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**2010 Co-regulatory Forum**  
10 November 2010

# Agenda

- Source of Funds
- Levy Principles
- Levy Structure
- FY2012 Levy Process
- Infrastructure Access Group
- Market Operations Group
- Corporate Services
- FY2012 Levy Calculation
- Forecast FY2012 Levy

## Source of Funds

	Funding Source	Authority
1	A levy of gas industry participants	Gas Act 1992 s43ZZB – s43ZZE
2	Market fees charged pursuant to various rules and regulations made under the Act	Gas Act 1992 s43S
3	Annual Fees	Constitution
4	Arrangements with Industry Participants	Contracts

- Gas Industry Co's primary source of funding is the levy of gas industry participants.
- From FY2009, a portion of the Company's funding also comes from Market Fees, which are fees authorised by specific rules or regulations made under Part 4A of the Gas Act. These fees are used to fund external service providers such as the Registry Provider, the Allocation Agent, Critical Contingency Operator, Rulings Panel, Investigator, Market Administrator, and other persons appointed under the rules or regulations.
- Gas Industry Co's internal costs such as salaries and overheads for administering approved rules and regulations are covered by the annual levy.
- The Company also collects annual shareholder fees of \$10,000 per shareholder. These funds are set aside as a reserve against future contingencies.

# Levy Principles

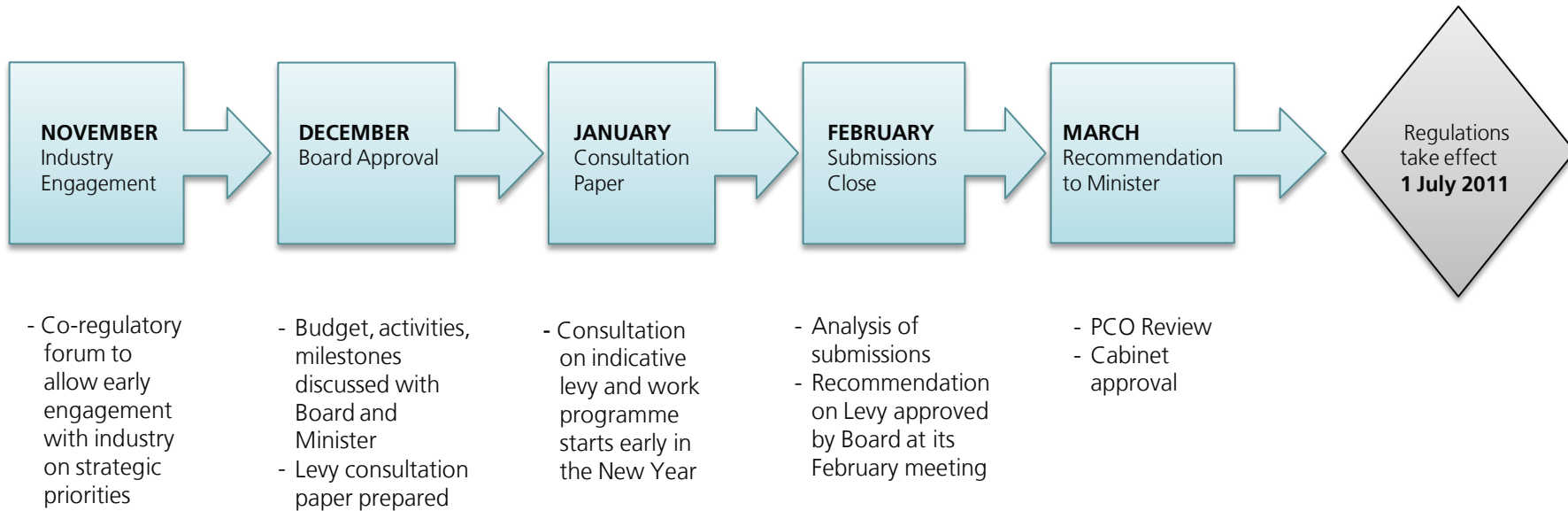
	Levy Principle	Description
1	Economic efficiency	The levy structure should promote efficient market behaviour (or at least not detract from it significantly).
2	Beneficiary/causer pays	The costs of regulation development and implementation should be allocated in a way that reflects the cause of regulation (causer pays) and/or the incidence of the benefits from regulation.
3	Rationality	Where levies are to recover costs that are allocated to participant classes, there should be a relatively strong logical nexus between the participants on whom a levy is imposed and the costs being recovered through that levy.
4	Simplicity	<ul style="list-style-type: none"> <li>• The levy structure should not create undue transaction costs for the organisation that implements and administers it, nor for the participants who must pay it.</li> <li>• The levy structure should only consist of as many individual levies as are necessary to recover the costs in an efficient manner, taking account of all the other principles applying.</li> <li>• The levy structures should be transparent to industry participants.</li> </ul>
5	Equity	<ul style="list-style-type: none"> <li>• Users in similar situations should pay similar amounts.</li> <li>• Competitive neutrality should be preserved, so that within a class of participants the allocation of costs should not competitively advantage one participant over another.</li> </ul>
6	Revenue sufficiency	<ul style="list-style-type: none"> <li>• The levies, together with other sources of revenue such as penalty payments, need to be sufficient to recover the costs borne by the organisation collecting the levy.</li> <li>• Levy setting must nevertheless be in accordance with section 43ZZC(3) of the Act, which says that the levy may be adjusted in any year to take account of under-recoveries and over-recoveries in previous years.</li> </ul>

