



CONSULTATION PAPER

Consultation on Gas Industry Co FY2022 Work Programme and Levy

SUBMISSIONS CLOSE: FRIDAY 5 FEBRUARY 2021

Executive Summary

In consultation with the industry, Gas Industry Co develops both an annual Work Programme and a cost estimate for that Work Programme. These costs are principally funded through a levy and market fees, the latter imposed under relevant governance rules and regulations.

The proposed FY2022 Work Programme includes meeting statutory requirements, such as the administration of existing gas governance regulations, and seeks to address Government and industry priorities through the completion of key project deliverables. It continues existing multi-year workstreams and reflects significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Gas Act 1992 (Act) and the Government Policy Statement on Gas Governance 2008 (GPS).

This paper has been prepared after taking into consideration feedback received on the proposed Work Programme and costs at the Co-Regulatory Forum held at Gas Industry Co's offices on 27 November 2020. Forum feedback generally supported these proposals.

The proposed FY2022 levy funding requirement is \$3,472,367 (\$22,185 more than the corresponding budgeted costs for FY2021 of \$3,450,182). The corresponding proposed levy rates for FY2022 are: a retail levy of \$5.28 per ICP (based on 300,000 ICPs), and a wholesale levy of 1.1445 cents per GJ of gas (based on a volume of 165PJ).

Submissions

Written submissions on this Consultation Paper should be provided to Gas Industry Co by **5 pm on Friday 5 February 2021**. Submissions can be made by logging in to Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). Submissions may be amended at any time prior to the closing date. All submissions will be published automatically on the website after the closing date.

Details of the submissions process are as follows:

1. No email confirmation will be sent out acknowledging receipt of submissions. To check your submission has been successfully uploaded, log in and check your account. If this is unsuccessful, contact Gas Industry Co (ph +64 4 472 1800) or email: consultations@gasindustry.co.nz for assistance.

The closing time for submissions is **5 pm**. Please note that submissions received after that time may not be able to be fully considered.

All submissions will be published on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

Gas Industry Co is happy to meet with any stakeholder who wishes to discuss the proposals in more detail.

Contents

EXECUTIVE SUMMARY	2
1. LEGISLATIVE AND STRATEGIC CONTEXT	4
1.1 Strategic context	4
1.2 Gas Industry Co's Roles	5
1.3 Gas Industry Co's Strategy	6
2. DEVELOPING THE PROPOSED WORK PROGRAMME	9
2.1 Work programme and levy setting process	9
3. PROPOSED FY2022 WORK PROGRAMME	10
3.1 Work programme prioritisation	10
3.2 FY2022 Work Programme: Gas Governance	11
3.3 FY2022 Work Programme: Facilitating industry systems and processes	15
3.4 FY2022 Work Programme: Trusted Advisor to Government and Industry	16
4. FUNDING OF OPERATIONS	19
4.1 Sources of Funding	19
4.2 Levy Funding Requirement	19
4.3 Proposed Levy Method and Rates	21
APPENDIX A: RECOMMENDED FORMAT FOR SUBMISSIONS	23
ABOUT GAS INDUSTRY CO	25

1. Legislative and Strategic Context

1.1 Strategic context

The community and economic context for the gas industry is rapidly changing. Climate issues, technology and market issues are driving changes to the energy mix.

The energy trilemma trade-offs between sustainability, affordability and energy security are inescapable, and require policy choices that reflect social and economic priorities. Capabilities and investment need to be matched to those choices.

