any person appointed by Gas Industry Co to carry out any obligations under these regulations in respect of that financial year.
3. The costs of Gas Industry Co associated with critical contingency management and its obligations under the regulations during that financial year.

Every person who purchases gas directly from a gas producer during a month is liable to pay ongoing fees for that month.

Prior to the beginning of each financial year, Gas Industry Co publishes a breakdown of the estimated critical contingency ongoing costs for the financial year and notifies persons who purchase gas directly from a gas producer of the breakdown of the estimated critical contingency ongoing costs and that ongoing fees will be payable by that person. Critical contingency ongoing fees for the critical contingency ongoing costs are payable based on the person's share of the total of quantity of gas purchased by all persons directly from all gas producers.

The critical contingency ongoing fees are invoiced on the first business day of each month. The critical contingency ongoing fees are determined in accordance with the following formula:

$$A \times \frac{B}{C}$$

Where:

A equals the estimated critical contingency ongoing costs for the relevant financial year divided by the number of months in the applicable year.

B equals the total quantity of gas purchased by that person directly from all gas producers during the month that is 2 months prior to the month in which the relevant invoice is issued.

C equals the total quantity of gas purchased by all persons directly from all gas producers during the month that is 2 months prior to the month in which the relevant invoice is issued.

Every person who purchases gas directly from a gas producer during a month must provide Gas Industry Co with a written return stating the total number of GJ of gas purchased during the previous month from each gas producer. That return must be provided no later than the tenth day of each month and must contain separate line items for the volume of gas purchased directly from all gas producers during the previous month and the volume of gas purchased from each gas producer during that month. A person may consent to returns provided under the Levy Regulations being used for the purpose of the CCM Regulations if the person has consented to its returns being used for that purpose.

After the end of each financial year, Gas Industry Co determines and publishes a breakdown of actual critical contingency ongoing costs for that year. Gas Industry Co performs a "wash-up" of the critical contingency ongoing fees (i.e. it reruns the above calculation using actual rather than estimated critical contingency ongoing costs) and invoices or issues a credit note to every person who is liable to pay the ongoing allocation fees based on the difference between that person's share of the actual compliance costs and the estimated compliance costs.

3.4 Gas Governance (Compliance) Regulations 2008

The market fees under the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) consist of compliance ongoing fees.

3.4.1 Compliance ongoing fees

The Compliance ongoing fees are monthly fees to meet the compliance costs. The compliance costs include:

1. The costs payable by GIC to the market administrator, any investigators, and the Rulings Panel in respect of the year.
2. The costs of GIC associated with the operation of, and its obligations under the Compliance Regulations during the year.

Every person who is liable to pay ongoing fees under a set of rules (e.g. the Switching Rules and DR Rules) is liable to pay compliance ongoing fees.

Prior to the beginning of each financial year, Gas Industry Co publishes a breakdown of the estimated compliance costs apportioned to the relevant rules for the financial year and notifies every person who is liable to pay ongoing fees under a set of rules of the compliance ongoing fees payable by that person in that year.

The compliance ongoing fees are invoiced on the first business day of each month. The compliance ongoing fees are determined in accordance with the following formula:

$$\boldsymbol{A} \times \boldsymbol{B}$$

Where:

A equals the estimated compliance costs for that financial year apportioned to the relevant rules and divided by the number of months in the applicable financial year; and

B equals the proportion in which the person is liable to pay fees under that set of rules.

After the end of each financial year, Gas Industry Co determines and publishes a breakdown of actual compliance ongoing costs apportioned to the relevant rules for that year. Gas Industry Co performs a "wash-up" of the compliance ongoing fees (i.e. it reruns the above calculation using actual rather than estimated compliance costs) and invoices or issues a credit note to every person who is liable to pay the compliance ongoing fees based on the difference between that person's share of the actual compliance ongoing costs and the estimated compliance ongoing costs.

ABOUT GAS INDUSTRY CO

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

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

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