# Levy Structure

The levy structure is developed as two components. A retail component, based on the number of ICPs in the system, paid by retailers; and a wholesale component based on energy quantities of gas, paid by industry participants who purchase gas directly from gas producers.

<b>Wholesale Levy</b>	<b>Retail Levy</b>
<ul style="list-style-type: none"><li>• Balancing</li><li>• Capacity</li><li>• Critical Contingency Management</li><li>• Compliance</li><li>• Gas Processing</li><li>• Interconnection</li><li>• MPOC / VTC Change Requests / Appeals</li><li>• Gas Quality</li><li>• Upstream Reconciliation</li><li>• Wholesale Market</li></ul>	<ul style="list-style-type: none"><li>• Compliance</li><li>• Consumer Issues</li><li>• Distribution Contracts</li><li>• Performance Measures</li><li>• Rule Changes</li><li>• Reconciliation</li><li>• Switching</li><li>• Retail Contracts</li></ul>

# FY2012 Levy Process



# Indicative Work Programme

Infrastructure Access Group	Market Operations Group	Corporate Services
<ul style="list-style-type: none"> <li>• Transmission Pipeline Capacity</li> <li>• Balancing &amp; Daily Allocations</li> <li>• Transmission Pipeline Interconnection</li> <li>• Upstream Reconciliation</li> <li>• Gas Quality</li> <li>• Distribution</li> <li>• Industry facilitation roles – including MPOC and VTC Change Requests / Appeals</li> <li>• Gas Processing Rules</li> <li>• Private Transmission Pipelines</li> <li>• Demand Forecasting</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesale Market Trial</li> <li>• Critical Contingency Management</li> <li>• Downstream Reconciliation</li> <li>• Switching and Registry</li> <li>• Compliance and Enforcement</li> <li>• Performance Indicators</li> <li>• Rule Changes</li> </ul>	<ul style="list-style-type: none"> <li>• Levy</li> <li>• Statutory Accountability</li> <li>• Stakeholder Communications</li> <li>• Business Planning and Reporting</li> </ul>

# Infrastructure Access Group

## Transmission Pipeline Capacity

### Expected Position FY2011

#### Constrained transmission pipeline retail competition issue (short-term)

- Recommendation to the Associate Minister proposing a solution
- Rules approved and implemented

#### Vector's access arrangements (medium-term)

- Analyse submissions and determine next steps
- Begin work with Vector and the Commerce Commission on developing security standards, demand forecasts, and an investment policy

### Forecast Activities FY2012

#### Constrained transmission pipeline retail competition issue (short-term)

- Ongoing role in monitoring compliance with rules

#### Vector's access arrangements (medium-term)

- Continue to work on Vector medium term arrangements, including Statement of Proposal on preferred option
- Continue work with Vector and the Commerce Commission on developing security standards, demand forecasts, and an investment policy

### Indicative Milestones

#### Constrained transmission pipeline retail competition issue (short-term)

- Statutory role

#### Vector's access arrangements (medium-term)

- Statement of Proposal

## Balancing and Daily Allocations (D+1)

### Expected Position FY2011

#### Daily allocations

- Consult on Issues Paper
- If work is to continue, develop options and assess
- Consult on options in Options Paper

### Forecast Activities FY2012

#### Daily allocations

- Develop Statement of Proposal for daily allocations

#### Balancing

- Report to the Minister on developments in the balancing market

### Indicative Milestones

#### Daily allocations

- Statement of Proposal

#### Balancing

- Advice to Minister on balancing market developments



# Infrastructure Access Group

## Transmission Pipeline Interconnection

### Expected Position FY2011

- Complete interconnection review
- Advise Minister of findings of review
- Publish results of review. If necessary, consult on issues identified (issues paper)
- Depending on the outcome of the review, Gas Industry Co may develop options for addressing issues