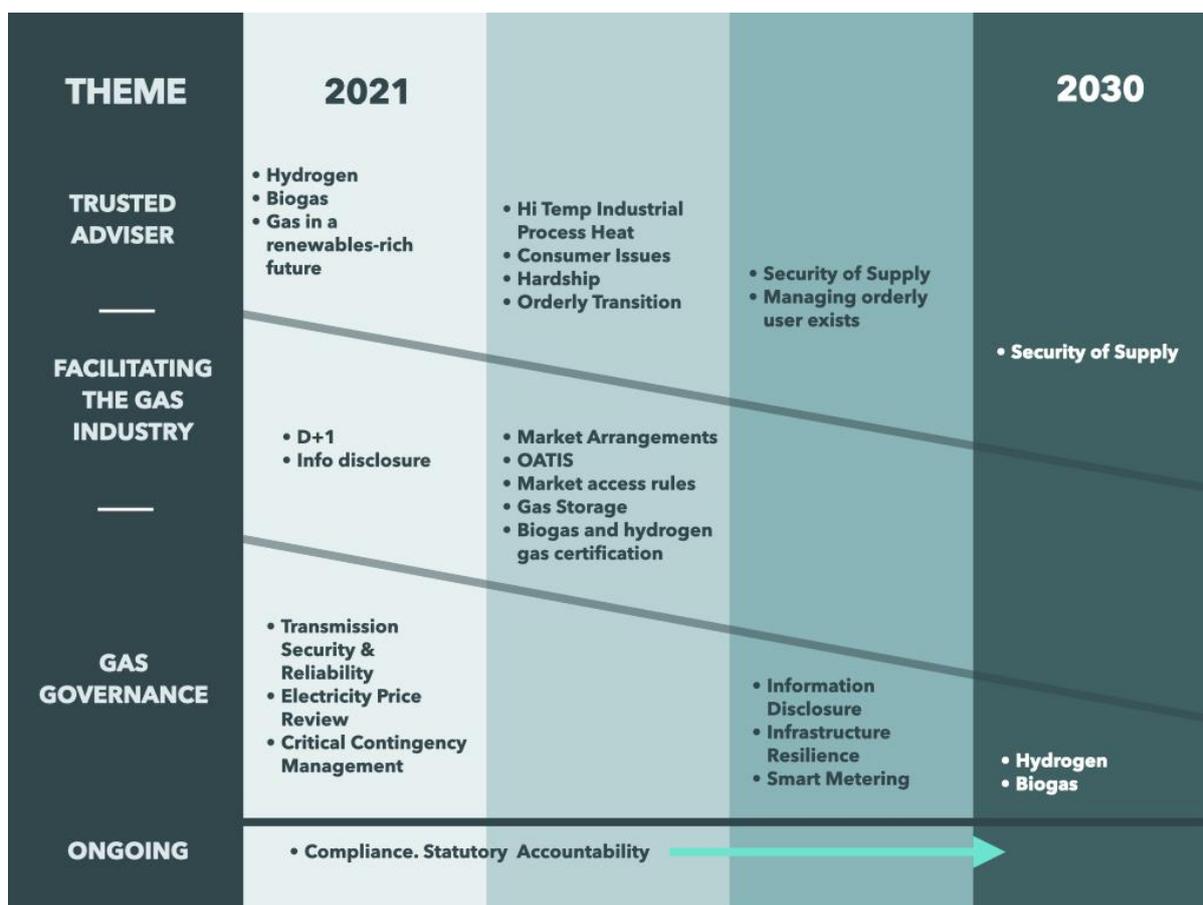
New Zealand has set in place a wide suite of activity across government and industry aimed at achieving carbon-reduction objectives.

The place of the gas industry in New Zealand's climate response is globally unusual because we are isolated from other energy markets, and because our existing emission mix is dominated by agriculture, transport and coal process heat – only a portion of which can be displaced by gas. The Interim Climate Change Commission's report identified that New Zealand will require unique trade-offs and opportunities.

Ongoing change demands ongoing responsiveness from energy sector regulators. Regulatory activities and roles that were right for one purpose need to be adapted to the new context. Gas Industry Co is no exception and we are continuously testing the regulatory activities against our new context.

The work program outlined in this document represents a snapshot of our work over one, two and three-year horizons. However, Gas Industry Co and the wider industry need to assess this work alongside longer-term challenges for industry and the regulatory frameworks required to meet government and community expectations. Our work programme is designed to respond to current issues, as well as getting work started on looming issues we can see on the horizon.

The diagram below places short-term deliverables in the context of the longer-term strategic priorities and issues that will arise in the transition:



To get the conversation started, in addition to feedback on that work, and specific work programme initiatives outlined in this document, we seek your input about looming issues on our horizon, questions are included at the end of this section.

1.2 Gas Industry Co's Roles

What we do is conveniently grouped into three classes of activities (reflected in our Strategy at 1.3 below). These activities make up our work programme:

Gas Governance

The Gas Act and GPS guide us in these activities where we have statutory roles as well as oversight of the industry processes or regulations with the intention of ensuring appropriate activities are being undertaken. Examples of our Gas Governance roles include the determination of breaches or undertaking compliance audits. Our Gas Governance roles are normally designed to provide security of supply, build consumer trust, or oversight of competition and markets.

Facilitating industry systems and processes

Gas Industry Co has regulatory defined roles and has undertaken activities where requested by industry to deliver independent or centralised services. Examples of the facilitation role includes a wide set of activities including management of the D+1 model, the gas registry, or reconciliation processes, through to hosting the website for upstream disclosures.

