



Consultation on
Proposed Gas (Levy of Participants) Regulations
2011

Date issued: 20 December 2010
Submissions close: 4 February 2011





About Gas Industry Co.

Gas Industry Co was formed to be the co-regulator under the Gas Act.

As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

Submissions close: 4 February 2011

Lodge submission to: www.gasindustry.co.nz

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Executive summary

This consultation paper explains the development of the FY2012 levy, describes the work Gas Industry Company Limited (GIC) expects to undertake in FY2012 and its associated cost, calculates the levy funding requirement for that year, and proposes the FY2012 levy. In addition, some amendments to certain provisions of the levy regulations are proposed.

GIC has completed most of the anticipated recommendations for gas governance contained in the April 2008 Government Policy Statement on Gas Governance (GPS), although as indicated last year, work in relation to the Infrastructure Access Group still remains to be completed. Therefore, the FY2012 Indicative Work Programme (IWP) continues to address the outstanding GPS matters, as well as the continuation of its statutory roles. Issues that gained prominence in FY2011, such as retail competition on constrained transmission pipelines, are also incorporated. The full set of proposed activities is set out in Section 3.

In general, the work expected to be undertaken includes:

- Monitoring compliance with Gas Governance (Constrained Transmission Pipeline) Rules (if such rules are introduced);
- Continuing work on medium-term arrangements for transmission pipeline capacity. This may include working with Vector and the Commerce Commission on developing security standards, demand forecasts, and an investment policy;
- Completion of policy recommendations on improving shipper information (daily allocations);
- Beginning a review of Upstream Reconciliation;
- Continuing work on industry arrangements for Distribution and Gas Quality (if necessary);
- Continuing to perform contractual roles in relation to the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC) changes;
- Liaising with the approved complaints scheme (the Electricity and Gas Complaints Commission, or EGCC) and monitoring of compliance with the retail contract benchmarks; and
- Working with industry on the review of various gas governance arrangements, such as the Gas (Downstream Reconciliation) Rules 2008, Gas (Switching Arrangement) Rules 2008, and Gas Governance (Compliance) Regulations 2008.

The estimated Work Programme Cost¹ (WPC) for FY2012 is \$6,089,841, compared with \$7,029,516 in FY2011. The Levy Funding Requirement (LFR) is that portion of the WPC that GIC seeks to recover from industry participants via the annual levy. The FY2012 LFR is estimated to be \$3,961,665, compared with \$4,299,216 in FY2011. The balance of GIC's costs will be met through Market Fees (\$1,764,372) and the application for reserves from the Industry Asset Amortisation Reserve (\$363,804).

The proposed levies for FY2012 are:

- Retail levy of \$5.76 per annum payable on each ICP. This is a 10% decrease on the FY2011 rate of \$6.40; and
- Wholesale levy of 1.66 cents per GJ of gas purchased directly from gas producers. This is a 10% decrease on the FY2011 rate of 1.84 cents.

Submissions on the proposals in this discussion paper should be provided by **5.00pm on Friday, 4 February 2011**. Submissions can be made by registering on GIC's website and uploading your submission, preferably in the form of the submissions template attached to the consultation document. All submissions will be published on this website after the closing date. Submissions may be amended up to closure date.

¹ Total cost of all GIC activities.

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1

Introduction

1.1 Background

Amendments to the Gas Act 1992 (the 'Act'), introduced in 2004, provided for the co-regulation of the gas industry by the Government and an industry body. GIC was established by the gas industry to fulfil the statutory role of the industry body. It was approved as the industry body by Order in Council on 22 December 2004. In March 2009, the warrant for administration of the Act was passed to the Associate Minister of Energy and Resources (Minister).

GIC is responsible for proposing arrangements, which may include rules and regulations, in a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, and retail and consumer protection. Where appropriate, it is involved in the implementation of market arrangements, and in the surveillance and enforcement of market rules.

The principal source of funding for this work is through a levy on industry participants. Section 43ZZB of the Act enables GIC to recommend to the Minister that levy regulations be made requiring industry participants to pay a levy to it. The levy is to recover the estimated costs of the Company exercising its functions as the industry body, as per section 43ZZC of the Act.

The proposed amount and structure of this levy are based on GIC's work programme, including its statutory roles, and budget.

1.2 Levy process

The timing of the levy-setting process is dictated by the requirement in the Act for the levy to be set through annual regulations. The timeframe for getting those regulations approved means that the levy rate must be determined before the work programme for the coming year has been finalised. For that reason, GIC emphasises that the work programmes and budgets in this paper are indicative, and are provided only for the purposes of levy setting. Changes are possible before the start of FY2012.

1.3 FY2012 Levy process timetable

Table 1 presents the indicative timetable for the FY2012 levy process.

Table 1 FY2012 Levy timetable

Activity	Approximate timing
Levy consultation paper released.	Monday, 20 December 2010
Levy workshop held for industry participants.	Thursday, 20 January 2011
Closing date for submissions.	Friday, 4 February 2011
Report on submissions and proposed levy recommendation to GIC Board for approval.	Thursday, 24 March 2011
Levy recommendation to the Minister.	Tuesday, 29 March 2011
Levy proposal confirmed by Cabinet.	April 2011
Levy regulations promulgated and take effect.	Friday, 1 July 2011

1.4 Contents of this consultation paper

This consultation paper:

- describes the work that GIC intends to undertake in FY2012, and the associated estimate of costs;
- outlines the calculation of the levy funding requirement for FY2012;
- proposes the levy for FY2012;
- suggests amendments to certain provisions of the levy regulations; and
- invites submissions on all of the above, as a precursor to formulating a recommendation to the Minister for the required levy regulations.

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Call for Submissions

2.1 Submissions

GIC invites submissions on the proposed FY2012 levy and the associated issues set out in this paper. Specific matters on which submissions are sought are set out in each section of the paper, and a suggested format for submissions is set out in the template in Appendix A.

Submissions can be made by registering on GIC's website www.gasindustry.co.nz and uploading your submission, preferably in the form of the submissions template attached to the consultation document. All submissions will be published on this website after the closing date. Submissions may be amended up to closure date.

GIC will acknowledge receipt of all submissions electronically. Please contact Jay Jefferies (Ph: +64 4 472 1800 or email: jay.jefferies@gasindustry.co.nz) if you do not receive electronic acknowledgment of your submission within two business days.

The closing time for submissions is **5pm on Friday 4 February 2011**. Please note that submissions received after this date may not be able to be considered.

GIC values openness and transparency and therefore submissions will be made available to the public on GIC's website. Submitters should discuss any intended provision of confidential information with GIC prior to submitting the information.