### Forecast Activities FY2012

- Consult on options (options paper)
- Statement of Proposal on preferred option

### Indicative Milestones

- Options Paper
- Statement of Proposal

## Upstream Reconciliation

### Expected Position FY2011

- No expected work in this area

### Forecast Activities FY2012

- Begin review of industry arrangements for upstream reconciliation
- Develop and consult on Issues Paper

### Indicative Milestones

- Issues Paper

# Infrastructure Access Group

## Gas Quality

Expected Position FY2011
<ul style="list-style-type: none"><li>Analyse submissions and determine next steps</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>If necessary, develop and assess options for addressing the issues</li><li>Consult on options in Options Paper</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>Options Paper</li></ul>

## Distribution

Expected Position FY2011
<ul style="list-style-type: none"><li>Analyse submissions and determine next steps</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>If necessary, develop and assess options for addressing the issues</li><li>Consult on options in Options Paper</li><li>Gas Industry Co to monitor progress on updating network services agreements and report to industry</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>Options Paper</li></ul>

# Infrastructure Access Group

## Industry Facilitation (MPOC / VTC roles)

Forecast Activities FY2012	Expected Position FY2011	Indicative Milestones
<ul style="list-style-type: none"><li>• Process rule changes within the timeframes required by the MPOC and VTC on an 'as required' basis</li></ul>	<ul style="list-style-type: none"><li>• Process rule changes within the timeframes required by the MPOC and VTC on an 'as required' basis</li></ul>	<ul style="list-style-type: none"><li>• Change requests and appeals progressed in accordance with agreed processes</li></ul>

## Statutory Role - Gas Processing Rules

Expected Position FY2011	Forecast Activities FY2012	Indicative Milestones
<ul style="list-style-type: none"><li>• All regulatory disclosures up to date, published on Gas Industry Co website</li></ul>	<ul style="list-style-type: none"><li>• All regulatory disclosures up to date, published on Gas Industry Co website, and Associate Minister advised (by September) of parties who have sought access</li></ul>	<ul style="list-style-type: none"><li>• Statutory role requirements met</li></ul>

# Infrastructure Access Group

## Strategic Issues – Private Transmission Pipelines

Expected Position FY2011
<ul style="list-style-type: none"><li>• Advice to Minister as requested</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Advice to Minister as requested</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• Advice to Minister</li></ul>

## Strategic Issues – Demand Forecasting

Expected Position FY2011
<ul style="list-style-type: none"><li>• Begin scoping study</li><li>• Develop terms of reference and engage consultant</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Complete industry demand forecasting report</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• Demand forecasting report</li></ul>

# Market Operations Group

## Wholesale Market Trial

Expected Position FY2011
<ul style="list-style-type: none"><li>• Platform closed and report to Minister, or</li><li>• Trading on business as usual basis</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Nothing, or</li><li>• Undertake activities required to balance Trading Hub and cash-out trader imbalances</li><li>• Oversee day-to-day operation of the wholesale market</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• Business processes to manage trading hub and cash-out participant variances</li><li>• Report on trial market</li></ul>

## Statutory Role - Critical Contingency Management

Expected Position FY2011
<ul style="list-style-type: none"><li>• Ongoing</li><li>• Annual exercise or incident to test the arrangements</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Managing Critical Contingency Operator via Service Provider Agreement</li><li>• Undertaking statutory roles as required by Regulations</li><li>• Review effectiveness of Regulations after any events / exercises</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• Annual exercise / incident held</li><li>• Review of Critical Contingency Operator</li><li>• Report on performance of arrangements</li></ul>

# Market Operations Group

## Statutory Role - Downstream Reconciliation

Expected Position FY2011
<ul style="list-style-type: none"><li>• Ongoing</li><li>• Baseline Performance Audits complete</li><li>• Process for rule 37 breaches resolved</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Monitor allocation agent</li><li>• Carry out statutory functions</li><li>• Performance audits on incident or exception basis</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• GIC meets obligations under Service Provider Agreement</li><li>• GIC meets obligations under Rules</li></ul>

## Statutory Role – Switching & Registry

Expected Position FY2011
<ul style="list-style-type: none"><li>• Ongoing</li><li>• Minor and Technical rule changes in place</li><li>• Resulting registry changes complete as a result of rule changes</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Monitor service provider</li><li>• Carry out statutory functions</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• GIC meets obligations under Service Provider Agreement</li><li>• GIC meets obligations under Rules</li></ul>