Trusted Advisor to Government and Industry

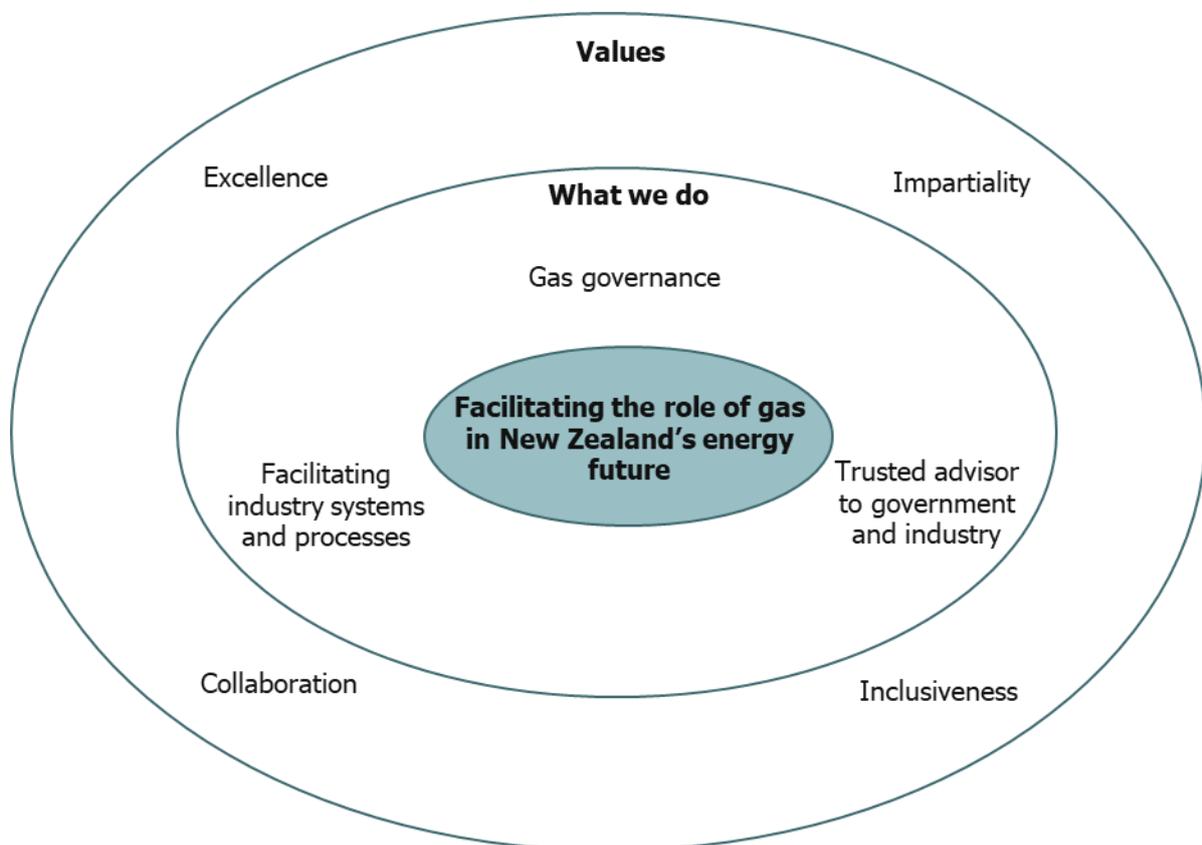
The trusted advisor role reflects the activities we undertake to inform about the gas industry. This role has become more pronounced as the wider energy sector and Government entities have sought to develop their understanding of the changing energy future. Examples include the Supply and Demand studies, engagement with government agencies such as MBIE or the

Climate Commission, and discussions with industry regarding government processes. It is important to note here that our role is limited to informing, we are not an advocate or lobbyist for industry.

1.3 Gas Industry Co's Strategy

Earlier this year, Gas Industry Co updated its Strategy, including its core theme of "facilitating the role of gas in New Zealand's energy future". Our core theme recognises that:

- Gas Industry Co's roles are broader than only providing governance;
- Gas has a role in New Zealand's energy future;
- Gas Industry Co has a role in supporting the energy transition;
- Gas includes gases of increasing importance in our energy ecosystem (hydrogen/biogas); and
- Gas Industry Co's regulatory roles are designed to either provide greater security of supply or oversight of competition and markets.



Gas Industry Co's values were reset 18 months ago and following a recent review, we concluded no changes were required. The values have previously been integrated into our 6 monthly performance review process.

Collaboration: We work together with integrity, to achieve our goals

We do this by:

- working together on shared goals;
- sharing and seeking knowledge and experience;
- appreciating each other's differences; and
- having a positive attitude.

Impartiality: Our decisions are transparent, fair, and based on evidence

We do this by:

- maintaining the political neutrality and objectivity required to enable us to work with current and future Governments;
- carrying out the functions of the Company unaffected by personal beliefs;
- ensuring our actions are not affected by personal interests or relationships; and
- supporting the Company's outcomes through robust, unbiased, evidence-based advice.

Inclusiveness: We treat others with respect, listening to all views, and engaging openly

We do this by:

- treating everyone with fairness, kindness, and respect;
- being honest and trustworthy;
- giving and receiving honest feedback; and
- being open to all ideas/seeking advice.

Excellence: We strive for quality in everything we do

We do this by:

- owning our work and our development;
- being committed – giving 100% to everything we do;
- being professional and responsive; and
- being reliable – we are a safe pair of hands.

Q1: *We seek your input about looming issues on the horizon which will be addressed in current or future work programmes, as mapped in 1.1 above. What other issues should be on our horizon?*

Q2: *Technology changes, changes to market structures, the potential for new renewable infrastructure, and uncertainty over prices will all have an impact on existing facilities, commercial arrangements and regulatory structures and systems.*

- *What changes to regulatory structures and systems do you believe Gas Industry Co should be reviewing?*
- *What other gas challenges arising from the energy sector transition should Gas Industry Co be assisting industry and Government to prepare for?*

2. Developing the Proposed Work Programme

2.1 Work programme and levy setting process

Gas Industry Co's work programme is developed in a consultation process with industry participants and other stakeholders that commences with an annual Co-Regulatory Forum. This Consultation Paper takes into consideration feedback received on the draft Work Programme at the Co-regulatory Forum held at Gas Industry Co's offices on 27 November 2020.

