



**2011 Industry Levy Workshop**  
20 January 2011

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## Agenda

- Update
- Forecast FY2012 Levy
- Changes to Levy Principles
- Industry Priorities
- Levy Structure
- Workshop Discussion
- Regulatory Amendments
- FY2012 Levy Calculation

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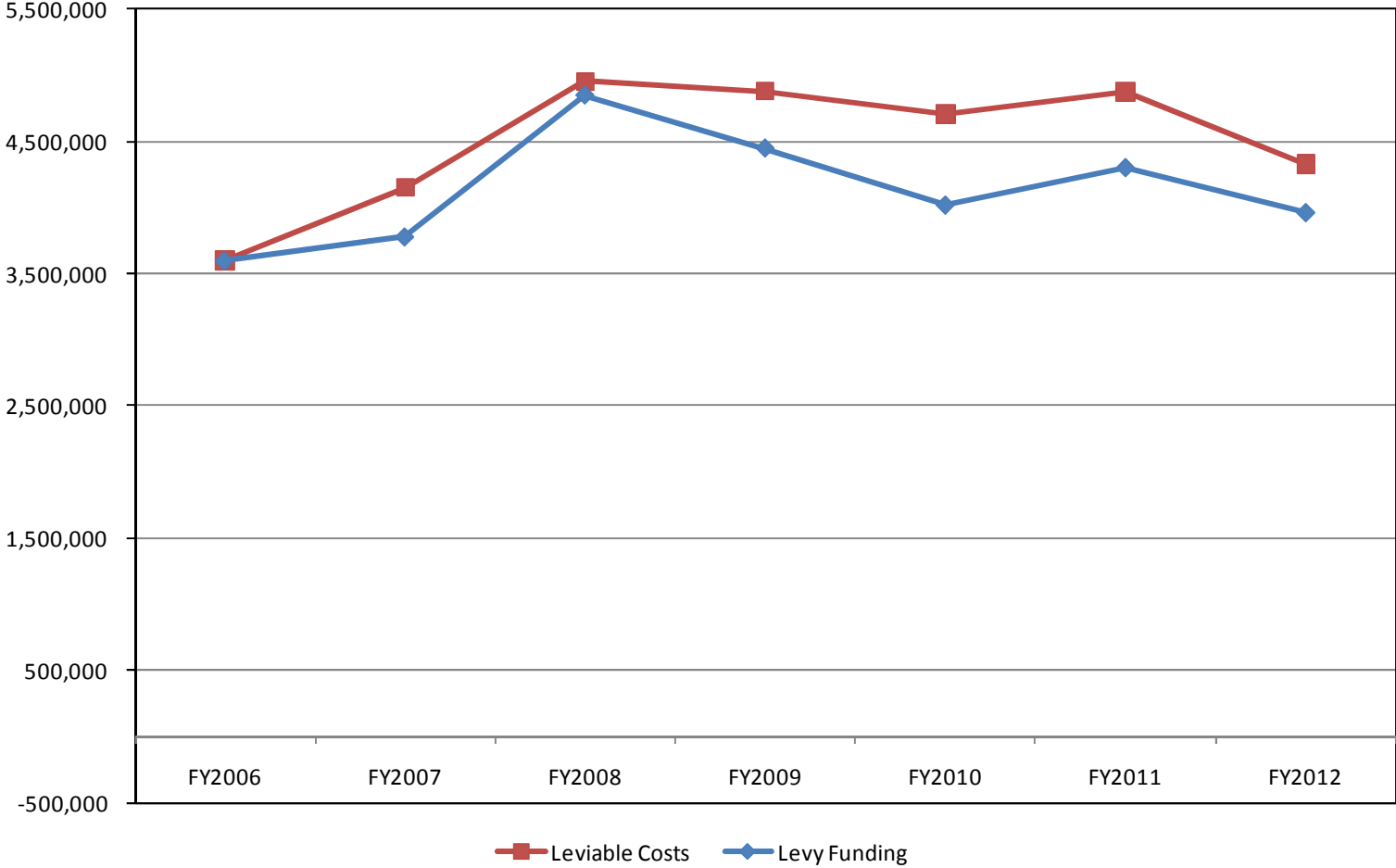
## Update

Board approved refund of \$1,501,830 on 17 November 2010, with payments made on 30 November 2010.