# Market Operations Group

## Statutory Role - Compliance

Expected Position FY2011
<ul style="list-style-type: none"><li>• Compliance arrangements ongoing</li><li>• Review arrangements taking note of prior events</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Fulfill GIC's role as Market Administrator</li><li>• Manage service providers</li><li>• Collect and publish statistics on compliance</li><li>• Consideration of alignment with Electricity Authority processes</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• GIC meets obligations under Service Provider Agreement</li><li>• GIC meets obligations under Rules</li></ul>

## Performance Indicators

Expected Position FY2011
<ul style="list-style-type: none"><li>• Ongoing</li></ul>

Forecast Activities FY2012
<ul style="list-style-type: none"><li>• Determined and published information on each gas governance arrangement which has been implemented</li><li>• Quarterly reports on GIC website</li><li>• Six-monthly reports to Minister</li></ul>

Indicative Milestones
<ul style="list-style-type: none"><li>• GIC meets obligations under Service Provider Agreement</li><li>• GIC meets obligations under Rules</li></ul>

# Market Operations Group

## Rule Changes

### Expected Position FY2011

- Information from event and performance audits
- Consider options for improving accuracy of allocation system
- Develop discussion paper on reconciliation options

### Forecast Activities FY2012

- Review feedback from industry on allocation system options
- Maintain rule change registers
- Consult on statement(s) of proposal for reconciliation rules

### Indicative Milestones

- Statement of Proposal for Downstream Reconciliation Rules



# Corporate Services

## Levy

### Forecast Activities

- Co-regulatory forum with stakeholders to discuss FY2013 priorities
- Draft work programme and budget for agreement between Minister / Board
- Levy Consultation and development of a Levy regulation
- Minister's approval

### Indicative Milestones

- Release consultation Paper Jan 2012
- Recommendation to Minister March 2012
- Levy implementation July 2012

## Statutory Accountability

### Forecast Activities

- Prepare Strategic Plan, Quarterly Report and Annual Report
- Hold AGM
- Advice on legal issues, interpretation of Gas Act, best practice regulation

### Indicative Milestones

- Strategic Plan released by 31 March 2011
- Annual Report released by 30 Sept 2011
- Advice given as required

## Corporate

### Forecast Activities

- Programme Management and Reporting
- Financial Management & Reporting
- Legal & Risk Management
- Communications with stakeholders
- Selection, Recruitment and Induction of employees
- Administrative Support to Company
- Overhead Management (Premises, Insurance, IT, etc)

### Indicative Milestones

- Company expenditure constrained at or below budget
- Annual Gas Industry Co Conference held
- Annual Consumer Forum held

# Indicative Work Programme

<b>Infrastructure Access Group</b> <b>\$806,369</b>	<b>Market Operations Group</b> <b>\$2,880,144</b>	<b>Corporate Services</b> <b>\$2,403,328</b>
<ul style="list-style-type: none"> <li>• Transmission Pipeline Capacity</li> <li>• Balancing &amp; Daily Allocations</li> <li>• Transmission Pipeline Interconnection</li> <li>• Upstream Reconciliation</li> <li>• Gas Quality</li> <li>• Distribution</li> <li>• Industry facilitation roles – including MPOC and VTC Change Requests</li> <li>• Gas Processing Rules</li> <li>• Private Transmission Pipelines</li> <li>• Demand Forecasting</li> </ul>	<ul style="list-style-type: none"> <li>• Wholesale Market Trial</li> <li>• Critical Contingency Management</li> <li>• Downstream Reconciliation</li> <li>• Switching and Registry</li> <li>• Compliance and Enforcement</li> <li>• Performance Indicators</li> <li>• Rule Changes</li> </ul>	<ul style="list-style-type: none"> <li>• Levy</li> <li>• Statutory Accountability</li> <li>• Stakeholder Communications</li> <li>• Business Planning and Reporting</li> </ul>