Co-Regulatory Forum presentation slides can be found [here](#).

Following the Co-Regulatory Forum, this Consultation Paper is published. Submissions on the Consultation Paper are considered in preparing:

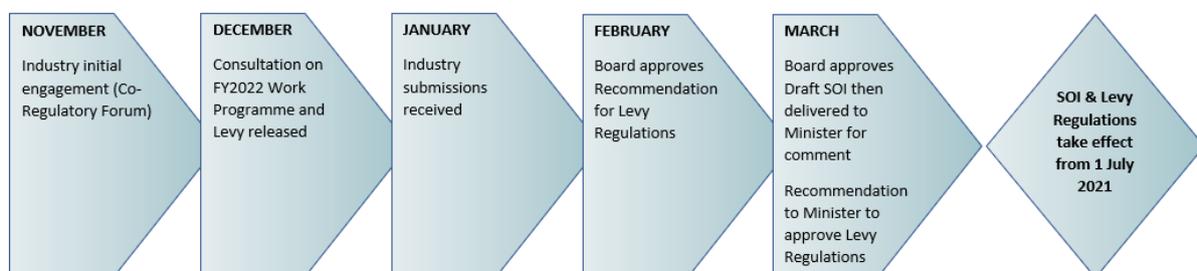
- The Statement of Intent (SOI) for the next financial year (with indicative activity for the subsequent two years in the three-year planning period covered by the SOI); and
- A formal recommendation to the Minister for regulations authorising the levy on industry participants for the ensuing year.

Pursuant to section 43ZZD of the Act, the Minister may accept or reject Gas Industry Co's formal recommendation to make levy regulations. However, in circumstances where the Minister is satisfied that the levy is reasonable, Gas Industry Co has consulted on the levy, and the requirements of sections 43ZZB to 43ZZE of the Act have been met, the Minister must accept the recommendation. Following cabinet and vice-regal approvals, this process culminates in annual levy regulations being promulgated.

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

Consistent with Gas Industry Co's statutory role the FY2022 Work Programme, like that for FY2021, focusses on Gas Industry Co's core market governance role under existing rules/regulations and continuing key multi-year programmes.

The diagram below outlines the process undertaken to develop the Work Programme and Levy:



Q3: *Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?*

3. Proposed FY2022 Work Programme

3.1 Work programme prioritisation

The proposed FY2022 work programme is grouped into the three classes of activities discussed in section 1.1 above, being:

- Gas Governance;
- Facilitating industry systems and processes; and
- Trusted Advisor to Government and Industry.

Gas governance

Work programme activities that relate to gas governance are given priority in the work programme given that they are, or stem from, statutory obligations. Funding for gas governance activities is derived from a combination of market fees and levy.

Facilitating industry systems and processes

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

Examples include:

1. The D+1 Pilot and the future implementation of a formal D+1 system; and
2. Information disclosure.

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. These activities are funded by the levy.

Trusted Advisor to Government and Industry

The trusted advisor role reflects the activities we undertake to inform about the gas industry.

Examples include:

1. Monitoring and supporting the potential use of hydrogen and biogas in transmission and distribution pipelines;
2. COVID-19 sector co-ordinating entity role.

As noted above, this role has become more pronounced as the wider energy sector and Government entities have sought to develop their understanding of the changing energy future. As such, it is essential that sufficient budget is included to allow these important activities to be undertaken. These activities are funded by the levy.

Flexibility and cost efficiencies

It is always possible that unplanned, unbudgeted work might need to be undertaken in any one year. This is particularly a result of the changing nature of the industry and the period that elapses between development of each year's proposal and its implementation. Gas Industry Co prefers not to budget contingency amounts to keep the levy at a reasonable level. If unplanned or unbudgeted work becomes a priority, Gas Industry Co will reassess its planned workstreams and/or milestones. Gas Industry Co has been successful over recent years using this approach in progressing key industry priorities while maintaining appropriate cost discipline.

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of support services to Gas Industry Co as a whole. There is a specific focus on delivering efficiency and value for money.

As well, Gas Industry Co has considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven and it does not make sense to make full provision for each of these individually. Instead, Gas Industry Co makes a modest provision for these items and backs itself to manage within the global amount.

3.2 FY2022 Work Programme: Gas Governance

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 CCM Regulations provide for the appointment of a Critical Contingency Operator (CCO) whose role is to determine, manage, and terminate critical contingencies, as well as associated activities such as stakeholder training and running exercises. The appointment of the current CCO expires on 1 March 2022, and work will be undertaken prior to this to renew or appoint a new CCO.

It is expected that Gas Industry Co will make a recommendation to the Minister to amend the CCM Regulations during FY2022, as a result of the review which is currently being undertaken. Aspects of the recommendation to the Minister are contingent on Gas Act changes being promulgated, and the intention is to progress any proposed changes to the Regulations as a single recommendation. Gas industry Co will work to implement changes during FY2022, subject to ministerial approval.