2.2 Levy workshop

To assist industry participants with submissions and to provide a prior indication of matters that will require consideration by GIC, an industry workshop will be held at GIC's office in Wellington, from 10am to 12 noon on Thursday, 20 January 2011. If you plan to attend the workshop, please register on GIC's website by 5pm on Monday 17 January 2011.

3

Indicative Work Programme

This indicative work programme and budget provides an outline of GIC's proposed scope of operations, milestones, and expenditure for FY2012. It has been prepared to support the Company's consultation on its proposed levy regulations for FY2012 and industry participants have already been provided with opportunities to provide input to that programme.

Initially, a letter from the Chair to key industry participants was sent towards the end of October 2010, asking for their assessment of the three key strategic priorities they thought Gas Industry Co should be concentrating on during FY2012. From those responses, GIC was comfortable that its indicative work programme was addressing all the key issues raised by the industry. Any matters that are not included in the work programme are either outside the Company's mandate (such as encouraging or promoting the direct use of gas), or will be acted upon in this current financial year (such as a review of 'lessons learned' from the E-Gas liquidation).

The letter from the Chair was followed up with a co-regulatory forum in November with participation invited from both industry participants and officials. Forum participants were taken through a presentation of Gas Industry Co's assessment of work required to be undertaken in FY2012 and the available sources of funding. The Company noted that this meeting was to learn about the industry priorities, which would then have to be balanced with government requirements. Feedback during the forum, while instructive, did not provide any specific direction on how the Company might differently prioritise its work plan.

As with the written responses, the forum attendees confirmed the suitability of the work programme; no item was seen as unnecessary or irrelevant, nor were any new work items suggested.

3.1 Strategic priorities

In April 2008, the Government issued a new Government Policy Statement on Gas Governance (GPS) with a list of outcomes for GIC to pursue and report on. These outcomes amounted to a statement of work priorities for the Company and have formed a key input to its work programme since then. Although some work still remains to be completed, mainly in relation to the Infrastructure Access workstream, GIC has now completed most of the outcomes required in the April 2008 GPS. With that in mind, the Company's Board has considered its strategic priorities for FY2012 and, in general, the work expected to be undertaken includes:

- assessing the viability of regulatory measures to address the short-term problem of loss of competition to supply existing North Pipeline end users. In conjunction with this activity, GIC will also undertake further work related to Vector Gas Limited's (Vector) transmission security standards, demand forecasts, investment analysis process, and Vector Transmission Code (VTC) changes to adopt new access arrangements;
- developing a statement of proposal with respect to improving shipper information (Daily Allocations);
- preparation of a statement of proposal for a comprehensive update to the Gas (Downstream Reconciliation) Rules (the 'Reconciliation Rules').
- reviewing the Gas (Switching Arrangements) Rules (Switching Rules) against the revised rules for switching in the electricity sector, and considering whether there is a need for better alignment to address the needs of dual-fuel retailers.
- following recommendations from the Rulings Panel, GIC expects to recommend a range of changes to the Gas Governance (Compliance) Regulations;
- fulfilling the various roles set out for the Company under approved gas governance arrangements, and helping industry participants to comply with the new arrangements.
- providing advice on sector issues such as demand forecasting, disclosure rules for access to private pipelines, and input into the MED's industry performance review if required.

3.2 Infrastructure Access Group

Access to key infrastructure is an essential part of effective open access arrangements. Access to infrastructure on reasonable terms is necessary to 'ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner'.²

The Infrastructure Access Group (IAG) works to ensure that arrangements exist for market participants to access transmission and distribution pipeline networks and gas processing facilities on reasonable terms. IAG achieves these outcomes through facilitating industry agreement on access issues and, where necessary, recommending regulatory solutions.

In FY2012, the Company intends to give priority to transmission pipeline capacity, interconnection, and daily allocations. It will also continue to work on industry-initiated activities including facilitating industry forums on contentious issues; commissioning expert reports; developing and issuing best practice guidelines; and performing its rule change roles under the Maui Pipeline Operating Code (MPOC), and the VTC. The IAG also has an ongoing statutory role under the Gas (Processing Facilities Information Disclosure) Rules 2008.

The estimated cost for IAG activities in FY2012 is \$869,389. This includes external consultancy costs of \$440,000 but does not include governance or corporate costs, which are discussed separately below.

Access to Gas Processing Facilities

GIC's objective in relation to gas processing is to promote efficient access to gas processing facilities to support the Government's overall objective, and the specific outcomes for the gas industry. This includes determining whether any issues are preventing open access to processing plants and thus hindering the effectiveness of the regime.

Gas Industry Co developed the Gas (Processing Facilities Information Disclosure) Rules 2008 (the Disclosure Rules) to achieve its objective. The purpose of the Disclosure Rules is 'to provide a process to settle the issue of whether it is necessary to recommend the rules or regulations setting reasonable terms and conditions for access to, and use of, gas processing facilities'. GIC's key deliverable is to meet its statutory requirements under the Disclosure Rules. This includes ensuring all regulatory disclosures are up-to-date and published on the Company's website.

During FY2012, information supplied about surplus processing capacity under the Disclosure Rules will be collated and published on GIC's website for the benefit of parties seeking access. This will enable the Company to report to the Minister on access constraints and recommend whether more extensive regulation is necessary.

² The principal objective for gas governance arrangements set out in section 43ZN of the Gas Act.

The Disclosure Rules, which came into effect on 27 June 2008, are set to expire in June 2014 unless extended by the Minister of Energy. To date, all gas processing facility owners have complied with the initial disclosure requirements. In April 2013, the Company will advise the Minister whether further activity is required.

Work stream	Rationale	GPS objectives	Ongoing activity	Milestones	Budget
Access to Gas Processing Facilities	Statutory role defined under the Gas (Processing Facilities Information Disclosure) Rules 2008.	Gas industry participants and new entrants are able to access third-party gas processing facilities under reasonable terms and conditions.	<ul style="list-style-type: none"> • Collect, monitor, and publish disclosed information. • Ensure all disclosures are kept up to date • In the event of non-disclosure, assist in any enforcement actions. • Document any access issues that are brought to the attention of GIC. • Report to the Minister 	Completion of statutory role defined under Gas (Processing Facilities Information Disclosure) Rules 2008.	\$16,604

Transmission pipeline balancing (including Daily Allocations)

Transmission pipeline balancing was a problem identified early in the Company's work on access to transmission pipelines. Balancing refers to the management of the inventory of gas in a pipeline within acceptable limits. Effective balancing arrangements are a necessary component of open access. The objective of the workstream is to ensure that transmission pipeline balancing arrangements allow for the safe, efficient, and reliable delivery of gas.