In future, Board policy is to repay over-recoveries to the industry immediately after the annual accounts have been received by shareholders at Gas Industry Co's Annual General Meeting.

Removing the variability caused by the build up of reserves will help promote a stable and more transparent levy.

# Update



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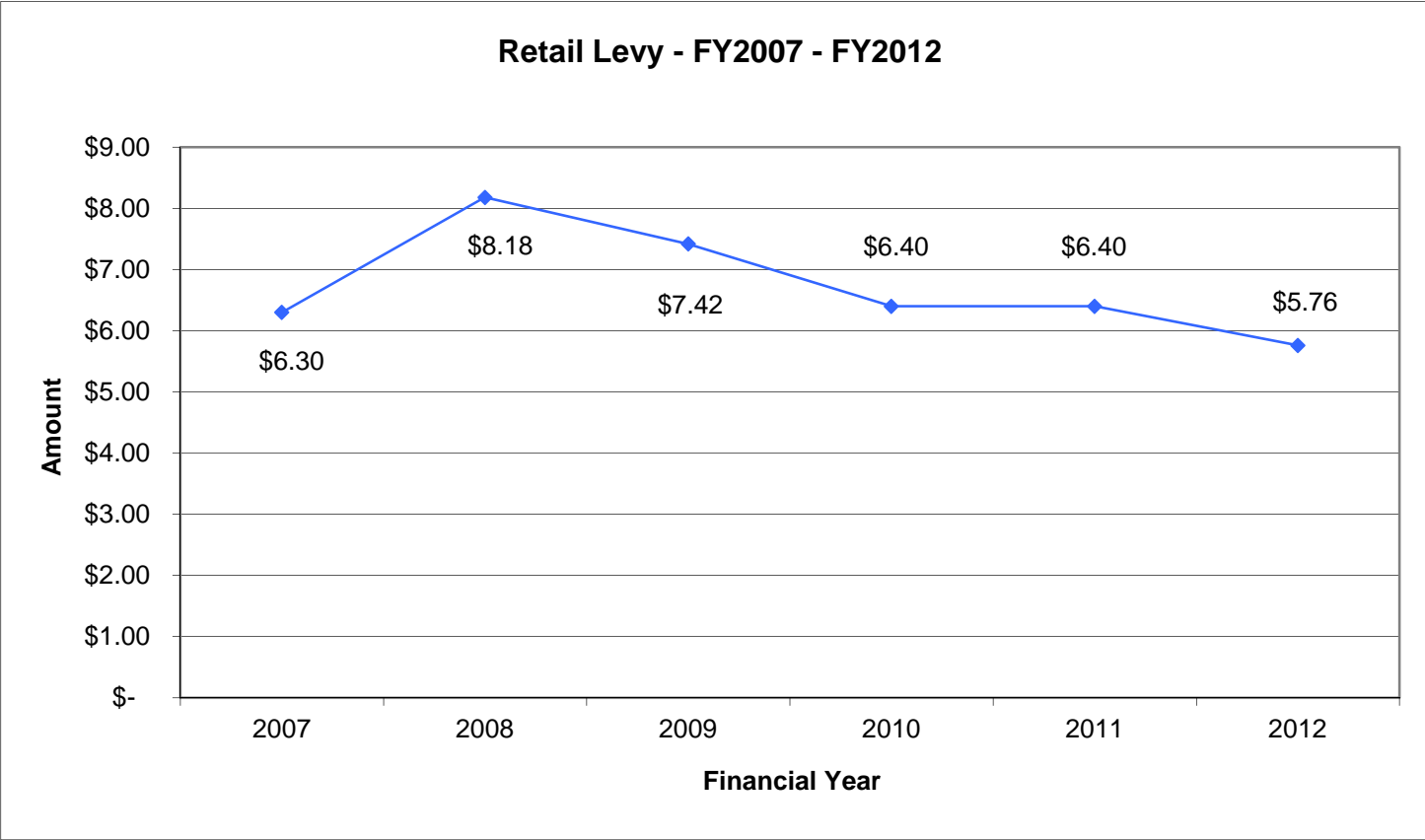
## Update

GIC is transitioning to clearly defined administrative roles and less policy development.