Forecast Activities in FY2022

1. Make a recommendation to the Minister;
2. Implement changes to CCM Regulations;
3. Appoint and monitor the CCO;
4. Assess the performance of the CCM Regulations;
5. Respond to CCM events by appointing/monitoring experts;
6. Monitor the annual CCM exercise; and
7. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing, and electricity supply as required.

Electricity Price Review

Gas Industry Co monitors governance arrangements in related industries to assess whether any changes may influence existing gas industry regulations, and if any changes to gas regulations are required in response.

The government's Electricity Price Review made 32 recommendations about whether the electricity market delivers efficient, fair, and equitable prices to customers. Gas Industry Co considered it prudent to review whether those recommendations should apply to the gas market, given the similarities and links between the gas and electricity markets. Gas Industry Co has released a consultation paper "*Extending the Electricity Price Review's Final Recommendations to the Gas Market - An Assessment*". The consultation paper sets out our initial assessment of whether recommendations from the Electricity Price Review should be extended to the gas market.

Forecast Activities in FY2022

1. Determine whether to amend existing or introduce new, gas governance arrangements (including having regard to the effectiveness of any non-regulatory arrangements);
2. Consult with stakeholders on the content and form of any proposed changes to gas governance arrangements; and
3. Make recommendations to the Minister accordingly.

Advanced Gas Metering

Gas Industry Co is determining what changes are required to support the roll-out of advanced gas meters. This includes assessing if there is merit in changing the Gas (Switching Arrangements) Rules 2008 (Switching Rules) and the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules), and working closely with industry to ensure associated gas industry systems and rules are fit for purpose.

Forecast Activities in FY2022

1. Continue to work with industry to ensure systems and rules are appropriate for advanced gas metering;
2. Make a recommendation to the Minister if changes to the rules are required; and
3. Make changes to registry or switching in accordance with advanced gas metering deployment.

Retail Gas Contracts Oversight Scheme

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme. This was designed to assess retailers' contracts with residential and small commercial/industrial consumers, against a series of benchmarks of satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor.

The most recent full review occurred 2018. There was 'substantial' compliance with the scheme. This review process is carried out every three years. The next review is due in 2021.

Forecast Activities in FY2022

1. Engage an Independent Assessor to carry out an assessment of retailers' contracts with residential and small commercial/industrial consumers, and advise retailers of the results of this assessment;
2. Review new-entrant retail contracts, as requested; and
3. Provide information to new entrant retailers to help them understand their obligations and the governance processes.

Gas Distribution Contracts Oversight Scheme

In 2012, Gas Industry Co established the Gas Distribution Contracts Oversight Scheme. This is an industry-agreed scheme which assesses contracts between gas distributors' and gas retailers against a set of principles.

Gas Industry Co appointed an Independent Assessor in FY2014 who found that contracts offered by distributors exhibited 'substantial' alignment with the set of principles agreed upon.

Recent communications with distributors indicated that there had been no material changes to distribution contracts. Gas Industry Co will seek an update from distributors in FY2021

Forecast Activities in FY2022

1. Assess findings from the responses provided by distributors in FY2021; and
2. Report on next steps.

Downstream Reconciliation

The purpose of the 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.

Gas Industry Co has an ongoing obligation to appoint and oversee an Allocation Agent as they fulfil their duties under the Reconciliation Rules. The appointment of the current Allocation Agent expires 31 December 2021 and work will be undertaken prior to this to renew or appoint a new Allocation Agent.

Gas Industry Co monitors allocation results to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of several industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and the Allocation Agent.

Forecast Activities for FY2022

1. Appoint and monitor the Allocation Agent;
2. Assess ongoing performance of the Reconciliation Rules;
3. Monitor allocation results;
4. Commission performance and event audits as required;
5. Assess any outcomes from the audit reports; and
6. Make determinations under the Rules as required.

Switching and Registry

The purpose of the Switching Rules is to establish a set of gas switching and registry arrangements that will enable 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 facilitate and monitors each customer switch from initiation through to completion.

The Switching Rules provide for the appointment of a Gas Registry Operator. The appointment of the current Gas Registry Operator does not expire until 2025.

Forecast Activities in FY2022

1. Monitor Gas Registry Operator;
2. Assess the ongoing performance of the Switching Rules;
3. Monitor and report on switching statistics;
4. Make determinations under the Switching Rules as required;
5. Commission performance and event audits as required;
6. Continue to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining;
7. Follow up on any issues identified in the switching audits; and
8. Update Switching Rules in response to advanced gas meter roll-out.

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.

Forecast Activities in FY2022

1. Appoint Rulings Panel;
2. Perform Market Administrator role;
3. Assess ongoing performance of the Compliance Regulations;
4. Assist Investigator and Rulings Panel as required; and
5. Monitor compliance trends for indications of regulatory inefficiency.

Statement of Intent and Annual Report

The Gas Act requires that the industry body 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, annual Statements of Intent (SOI) are required to be submitted to the Minister for comment prior to being finalised and published.

Forecast Activities in FY2022

1. Prepare and publish the SOI to meet statutory timeframes;
2. Provide the draft SOI to the Minister for comment prior to publication; and
3. Prepare and publish the Annual Report and meet requirements for tabling in Parliament.