Although industry participants have recognised that the Maui and Vector pipeline balancing regimes are not operating as intended, they have found it difficult to address the issues. Gas Industry Co undertook extensive analysis, option development, and consultation on this issue. Having completed the assessment of balancing arrangements in line with section 43N of the Gas Act, Gas Industry Co remains of the view that the optimal option to achieve efficient, unified balancing of transmission

pipelines is the 'participative regulatory option'. The Gas Governance (Balancing) Rules were developed to give effect to this option. Nonetheless, the Company has acknowledged and taken account of the ongoing industry efforts to revise the MPOC to improve balancing arrangements, recent improvements in balancing behaviour, and reductions in balancing costs.

Gas Industry Co wrote to the Minister in September 2010 to advise that it wished to defer making a final recommendation on balancing at that time. Instead, it sought to adopt a 'wait and watch' approach and to review industry balancing arrangements after an interval of approximately one year. The Minister agreed with this recommendation.

Daily Allocations

Tightly integrated with balancing is the Group's work on daily allocations. There is a strong view among some industry participants that balancing costs and actions would decrease if certain shippers had access to better information. In particular, shippers supplying the mass market are requesting the provision of more timely gas gate delivery information. As a result, GIC has undertaken to investigate how transmission pipeline shippers might obtain information about their balance positions as soon as the day after gas flow (D+1). The objective will be to investigate whether a viable solution can be identified that provides transmission shippers with more timely information to ensure they can properly and efficiently manage balancing risks.

Work Stream	Rationale	GPS objectives	Activity	Milestones	Budget
Transmission Pipeline Balancing (including Daily Allocations)	GPS task	Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	<p>Daily allocations</p> <ul style="list-style-type: none"> Develop Statement of Proposal for daily allocation. <p>Balancing</p> <ul style="list-style-type: none"> Assess balancing market developments. 	<ul style="list-style-type: none"> Statement of Proposal by December 2011. Provide advice to Minister on balancing market developments by February 2012. 	\$109,529

Open Access transmission pipeline interconnection

Interconnection to transmission pipelines was identified by the industry as an issue during GIC's 2006 transmission access work. The ability to establish a physical connection to a transmission pipeline in an efficient and timely manner is a key element in ensuring that new sources of gas can be brought to

market. The objective of the interconnection work stream is to ensure the arrangements for interconnection with transmission pipelines are reasonable and meet the objectives of the Act and GPS.

In February 2009, GIC issued the *Guidelines on Interconnection to Transmission Pipelines* (the Guidelines). Although the Guidelines have no legal standing (they were the first Guidelines issued as a means of influencing outcomes to achieve a regulatory objective), it was GIC's intention that Transmission System Owners (TSOs) would use them to develop their interconnection services. It was also intended that parties seeking interconnection use them as a guide to principles, processes, documentation, and dispute arrangements.

Two reviews were held to examine the alignment of TSO interconnection arrangements with the Guidelines. In December 2010, the Company advised the Minister that regulation for interconnection to open access pipelines is not necessary at this stage. However, we proposed that we would review how well the TSOs' new interconnections arrangements perform by evaluating the next interconnections to the MDL and Vector pipelines. If any issues are found, Gas Industry Co will make the appropriate recommendations.

Access to private transmission pipelines

In February 2010, the Minister requested GIC's advice on the desirability of applying the Guidelines to private transmission pipelines. This was in response to concerns raised with the Minister by certain industry participants who believed that gas was being prevented from coming to market because private pipelines could not be accessed. GIC advised the Minister that the task would be complex as there is no clear legislative basis for identifying which pipelines are 'open access' and which are 'private'. Instead, we proposed an information sharing arrangement between GIC and MED.

In response, the Minister acknowledged our information sharing arrangements, but considered that they did not go far enough. The Minister suggested that the Company seek powers to investigate disputes and obtain information related to access, similar to the Company's previous work in developing the Gas (Processing Facilities Information Disclosure) Rules 2008.

GIC considers that investigating, consulting on, and developing rules for information disclosure on pipeline access disputes is a matter of similar scale and importance to the development of the Gas (Processing Facilities Information Disclosure) Rules. It should therefore involve similar stakeholder engagement, and similar project management disciplines.

Work Stream	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Interconnection	GPS task	Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.	<p>Open Access</p> <ul style="list-style-type: none"> Monitor the TSOs new interconnection arrangements. <p>Private Pipelines</p> <ul style="list-style-type: none"> Investigate the extent, if any, of issues relating to access to private pipelines. 	<ul style="list-style-type: none"> Advise Minister of any new interconnection issues as required. Provide advice to the Minister on issues, if any, by June 2012. 	\$108,019

Distribution

The purpose of this workstream is to identify any issues where distribution sector arrangements are causing outcomes that are inconsistent with those sought under the Gas Act and the GPS. In September 2010, GIC release an issues paper on Distribution and received submissions from the industry. After considering the submissions, the Company determined that regulation was not required at this time, but would continue to develop distribution contract benchmarks in consultation with the industry.

Work Stream	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Distribution	GPS task	<p>Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</p> <p>Consistent standards and protocols apply to the operations relating to access for all distribution pipelines.</p>	<ul style="list-style-type: none"> Monitor progress on updating network services agreements. Develop distribution contract benchmarks. 	<ul style="list-style-type: none"> Report to industry on outcome of monitoring network service agreements. Develop benchmarks by May 2011. 	\$46,415

Industry facilitation

GIC has contractual obligations under Memoranda of Understanding (MOUs) with both Maui Development Limited (MDL) and Vector to assist with changes to their respective industry codes (rule change requests for MDL's MPOC, and change request appeals for Vector's VTC).

In addition to its rule change role, GIC has undertaken significant facilitation roles with improved transmission access in mind. IAG has convened industry meetings (e.g. over-pressurisation forums), commissioned independent research (e.g. on UFG, capacity trading on the Vector network), and held talks with industry participants on specific issues. The Company's aim in these activities is to increase industry understanding of issues and help to facilitate industry-led solutions to infrastructure access issues. This work is an important way of delivering value to stakeholders.

While the FY2012 work programme assumes that code change activity will continue at a similar level to that of FY2011, GIC anticipates the majority of the work will be completed 'in-house', rather than out-sourced, as has been the case in the past.

Work Stream	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Industry facilitation	GPS task	Facilitating nexus between industry and government. Multilateral terms of access need a process to ensure ongoing relevance and efficiency.	<ul style="list-style-type: none"> Facilitating, influencing and communicating with industry to enhance debate over best-practice solutions on industry issues. Processing MPOC change requests and VTC change request appeals in accordance with the relevant MOU. 	<ul style="list-style-type: none"> Progress all rule changes according to MOUs. 	\$78,019

Transmission pipeline capacity

In recent years various aspects of transmission pipeline capacity have caused concern among industry participants. In GIC's 2006 *Transmission Access Issues Review Paper*, the Company identified access to short-term capacity on the Vector pipeline as an issue. Although the 2006 review related to both pipelines, concerns with capacity have been mainly raised with respect to the Vector system. More recently, in 2009, the capacity constraint in Vector's North Pipeline caught some pipeline users by surprise. It now seems unlikely that additional capacity will be available on the North Pipeline until

system reinforcement is built. Since the North Pipeline supplies a wide range of residential, commercial, industrial, and power generation customers in and around Hamilton, Auckland, and Whangarei, this could be a constraint to gas market growth in these areas.