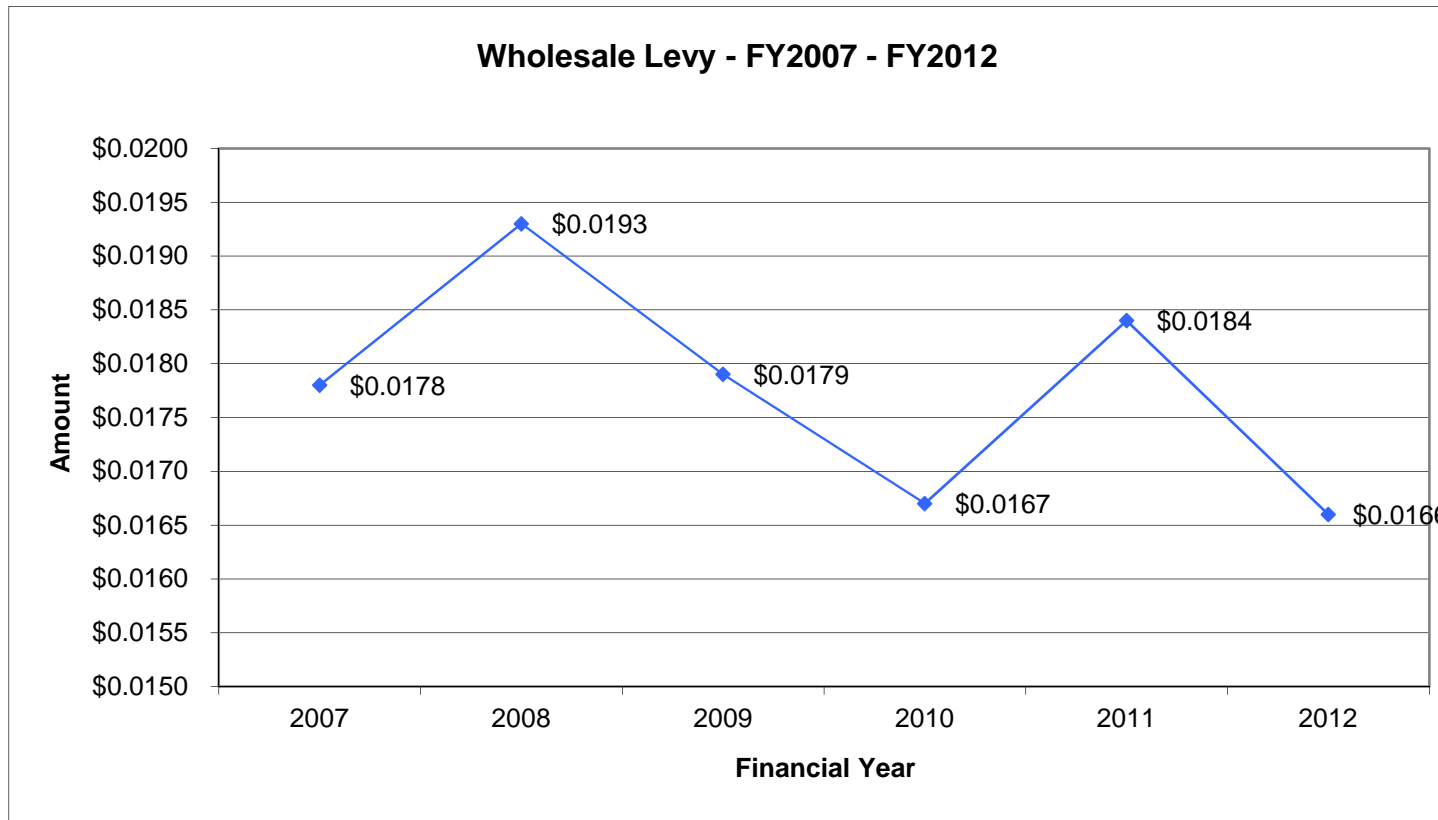
We anticipate this will encourage its costs to stabilise or decline over the medium to long-term.