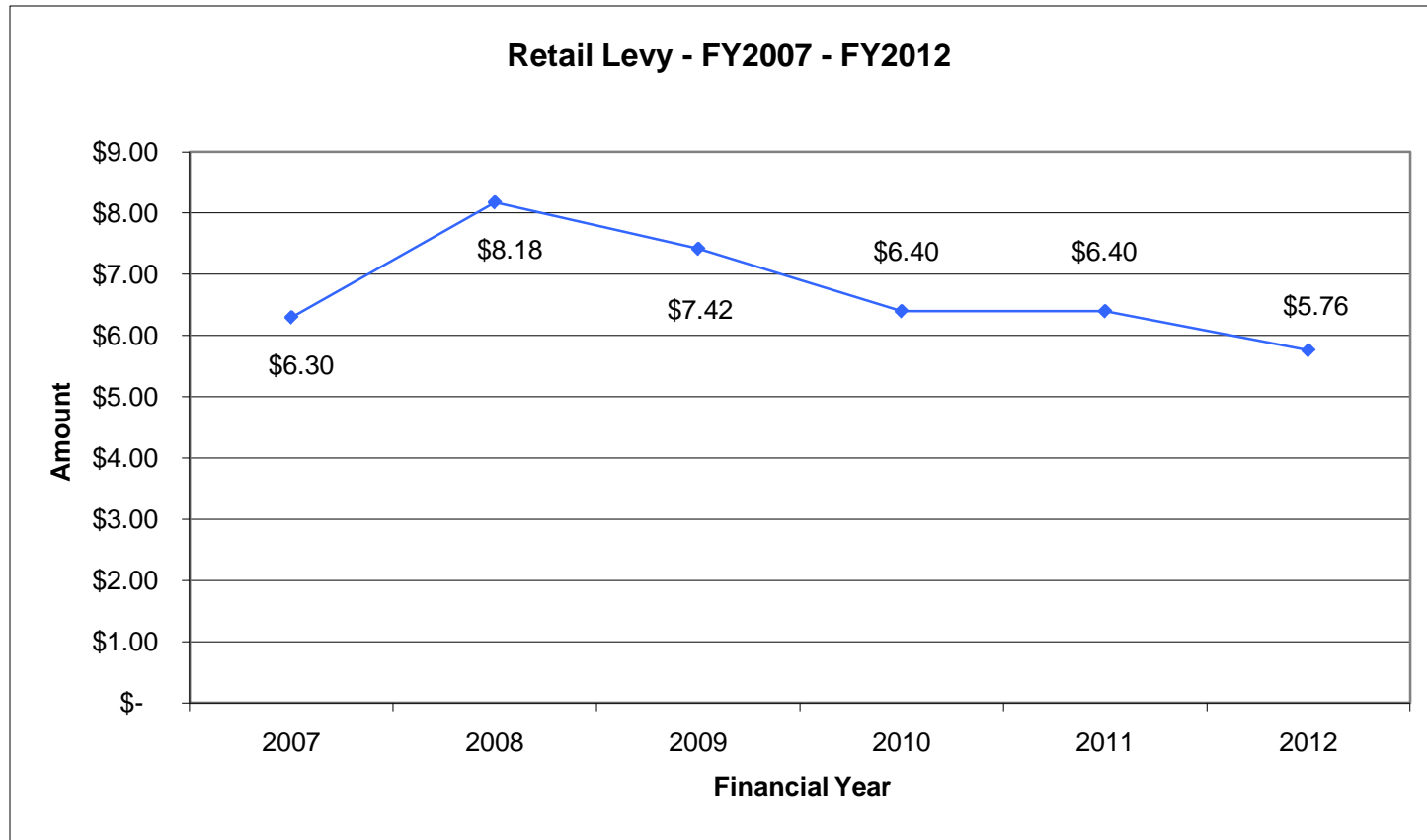
# Indicative FY2012 Levy Calculation

## Methodology

1. Allocate direct costs to each work stream.
2. Allocate indirect costs based on the proportion of total direct costs of each work stream.
3. Deduct revenue from Market Fees from the relevant work streams.
4. Allocate a portion of the Industry Asset Depreciation reserve to the retail costs.

	2011/12		
	Retail	Wholesale	Total
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
<b>Total Work Programme Costs</b>	<b>2,997,027</b>	<b>3,092,814</b>	<b>6,089,841</b>
Deduction of Market Fees	(1,165,372)	(599,000)	(1,764,372)
Allocation of Other Revenue	-	-	-
Under (Over) Recovery of Levy	-	-	-
Amortisation on Industry Assets	(363,804)	-	(363,804)
	<b>(1,529,176)</b>	<b>(599,000)</b>	<b>(2,128,176)</b>
<b>Total Levy Funding Requirement</b>	<b>1,467,851</b>	<b>2,493,814</b>	<b>3,961,665</b>
Volume Units	<i>ICPs</i>	<i>GJ</i>	
Volume	255,000	150,000,000	
Levy Unit	<i>\$/ICP</i>	<i>cent/GJ</i>	
<b>Levy Rate</b>	<b>5.76</b>	<b>1.66</b>	
<b>Projected Levy Revenue</b>	<b>1,467,851</b>	<b>2,493,814</b>	<b>3,961,665</b>

# Retail Levy Comparison



# Wholesale Levy Comparison