This current review has been split into two work-streams.

Short-term Retail Competition Issue

Certain features of the commercial arrangements between Vector and its shippers have reduced retail competition on the constrained North Pipeline. End users wishing to obtain bids for their gas supply find it is often only the incumbent supplier who can make an unconditional offer. Other retailers must make offers 'subject to the availability of transmission capacity'. This issue has been of great concern to GIC. We are currently consulting on the *Retail Competition and Transmission Capacity: Statement of Proposal*. The Retail Competition Statement of Proposal considers this retail competition issue in more detail and identifies GIC's preferred option for addressing it as implementing the Gas Governance (Constrained Transmission Pipeline) Rules. Submissions on the paper were due Friday 10 December. GIC will consider submissions and report on the next steps. If needed, we anticipate having the rules in place before the end of FY2011.

Medium-term access arrangements

GIC has also been considering how Vector's capacity arrangements could be improved in the medium-term. Work on this part of the work stream will be deferred while the Company deliberates on the immediate competition issue. The longer-term issues include, but are broader than, the competition issue covered by the *Retail Competition Statement of Proposal*. However, one of the criteria for selecting the preferred option is consistency with any longer-term solution that might be implemented.

Work stream	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Transmission Pipeline Capacity	Statutory Role GPS Task	Access to short-term capacity on pipeline networks is required by shippers.	<p>Constrained transmission pipeline retail competition issue (short-term)</p> <ul style="list-style-type: none"> Ongoing role in monitoring compliance with rules. <p>Vector's access arrangements (medium-term)</p> <ul style="list-style-type: none"> Continue to work on Vector medium term 	<ul style="list-style-type: none"> All roles defined under the Gas Governance (Constrained Transmission Pipeline) Rules 2011 are performed. Issue Statement 	\$260,674

Work stream	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
			arrangements, including Statement of Proposal on preferred option. <ul style="list-style-type: none"> Continue work with Vector and the Commerce Commission on developing security standards, demand forecasts, and an investment policy. 	of Proposal by February 2012.	

Upstream reconciliation

The Act provides for regulations to be made for the purpose of 'providing for the establishment and operation of wholesale markets for gas, including for: (i) protocols and standards for reconciling and balancing gas; and (ii) clearing, setting, and reconciling market transactions'. Upstream reconciliation/title tracking is the name given to the process of transferring legal title, or ownership, to a tranche of gas.

The new objective of the project is to consider whether the arrangements for upstream reconciliation/title tracking are fair and efficient, and to recommend alternative arrangements if they are not. Specific objectives are to identify issues related to upstream reconciliation/title tracking and, if necessary, to describe and evaluate options to address the issues. No work in this area has taken place to date. In FY2012, GIC will be doing a review of industry arrangements.

Work stream area	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Upstream Reconciliation	GPS Task	Title-tracking may impose efficiency of transmission access.	<ul style="list-style-type: none"> Begin review of industry arrangements for upstream reconciliation. 	<ul style="list-style-type: none"> Release Issues paper by September 2011. 	\$178,150

Gas quality

GIC understands gas quality issues have for some time been a point of contention between industry participants. We are aware of industry concerns that the responsibilities for achieving compliance with *NZS5442:2008 Specification for natural gas* (the Gas Specification) are unclear. Also, the liability for

non-compliant gas pipelines is an issue. Some industry participants are concerned downstream participants (in particular retailers and distributors) are the most likely to suffer damage or liability from a gas incident. But an upstream participant (in particular a producer or TSO) is likely to be the responsible party, either because it caused the gas quality incident or failed to prevent it. In addition, GIC has received numerous requests from a distributor suggesting gas quality issues need further consideration.

GIC believes that maintaining an acceptable standard of gas quality is important for the gas industry—it affects combustion performance, safety, the reliability of gas supply, and the long-term integrity of the gas transport system. Gas quality-related incidents are potentially costly and could disrupt the supply of gas to entire gas distribution networks.

The objective of this work stream is to review current industry arrangements for managing gas quality; explore the mechanisms by which gas might become non-specification, and the potential for damage to be caused by non-specification gas; examine the circumstances in which the causer can be identified; analyse comparable overseas regimes to identify features that are potentially applicable in New Zealand, as well as possible gaps in the local regime; and consider the reasonableness of the industry arrangements.

This work commenced in FY2011 with the release of the *Gas Governance Issues in Gas Quality: Issues Paper*. The submissions on that paper are currently being assessed. After the review of submissions, and if necessary, GIC will identify the next steps, which may include the development of options.

Work stream area	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Gas Quality	GPS Task	The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences.	<ul style="list-style-type: none"> Continue work on review of industry arrangements for managing gas quality. 	<ul style="list-style-type: none"> Release Options paper by May 2011. 	\$63,019

Demand Forecasting

The gas industry currently lacks an independent view of what demand for natural gas will be in the medium to long-term. The recent capacity constraint on Vector's North Pipeline has shown there is a need for such forecasts, especially when considering whether investments in additional pipeline assets are required. GIC will begin work in this area by considering what information is required to address existing uncertainties.

Work stream area	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Demand Forecasting	GPS Task	Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;	<ul style="list-style-type: none"> • Begin review of demand forecasting. 	<ul style="list-style-type: none"> • Release Report by December 2011. 	\$71,402

3.3 Market Operations Group

The objective for the Market Operations Group (MOG) is to improve the efficiency of the wholesale and retail markets. The estimated cost for its activities in FY2012 is \$2,774,853. This includes external service provider costs of \$1,764,372, external consulting costs of \$90,000 and amortisation of \$363,804³, but does not include governance or corporate costs, which are discussed separately below.

The work of the MOG can be divided into wholesale, retail, and other work streams.

Wholesale activity

Planned activity for FY2012 includes oversight of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), and associated compliance activity. The total cost of wholesale markets activity for FY2012 is \$686,949, including service provider costs of \$560,000.

Wholesale Market Trading Platform

The Wholesale Market work stream objective, as set out in the GPS, is to provide efficient arrangements for the short-term trading of gas. Previously, GIC established the trial New Zealand Gas Exchange (NZGE), an electronic platform on which short-term quantities of gas can be bought and sold on a bilateral basis between participants. The NZGE went live at the end of June 2010, following amendments to the MPOC that allowed the Trading Hub to be established.