Other Reporting

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through a number of publications, including Switching Statistics, Quarterly Report and Industry Performance Measures.

Forecast Activities in FY2022

1. Prepare and publish Switching Statistics and Industry Performance Measures; and
2. Continue engagement and communications for interested stakeholders.

3.3 FY2022 Work Programme: Facilitating industry systems and processes

Implement a Formal D+1 System

D+1 allocation is a process that allocates gas on the day following gas flow. Since 2015, Gas Industry Co has been trialling D+1 allocation as a means of providing more timely information to retailers about their customers' gas usage. Gas Industry Co will implement a formal D+1 allocation system as part of the Reconciliation Rules.

Forecast Activities in FY2022

- 3.1. Operate and maintain the current D+1 model under the pilot scheme;
- 3.2. Develop and consult on any required changes to the Reconciliation Rules;
- 3.3. Make a recommendation to the Minister to amend the Reconciliation Rules; and
- 3.4. Develop, test and implement the supporting D+1 system.

Information Disclosure

In 2018 Gas Industry Co commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found. As part of this workstream, the *Information Disclosure: Problem Assessment* paper ("Problem Assessment paper") was published in October 2019. This paper assessed possible information issues in 10 separate information elements. From the Problem Assessment paper, three projects were identified where further work was required:

1. Development of a Statement of Proposal (SOP) for the disclosure of gas production and storage facility outage information;
2. Development of a paper on gas contract price and volume information – this project assesses whether a weighted average gas price would provide valuable insight into market gas prices; and
3. Development of a paper on major user outage information – this project assesses whether major gas user outage information should be disclosed publicly.

The latter two papers should be completed by the end of FY2021. Depending on the conclusion reached in these papers, these issues may proceed to an SOP stage in FY2022.

The timeframes for the SOP for gas production and storage outages will depend on when Gas Act changes have completed their passage through the House of Representatives.

Activities in FY2022

The work on information disclosure in FY2022 will depend on outcomes from the SOP process and the separate papers on contract price and volume information, and major user outages.

If the SOP concludes that current arrangements for gas production and storage outage information are sufficient, Gas Industry Co's focus will be on monitoring the performance of these arrangements. If the SOP concludes that the regulatory objective is unlikely to be satisfactorily achieved by any reasonably practicable means other than through regulation then Gas Industry Co will make a recommendation to the Minister for a gas governance regulation. Subject to Ministerial approval, Gas Industry Co will then proceed to implement a regulated solution.

Gas transmission pipeline access

Firstgas and its stakeholders are working through a process to determine potential changes to the transmission access arrangements (the Vector Transmission Code and Maui Pipeline Operating Code). At a workshop on 17 November 2020, Firstgas received feedback from stakeholders on the benefits that stakeholders wished to achieve as a result of any changes to the current access arrangements and the pathway to achieving those benefits. Firstgas is considering stakeholder feedback with a view to providing a way forward in March 2021.

Forecast Activities in FY2022

1. Be prepared to assume any role allocated to Gas Industry Co under the terms of the current gas transmission codes in relation to changes to the transmission access arrangements; and
2. Assess and action any changes to industry arrangements that may be required as a result of the GTAC not progressing (e.g. gas metering, gas quality, transmission security and reliability, interconnection).

3.4 FY2022 Work Programme: Trusted Advisor to Government and Industry

Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines

In September 2019, the New Zealand Government published a green paper that lays out its vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed via the gas network. In addition to this paper, First Gas have received a grant to support a trial that will investigate how hydrogen could be distributed through their gas pipelines. There is also a role for biogas to be blended with natural gas and distributed around New Zealand.

Forecast Activities in FY2022

1. Monitor any work undertaken in relation to hydrogen and biogas being used in gas pipelines;
2. Review arrangements in other international jurisdictions in preparation for the updating of any rules and regulations; and
3. Update any rules and regulations needed to support hydrogen and biogas transmission and distribution.

Green Gas Certification Scheme for Biogas and Hydrogen

Gas Industry Co is investigating a green gas certification scheme, similar to the newly created New Zealand Energy Certificate System (NZECS). NZECS enables electricity consumers to purchase certificates from renewable generators and to make claims based on these certificates. With the potential of hydrogen and biogas being mixed with natural gas in our pipelines, there could be benefit in a scheme for gas too. We are currently working with industry to assess whether there is an opportunity for a green gas certification scheme for both biogas and hydrogen.

Forecast Activities in FY2022

1. Continue to work with industry on options for a green gas certification scheme.

Sector Coordinating Entity Role - COVID-19 Pandemic

The Covid-19 pandemic that struck during 2020 highlighted the importance of natural gas for maintaining security of energy supply. This issue became important when considering repairs, maintenance and safe and efficient use of key assets and infrastructure. Gas Industry Co acted as the sector co-ordinating entity for the gas industry to:

- collate industry information on any risks to the New Zealand gas industry arising from the COVID-19 outbreak to inform MBIE's weekly reporting to Cabinet,
- provide MBIE with daily updates in relation to any emergent issues in the New Zealand gas industry,
- collate information from industry participants in relation to any key workers they require to be brought in from overseas to progress critical projects relating to the provision of essential services.