GIC is aware that there is an industry initiative underway to develop a trading platform that is integrated with OATIS, the Maui pipeline nomination system, and with participants' own systems. The work is likely to see the Balancing Gas Exchange expanded into a bilateral market. As such, GIC has stopped work on the NZGE trial. Projected activity for FY2012 is expected to be confined to keeping a watching brief on the development of the industry market. As a result, no budget is provided for this work stream. The watching brief will be accorded a low priority and, therefore, will be resourced from downtime, if any.

Critical Contingency Management

In line with the GPS requirement for sound arrangements for the management of critical gas contingencies, GIC has put in place regulations for critical contingency management. The purpose of the 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 focus of this work stream in FY2012 will be on GIC's statutory roles under the CCM Regulations and the management of the service provider agreement with the Critical Contingency Operator

³ The amortisation costs of the downstream reconciliation and switching systems have been pre-funded by one-off development fees and, accordingly, are excluded from the levy calculation.

(CCO). It will also evaluate the effectiveness of the regulations in light of experience with critical contingencies or exercises. Actual activities will depend on whether there are critical contingencies declared during the year. Typically, the CCO will be required to run an annual exercise to test the TSO plans and associated communication processes. However, if an actual critical contingency event occurs, then that is a sufficient substitute for the annual exercise.

Work stream area	Rationale	Objectives & outcomes	Ongoing activity	Milestones	Budget
Critical Contingency Management	Statutory Role	Sound arrangements for the management of critical gas contingencies.	<ul style="list-style-type: none"> • Undertaking statutory roles as required by Regulations. • Managing Critical Contingency Operator via Service Provider Agreement. • Review effectiveness of Regulations after any events / exercises. • Operation of critical contingency pool following an event. 	<ul style="list-style-type: none"> • All roles defined under the Gas Governance (Critical Contingency Management) Regulations 2008 are performed. • Annual exercise / incident held by June 2012. • Report on performance of arrangements by June 2012. 	\$624,507

Retail Activity

The proposed activity for FY2012 is the fulfilment of the statutory roles under the Gas (Switching Arrangements) Rules 2008 (Switching Rules) and the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules); a significant review of the Reconciliation Rules; and implementation of other rule changes as required. The total cost of this activity in FY2012 is expected to be \$1,708,186, including service provider costs of \$1,009,372 and amortisation of \$363,804.

For both the Switching Rules and the Reconciliation Rules, GIC is responsible for overseeing the performance of the service provider, providing guidance on the operation of the rules, and considering exemption requests. In addition, under the Reconciliation Rules, GIC reviews monthly allocation results and can commission audits and special allocations. In the last 12 months, GIC's role has included reviewing special allocation requests, considering exemption applications, continuing a series of

baseline performance audits, and producing monthly market operations reports for the Board. A similar level of market activity is expected in FY2012.

Work stream area	Rationale	Objectives & outcomes	Ongoing activity	Milestones	Budget
Switching & Registry	Statutory Role	Effective and efficient customer switching arrangements that minimise barriers to customer switching.	Oversight of Switching Rules including: <ul style="list-style-type: none"> • Managing the Registry Operator under the service provider agreement, including performance review; • Provide the interface between the Registry Operator and participants, and dealing with issues surrounding the operation of the Switching Rules; • Analysing registry reports and liaising with the Market Administrator in respect of alleged breaches; • Monitoring and assessing the performance of the Switching Rules; developing a register of issues that may require rule changes at a later date. 	<ul style="list-style-type: none"> • All roles defined under the Gas (Switching Arrangements) Rules 2008 are performed. 	\$535,748

Work stream area	Rationale	Objectives & outcomes	Ongoing activity	Milestones	Budget
Downstream Reconciliation	Statutory Role	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	<p>Oversight of Reconciliation Rules including:</p> <ul style="list-style-type: none"> Managing the Allocation Agent under the service provider agreement, including performance review; Providing the interface between the Allocation Agent and participants, and dealing with issues around the operation of the Reconciliation Rules; Analysing reconciliation reports and liaising with the Market Administrator in respect of alleged breaches; Monitoring and assessing performance of the Reconciliation Rules; developing a register of issues that may require rule changes. 	<ul style="list-style-type: none"> All roles defined under the Gas (Downstream Reconciliation) Rules 2008 are performed. 	\$982,161

Rule Changes

Changes will be required to the Rules from time to time and for a variety of reasons: variations in market circumstances, the need to correct aspects that are not operating as intended, and to reflect changes in policy.

The purpose of this work stream is, broadly, to evaluate the effectiveness of the Reconciliation Rules and to identify ways in which the purpose of the Reconciliation Rules may be better achieved. This project commenced in FY2011 and will continue in FY2012. The work includes consideration of the performance and effectiveness of the global allocation methodology; identification of alternatives that improve accuracy at the initial allocation stage; and evaluation of the costs of implementing the alternatives.

If revision of the Reconciliation Rules is required, ongoing work will involve preparation of, and consultation on, a statement of proposal to produce a recommendation to the Minister of Energy and Resources for any necessary amendments to the Reconciliation Rules. Once work on the Reconciliation Rules has been completed, GIC will turn its focus to reviewing other sets of market rules.

Work stream area	Rationale	GPS objectives & outcomes	Activity	Milestones	Budget
Rule Changes	GPS Task	Gas governance arrangements approved by the Minister of Energy are monitored by GIC for ongoing relevance and effectiveness.	<ul style="list-style-type: none"> Review feedback from industry on allocation system options. Maintain rule change registers. Consult on statement(s) of proposal for Reconciliation Rules. 	<ul style="list-style-type: none"> Release Statement of Proposal by December 2011. 	\$190,277

Other activity

Other activity encompasses those elements of the MOG that involve both wholesale and retail market activities. It includes the operation of the compliance regime and the development and monitoring of performance indicators for approved gas governance arrangements. The total cost for other market activities in FY2012 is \$379,718, including external service provider costs of \$195,000.

Compliance and Enforcement

The purpose of the Gas Governance (Compliance) Regulations 2008 is to provide for the monitoring and enforcement of the gas governance rules and regulations described in this section and the Gas (Processing Facilities Information Disclosure) Rules 2008 (see 3.2).

The compliance regime comprises three roles: a Rulings Panel; an Investigator; and a Market Administrator. The Rulings Panel is appointed by the Minister of Energy and Resources and the Investigator is a statutory appointment under the Compliance Regulations. GIC's role is to help them perform their roles, and to oversee the effectiveness of the regime and consider any amendments to the regulations as required. The Company acts as the Market Administrator and this work is done in-house.

Under the Compliance Regulations, GIC looks into alleged breaches of market rules and regulations and supports the Investigator and Rulings Panel in their work in determining and settling breaches. In the past 12 months, almost 2,400 breaches have been alleged; at the time of writing, 54 had been determined by the Market Administrator as raising a material issue and been passed to the Investigator for action. A similar level of activity is expected in FY2012.

Work stream area	Rationale	Act/GPS objectives & outcomes	Ongoing activity	Milestones	Budget
Compliance	Statutory Role	Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.	<p>Oversight of Compliance Regulations including:</p> <ul style="list-style-type: none"> • Performing the functions of the Market Administrator; • Assisting and enabling the Investigator, and Rulings Panel to process alleged breaches; • Amending and reviewing the compliance regime, as required, to support new gas governance arrangements; • Reporting quarterly to the Board on compliance activities. 	<ul style="list-style-type: none"> • All roles defined under the Gas Governance (Compliance) Regulations 2008 are performed. 	\$350,147

Performance measures

This project involves monitoring a suite of performance indicators for the gas governance arrangements. Ongoing work involves provision of quarterly reports on the GIC website and six-monthly reports to the Minister.

Work stream area	Rationale	Act/GPS objectives & outcomes	Activity	Milestones	Budget
Performance Measures	GPS Task	Gas Governance arrangements are monitored by GIC for ongoing relevance and effectiveness.	<ul style="list-style-type: none"> Determine and publish information on each gas governance arrangement which has been implemented. 	<ul style="list-style-type: none"> Quarterly reports posted on GIC website. Six-monthly reports made to Minister. 	\$29,571

3.4 Corporate Services Group

From FY2012, the 'Office of the Chief Executive' will be merged into Corporate Services and will be treated as a single cost centre with a combined budget of \$2,445,599. The Chief Executive will be responsible for the relationship with the Minister and MED, Board reporting, and general oversight across all work streams as well as the administrative and statutory reporting functions of GIC. In FY2012, the Chief Executive will continue to hold bi-monthly meetings with the Minister and MED to discuss gas industry and co-regulatory performance, act as the primary interface with other government agencies, and represent the Company at industry conferences and other events. The Board meets 10 times a year and the Group's budget includes Board costs, as well as the internal salaries required to co-ordinate Board reporting.

The Corporate Services Group's other responsibilities will include obtaining the annual levy, compliance with the Company's external accountability obligations (Strategic Plan, Quarterly Reports, Annual Reports, and AGM), stakeholder communications (industry and consumer conference, website, shareholder visits, and Company newsletter), and business planning and reporting (human resources, finances, project management and administrative support).

The Corporate Services Group will also undertake some minor workstream roles, in particular, continuing to liaise with other regulatory bodies with respect to the consumer complaints scheme, although oversight has passed to MoCA. An annual assessment of alignment with retail contract benchmark terms will also be carried out under the approved oversight scheme.

Work stream area	Rationale	Objectives & outcomes	Activity	Milestones	Budget
Consumer Issues	GPS Task	All small gas consumers have access to a complaints resolution system.	<ul style="list-style-type: none"> NB: Oversight of approved complaints scheme passed to Ministry of Consumer Affairs. Liaise with EGCC and other relevant regulators to remain aware of consumer complaint issues. 	<ul style="list-style-type: none"> Meet with EGCC at least quarterly. 	\$1,136

Work stream area	Rationale	Objectives & outcomes	Activity	Milestones	Budget
Retail Contracts	GPS Task	Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers.	<ul style="list-style-type: none"> Ongoing implementation of retail contracts oversight scheme. Annual assessment of alignment of industry contracts with retail contract benchmarks. 	<ul style="list-style-type: none"> Assessment started in June 2011. Report to Minister by September 2011. 	\$41,136

Objective	Activity	Budget
Governance	Management of Board and external relationships	\$589,450
Provide Strategic Advice	Report to the Minister on any Ministerial requests relating to the gas industry that may arise from time to time.	\$204,660
Provide funding	Recommendations to Minister on FY2012 Levy Regulations	\$109,989
Meet statutory accountability requirement	Publish Strategic Plan, Quarterly Reports, Annual Reports, AGM	\$134,201
Legal & risk	Manage legal risk (insurance, legal contingency etc)	\$126,823
Provide support to organisation	Human resources (ACC, recruitment, training & development, staff welfare, KiwiSaver and temps)	\$266,468
	Finance & project management (management & financial reporting)	\$214,851
	Information technology (equipment lease, external support)	\$78,360
	Communications (industry engagement activities and website)	\$25,960
	Indirect salaries	\$93,189
	Overhead (rent, depreciation, travel, photocopying, office supplies & stationery, repairs & maintenance, telephone, publications, postage, entertainment)	\$559,376

Q1:	<i>Do you consider there to be any other items that should be included in the Company's intended work programme for FY2012?</i>
Q2:	<i>Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2010?</i>

4

Levy Principles

GIC now has six years experience of setting an annual levy. During this time we have consulted extensively, receiving a number of submissions on both the structure of the levy and our methodology. Drawing on this experience, a robust set of general levy principles, covering levy setting, were codified into a formal Statement of Levy Principles and published in September 2009.

The Statement of Levy Principles describes the legislative authority, levy principles, and levy structure GIC uses when developing its levy recommendation for funding each year under the levy provisions of the Act. These have been used in the preparation of the FY2012 levy proposal.

The Statement of Levy Principles is available on the Gas Industry Co website.

5 Budget

The levy is structured so that particular levy components fund relevant parts of the GIC work programme. The work programme is divided into two aggregated blocks of work corresponding to each of the retail and wholesale levies. For these purposes:

- work on those parts of the gas supply chain upstream of distribution comprise the wholesale gas aggregated block of work; and
- work on consumer issues, retail markets, and distribution comprise the retail gas aggregated block of work.

GIC's budget is based on a best estimate of the costs to deliver the work programme prepared for calculation of the FY2012 levy. Budgets are therefore set significantly in advance of consultation on proposed new policy initiatives and actual expenditure may vary from budget if changes are required following the receipt of submissions or further analysis.