Forecast Activities in FY2022

1. Maintain a watching brief of COVID-19 activities and be prepared to step into the sector co-ordinating entity role as and when required.

Provide gas market information and analysis that enables the industry to make informed decisions

Gas Industry Co has a role in providing information to support stakeholders in making better informed decisions. In FY2020 Gas Industry Co commenced a project that investigates the role of gas in New Zealand over the next 15 years as the electricity generation fleet becomes increasingly renewable.

Gas Industry Co has previously commissioned reports focussing on gas supply and demand over the long term and on particular aspects of the industry. Further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

In FY2020 Gas Industry Co is developing an information portal as a repository of gas industry information.

Forecast Activities in FY2022

1. Continue to produce the short-term and long-term supply and demand studies and communicate their findings;
2. Carry out any ad hoc analyses that further inform the industry of the role of gas in New Zealand as the energy sector undergoes a transition to lower emissions over the coming years; and
3. Continue to enhance the information portal.

Q4: *Reflecting on Gas Industry Co's Sector Coordinating Entity Role in relation to the COVID-19 pandemic, we are interested in your feedback in relation to the following matters relating to both COVID-19 lockdowns (March and August 2020):*

- *Standard of communications from Gas Industry Co (eg was the messaging clear, timely, targeted?);*

- *What went well/what could be improved?*
 - *Learnings to take forward/feedback for Gas Industry Co?*
 - *Learnings to take forward/feedback we can pass on to MBIE?*
 - *Any other comments you would like to add?*
- Q5: *Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2022? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.*
- Q6: *Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2022? Please provide reasons for your response.*

4. Funding of Operations

4.1 Sources of Funding

Gas Industry Co has two main sources of funding to meet the total costs of delivering on the Work Programme and other aspects of its role as the industry body – the Levy and market fees.

Levy

The levy funds the industry body's costs that are not covered by market fees, including the direct costs of workstreams and non-operational expenditure for the business.

Market Fees

Established gas governance rules and regulations include provision to recover costs directly required to meet Gas Industry Co's obligations under those arrangements (referred to as 'market fees'). These cover the contractually agreed costs of any service providers (particularly the Allocation Agent, the Registry Operator and the Critical Contingency Operator) and any other expected direct costs related to the monitoring of those arrangements.

A formal estimate of market fees for each set of rules or regulations is published two months before they apply with each new financial year commencing on 1 July. Market fees collected are applied to actual expenses incurred for each set of rules or regulations. Any shortfall or excess fees are invoiced/credited to the market fee payers in a year-end 'wash-up'.

4.2 Levy Funding Requirement

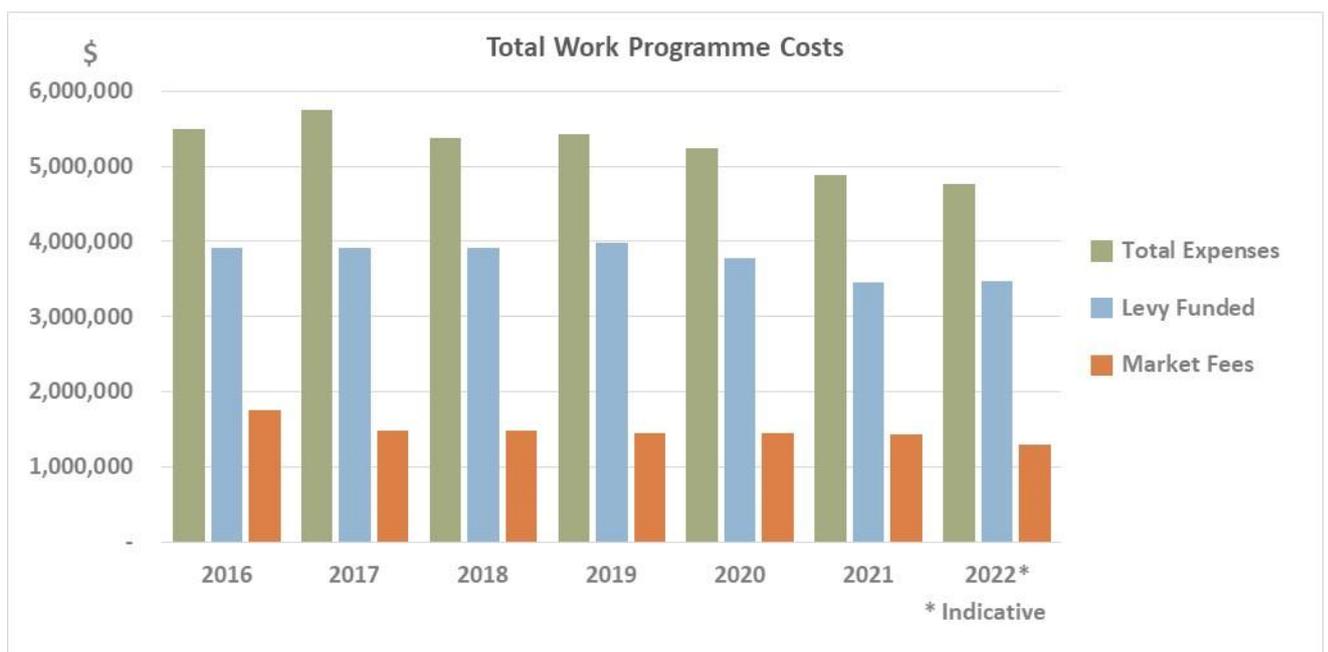
Gas Industry Co expects the FY2022 Levy Funding Requirement (LFR) to be \$3,472,367 (\$3,450,182 in FY2021). The following chart shows the LFR for FY2016 to FY2022:



Gas Industry Co's approximate market fees for FY2022 are \$1,299,000. The following chart shows published market fees from FY2016 to FY2021, and the approximation for FY2022:



Total Work Programme Costs (TWPC) for FY2022 are shown below. These are based on a combination of the proposed LFR and indicative market fees above. TWPC for FY2022 are \$4,771,367 (\$114,815, or 2.35%, lower than in FY2021).



Combining all of the above, the Levy Funding Requirement for FY2022 can be calculated as follows:

Description	\$
Gas Governance	2,517,134
<i>Comprising: Critical Contingency Management; Electricity Price Review; Advanced Gas Metering; Retail Gas Contracts Oversight Scheme; Gas Distribution Contracts Oversight Scheme; Downstream Reconciliation; Switching and Registry; Compliance and Enforcement; Statement of Intent and Annual Report; Other Reporting.</i>	
Facilitating Industry Systems and Processes	1,066,030
<i>Comprising: Implement a Formal D+1 System; Information Disclosure; Gas Transmission Pipeline Access.</i>	
Trusted Advisor to Government and Industry	1,188,203
<i>Comprising: Monitor and support the potential use of hydrogen and biogas in transmission and distribution pipelines; Green Gas Certification Scheme for Biogas and Hydrogen; Sector Coordinating Entity Role - COVID-19 Pandemic; Provide gas market information and analysis that enables the industry to make informed decisions.</i>	
Total Work Programme Costs	4,771,367
Less: Approximate Market Fees	1,299,000
Levy Funding Requirement	3,472,367

4.3 Proposed Levy Method and Rates

Gas Industry Co's existing levy method:

1. Is based on a set of [Levy Principles](#). In summary, those Principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency; and
2. Has two components: a wholesale component and a retail component. These components are apportioned according to the cost allocated to each part of the annual Work Programme and apportioned among levy payers pro rata with either their wholesale levy volumes or ICP market shares. In years when the Work Programme focusses on retail issues, for instance, the retail levy rate will increase while the wholesale levy rate will decrease.

These arrangements have remained unchanged since 2007.

Based on the TWPC above, the levy rates for FY2022 would be:

1. Wholesale levy: 1.1445c/GJ (up from 1.1164c/GJ in FY2021, a 2.51% increase); and
2. Retail levy: \$5.28/ICP¹ (up from \$5.16/ICP in FY2021, a 2.33% increase).

Assumptions:

1. The draft gas volume assumption for FY2022 is 165PJ.
2. The ICP assumption of approximately 300,000 is based on the current number of ACTIVE-CONTRACTED entries in the gas registry.

¹ This figure equates to a sum of \$0.435 per month

Q7: Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?

Q8: Do you have any comment on the proposed levy rates for FY2022?

Appendix A: Recommended format for submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. Respondents are also free to include other material in their responses.

Question	Comment
Q1: We seek your input about looming issues on the horizon which will be addressed in current or future work programmes, as mapped in 1.1 above. What other issues should be on our horizon?	
Q2: Technology changes, changes to market structures, the potential for new renewable infrastructure, and uncertainty over prices will all have an impact on existing facilities, commercial arrangements and regulatory structures and systems <ul style="list-style-type: none">• What changes to regulatory structures and systems do you believe Gas Industry Co should be reviewing?• What other gas challenges arising from the energy sector transition should Gas Industry Co be assisting industry and Government to prepare for?	
Q3: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?	

<p>Q4: Reflecting on Gas Industry Co's Sector Coordinating Entity Role in relation to the COVID-19 pandemic, we are interested in your feedback in relation to the following matters relating to both COVID-19 lockdowns (March and August 2020):</p> <ul style="list-style-type: none"> • Standard of communications from Gas Industry Co (eg was the messaging clear, timely, targeted?); • What went well/what could be improved? • Learnings to take forward/feedback for Gas Industry Co? • Learnings to take forward/feedback we can pass on to MBIE? • Any other comments you would like to add? 	
<p>Q5: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2022? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.</p>	
<p>Q6: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2022? Please provide reasons for your response.</p>	
<p>Q7: Gas Industry Co is particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?</p>	
<p>Q8: Do you have any comment on the proposed levy rates for FY2022?</p>	

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.

SUBMISSIONS CLOSE:

5 pm on Friday, 5 February 2021

SUBMIT TO:

www.gasindustry.co.nz

ENQUIRIES:

Susan Dunne