Wholesale Levy Budget

Table 1 FY2012 Wholesale Levy Budget

Work stream	Direct Costs				Overhead Allocation	Total Costs
	Service Providers	Consultants	Salaries	Total Direct Costs		
Balancing	0	60,000	49,529	109,529	168,919	278,448
Capacity Trading	0	150,000	110,674	260,674	402,021	662,695
Compliance	39,000	0	31,029	70,029	47,855	117,884
Critical Contingency Management	560,000	0	64,507	624,507	99,486	723,993
Demand Forecasting	0	50,000	21,402	71,402	110,119	181,521
Gas Processing	0	10,000	6,604	16,604	25,607	42,211
Gas Quality	0	30,000	33,019	63,019	97,190	160,209
Industry Facilitation	0	45,000	33,019	78,019	120,324	198,343
Interconnection	0	75,000	33,019	108,019	166,591	274,610

Work stream	Direct Costs				Overhead Allocation	Total Costs
	Service Providers	Consultants	Salaries	Total Direct Costs		
Upstream Reconciliation	0	20,000	158,150	178,150	274,750	452,900
Total	599,000	440,000	540,952	1,579,952	1,512,862	3,092,814

Retail Levy Budget

Table 2 FY2012 Retail Levy Budget

Work stream	Direct Costs					Overhead Allocation	Total Costs
	Service Providers	Consultants	Amortisation	Salaries	Total Direct Costs		
Compliance	156,000	0	0	124,118	280,118	191,419	471,537
Consumer Issues	0	0	0	1,136	1,136	1,751	2,887
Distribution	0	20,000	0	26,415	46,415	71,583	117,998
Downstream Reconciliation	723,900	0	175,466	82,795	982,161	127,690	1,109,851
Performance Measures	0	0	0	29,571	29,571	45,605	75,176
Retail Contracts	0	40,000	0	1,136	41,136	63,441	104,577
Rule Changes	0	50,000	0	140,277	190,277	293,453	483,730
Switching	285,472	0	188,338	61,938	535,748	95,523	631,271
Total	1,165,372	110,000	363,804	467,386	2,106,562	890,465	2,997,027

Corporate Budget

Corporate costs broadly comprise the indirect costs of GIC, being governance, Chief Executive, administrative support services, and office infrastructure. Work that is generally related to gas governance, rather than to one of the two aggregated work streams (wholesale or retail), is also classified as indirect.

Table 3 FY2012 Corporate Budget

Work area	Consultants	External Costs	Other	Salaries	Total Overhead
Governance	-	262,460	20,000	306,990	589,450
Strategic Advice	0	0	0	204,660	204,660
Finance & Project Management	80,000	13,850	8,080	112,921	214,851
Legal & Risk	15,000	28,600	0	83,223	126,823

Work area	Consultants	External Costs	Other	Salaries	Total Overhead
Levy	10,000	0	0	99,989	109,989
Statutory Accountabilities	0	49,000	0	85,201	134,201
Communications	0	10,800	15,160	0	25,960
Human Resources	0	90,000	109,900	66,568	266,468
Information Technology	30,000	43,200	5,160	0	78,360
Overhead	0	0	559,376	93,189	652,565
Total	135,000	497,910	717,676	1,052,741	2,403,327

Allocation of indirect costs

GIC apportions its indirect costs on the basis of the total direct costs of each work stream. This approach is used as it is simple to apply. It also better represents indirect costs that are unrelated to staff salaries, such as Board costs and work on general aspects of gas governance. As well, it reflects the dominance of consultant costs in the non-salary component of direct costs, which have historically been incurred as a substitute for sufficient permanent staff.

Table 4 FY2012 Summary of Levy Budget

Workstream	Direct Costs					Overhead Allocation	Total Costs
	Service Providers	Consultants	Amortisation	Salaries	Total Direct Costs		
Wholesale	599,000	440,000	0	540,952	1,579,952	1,512,862	3,092,814
Retail	1,165,372	110,000	363,804	467,386	2,106,562	890,465	2,997,027
Total	1,764,372	550,000	363,804	1,008,338	3,686,514	2,403,327	6,089,841

6

Levy Funding Requirement

6.1 Sources of funding

The Levy Funding Requirement (LFR) is the amount of money GIC seeks to recover from industry participants via the annual levy. In simple terms, it represents the Company's unfunded work programme costs, after applying its reserves and taking into account other revenue sources, such as market fees.

In FY2012, the Company will receive three sources of funds: the annual levy, shareholder fees, and market fees. The Company proposes to continue its policy of setting aside the annual shareholder fees as an equity reserve, providing a level of risk mitigation against unforeseen events. This means the primary source of revenue for the proposed FY2012 expenditure continues to be the annual levy. However, in addition to the annual levy, market fees also make a significant contribution towards the ongoing costs of the gas governance arrangements.

6.2 Market fees

GIC has estimated the costs that will be recovered through market fees. These are presented in the table below.

Table 5 **FY2012 Market Fees**

Regulations	Service Provider Contract
Switching Rules	\$285,472
Reconciliation Rules	\$723,900
Compliance Regulations	\$195,000
Critical Contingency Management Regulations	\$560,000
Total	\$1,764,372

Copies of the service provider contracts that comprise the major component of these costs are available on our website.

6.3 Reserves

GIC's equity balance as at 30 June 2010 was made up of three components: the first is the Industry Advances Reserve of \$1,574,072; the second is the Industry Amortisation Reserve of \$1,591,476; and the third is Retained Earnings of \$270,000 (comprising shareholder fees).

The Industry Advances Reserve represents the net over-recoveries of levies from previous years and has traditionally been used to offset levies in subsequent financial years, as provided for in the Act (section 43ZZC(3)). While the Act provides this as a mechanism for returning over-recovered levies, it is not a mandatory provision.

Although this policy has generally suited GIC by providing a method to return overpaid levies without undue risk to its liquidity, it has also reduced the transparency of its costs to the industry. For example, the change in the FY2011 levy was disproportionate to the change in GIC's underlying costs because of the fluctuating level of reserves. Therefore, GIC considers it is more practicable to refund overpaid levies as soon as the annual accounts have been received by shareholders at the AGM. This is also consistent with the treatment of over-recoveries collected under the various Market Fee arrangements. GIC is of the view that this policy will encourage a predictable and stable levy by removing from the levy calculations any variability resulting from a fluctuating level of reserves. Accordingly, refunds of approximately \$1.5m were made to levy payers at the end of November 2010 and no adjustment has been made to the FY2012 levy.

The Industry Amortisation Reserve represents the unexpended amortisation on capital items purchased with market fees, such as the Switching Registry and Downstream Reconciliation system. There is an ongoing annual amortisation cost of \$363,804 associated with these assets. This annual cost will be met from the amortisation reserve and, over time, the value of the assets and the reserve will both reduce 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.

6.4 FY2012 Levy funding requirement

Calculation of the FY2012 levy funding requirement is based on the methodology contained in the levy principles document.

Table 6 **FY2012 Levy Funding Requirement**

	Retail	Wholesale	Total
Work programme direct costs	2,106,561	1,579,952	3,686,514
Work programme indirect costs	890,465	1,512,862	2,403,327
Total Work Programme Costs	2,997,026	3,092,814	6,089,841
less Pre-funded depreciation on industry assets	(363,804)	-	(363,804)
Sub-total	2,633,222	3,092,814	5,726,036
Less market fee recovery	(1,165,372)	(599,000)	(1,764,372)
Total Levy Funding Requirement	1,467,851	2,493,814	3,961,665

Q3: *Do you have any questions on the calculation of the levy funding requirement for FY2012?*

7

Proposed FY2012 Levy

7.1 Levy assumptions

The following volume assumptions have been made to calculate the levy rates for FY2012:

- ICP numbers for FY2012 will be approximately 255,000. This number is based on an independent analysis of the number of active ICPs listed on the Gas Registry database.
- Wholesale gas volumes will be 150 PJ in FY2012. The FY2011 budget assumed gas volumes of 145 PJs. Actual gas volumes have exceeded budget estimates by approximately 12 PJ per annum over the last three years. It is therefore doubtful the very conservative estimates employed in the past should continue to be used, and the forecast estimate has been raised to 150 PJ. The higher estimate of the volume of wholesale gas in FY2012 decreases the Wholesale levy by .06c/GJ.

7.2 Retail and wholesale levies

Based on these assumptions, Table 7 presents the calculation of the Retail and Wholesale levies for FY2012:

Table 7 FY2012 Levy Calculation

	2011/12		Total
	Retail	Wholesale	
Direct Costs	2,106,561	1,579,952	3,686,514
<i>Proportion of Direct Costs to Total Costs</i>	<i>57.1%</i>	<i>42.9%</i>	
Indirect Costs	890,465	1,512,862	2,403,327
Total Work Programme Costs	2,997,027	3,092,814	6,089,841
Deduction of Market Fees	(1,165,372)	(599,000)	(1,764,372)
Amortisation on Industry Assets	(363,804)	-	(363,804)
	(1,529,176)	(599,000)	(2,128,176)
Total Levy Funding Requirement	1,467,851	2,493,814	3,961,665
Volume Units	<i>ICPs</i>	<i>GJ</i>	
Volume	255,000	150,000,000	
Levy Unit	<i>\$/ICP</i>	<i>cent/GJ</i>	
Levy Rate	5.76	1.66	
Projected Levy Revenue	1,467,851	2,493,814	3,961,665

The proposed levy rates for FY2012 are therefore:

- Retail levy of \$5.76 per annum payable on each ICP. This is a 10% reduction on the FY2011 rate, which was \$6.40 per annum payable on each ICP.
- Wholesale levy of 1.66 cents per GJ of gas purchased directly from gas producers. This is a 10% reduction on the FY2011 rate, which was 1.84 cents per GJ.

7.3 Comparison with prior years

The table below compares the proposed levy for FY2012 with the preceding years.

Year	Retail Levy (per ICP)	Wholesale Levy (per GJ)
FY2007	\$6.30	1.78 cents
FY2008	\$8.18	1.93 cents
FY2009	\$7.42	1.79 cents
FY2010	\$6.40	1.67 cents
FY2011	\$6.40	1.84 cents
FY2012	\$5.76	1.66 cents

Q4:

Do you have any comment on the proposed levy for FY2012?

8

Proposed regulation amendments

8.1 Compliance arrangements

Under Regulation 11 of the Gas (Levy of Industry Participants) Regulations 2010, GIC may, by notice in writing, require industry participants to supply certain information. Under Regulation 12, this information must be supplied in writing and must be certified as correct by a director or principal officer of the company. Recent events have given GIC cause to consider the compliance arrangements for these regulations and whether some form of compliance regime needs to be in place to ensure the timely supply of such information once it has been requested.

At the next convenient time, GIC proposes to seek amendments to the Gas Act so that its annual Levy Regulations can be enforced under the Gas Governance (Compliance) Regulations 2008, enabling enforcement action to be taken if any levy regulations are breached.

8.2 Retail levy invoicing

From FY2012, GIC intends to abolish the requirement for industry participants to supply Retail Levy returns. It will instead invoice responsible retailers based on the number of ICP's with a status of ACTIVE-CONTRACTED in the Gas Registry Database as at the last day of the applicable month.

8.3 Levy audit powers

In FY2011, the inability of GIC to independently verify wholesale levy returns was highlighted when three companies disclosed un-reported wholesale gas purchases, in all cases dating back several years.

The current process for assessing and calculating the Wholesale Levy relies entirely on the ability of the industry participant to accurately report its purchases from gas producers as GIC has no independent method of verification. The Company is aware that there is a material gap between the annual Total Gas Energy Supply reported by MED in its New Zealand Energy Data publication and the volume of wholesale purchases returned by industry in their wholesale levy returns. Over the last three years this gap has averaged 11PJ per annum.

While GIC accepts there may be perfectly reasonable explanations for this variance, there is no empirical evidence to support this supposition. Under a worst case scenario, where Wholesale Levy

returns are understated by 10PJ's, the Wholesale Levy charged to industry participants may be being overstated by approximately 7% per annum.

GIC's preferred approach would be to allow for the performance of audits of Wholesale Levy Returns, under certain circumstances. Such audits would be instigated when GIC had reasonable grounds to believe that an industry participant's Wholesale Levy was materially understated, which belief would derive from reference to the publically available allocation data, published by the Allocation Agent.

GIC sees the issue of under-reporting Wholesale levy volumes as a matter of equity for all industry participants. The primary reason the Company would like to implement some form of audit regime is because the understating of wholesale gas purchases passes additional costs to all Wholesale levy payers in the form of a higher levy than would otherwise be the case.

The following table details GIC preferred approach with respect to an audit regime.

Preferred Approach to Audits of Wholesale Levy Returns
GIC to appoint independent auditor(s) as required for ad hoc audits of Wholesale Levy returns.
GIC to determine when ad hoc audits should occur at its discretion.
The industry participant that is being audited must pay the costs of the auditor.
Participants will be required to provide an auditor with information. Precise limits of the requirement to provide information are yet to be clarified but some information may be exempt (e.g. information subject to legal privilege).
Final audit reports (with confidential information redacted) will be published on GIC's website.
Auditors will be able to audit a period of up to 3 years prior to the date on which the audit was requested.
Audit reports may be used for a variety of purposes.

Q5: *Do you have any comment on regulatory amendments described above?*

Appendix A Recommended Format for Submissions

To assist GIC 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.

Submission prepared by: (company name and contact)

QUESTION	COMMENT
Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2012?	
Q2: Do you consider there to be any other items that should be excluded from the Company's intended work programme for FY2012?	
Q3: Do you have any questions on the calculation of the levy funding requirement for FY2012?	
Q4: Do you have any comment on the proposed levy for FY2012?	
Q5: Do you have any comment on regulatory amendments described in section 8?	