For FY2012, the Board have confirmed cost reductions of \$940,000, relative to FY2011.

# Retail Levy Comparison



# Wholesale Levy Comparison



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## Levy Principles

### **Change in Levy Principles**

Currently, the Levy may be adjusted to take account of over or under-recoveries in previous years.

However, this means GIC's leviable costs are not properly reflected in the annual levy, reducing the transparency of the costs of co-regulation.

Board policy is to repay over-recoveries to the industry immediately after the annual accounts have been received by shareholders at Gas Industry Co's Annual General Meeting.



## 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.

Wholesale Levy	Retail Levy
<ul style="list-style-type: none"> <li>Balancing (\$109,529)</li> <li>Capacity (\$260,674)</li> <li>Critical Contingency Management (\$624,507)</li> <li>Compliance (\$70,029)</li> <li>Demand Forecasting (\$71,402)</li> <li>Gas Processing (\$16,604)</li> <li>Interconnection (\$108,019)</li> <li>MPOC / VTC Change Requests / Appeals (\$78,019)</li> <li>Gas Quality (\$63,019)</li> <li>Upstream Reconciliation (\$178,150)</li> <li>Corporate Services (\$1,512,862)</li> </ul>	<ul style="list-style-type: none"> <li>Compliance (\$280,118)</li> <li>Consumer Issues (\$1,136)</li> <li>Distribution Contracts (\$46,415)</li> <li>Downstream Reconciliation (\$982,161)</li> <li>Performance Measures (\$29,571)</li> <li>Rule Changes (\$190,277)</li> <li>Switching (\$535,748)</li> <li>Retail Contracts (\$41,136)</li> <li>Corporate Services (\$890,465)</li> </ul>

## Industry Priorities

Matters raised by industry as being priorities for FY2012

Matter	Priority
Capacity	7
Balancing (includes D+1)	6
Long-term transmission/transmission access	3
Gas Quality	3
Gas Distribution	2
SW Rules Review	2
DR Rules Review	2
E-Gas liquidation matters – insolvency issues	2
Wholesale Market	2
MPOC	2
Interconnection	1
Consumer/retail issues	1
GIC role	1
Direct use of Gas	1
Standard File Formats	1

## Workshop Discussion

Highlighted items indicate the topics workshop participants have indicated they wish to discuss in detail.

Wholesale Levy (\$3,092,814)	Retail Levy (\$2,997,027)
<ul style="list-style-type: none"> <li>Balancing (\$109,529)</li> <li><b>Capacity (\$260,674)</b></li> <li>Critical Contingency Management (\$624,507)</li> <li>Compliance (\$70,029)</li> <li><b>Demand Forecasting (\$71,402)</b></li> <li>Gas Processing (\$16,604)</li> <li><b>Interconnection (\$108,019)</b></li> <li>MPOC / VTC Change Requests / Appeals (\$78,019)</li> <li>Gas Quality (\$63,019)</li> <li><b>Upstream Reconciliation (\$178,150)</b></li> <li>Corporate Services (\$1,512,862)</li> </ul>	<ul style="list-style-type: none"> <li>Compliance (\$280,118)</li> <li>Consumer Issues (\$1,136)</li> <li>Distribution Contracts (\$46,415)</li> <li>Downstream Reconciliation (\$982,161)</li> <li>Performance Measures (\$29,571)</li> <li>Rule Changes (\$190,277)</li> <li>Switching (\$535,748)</li> <li>Retail Contracts (\$41,136)</li> <li>Corporate Services (\$890,465)</li> </ul>

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## Regulatory Amendments

**Retail levy invoicing** - abolish the requirement in the levy regulations for industry participants to supply Retail Levy returns. Invoices will be issued by GIC based on data held in the Registry database.

**Compliance arrangements** - GIC proposes to seek amendments to the Gas Act so that its annual Levy Regulations can be enforced under the Compliance Regulations, enabling enforcement action to be taken if any levy regulations are breached.

**Levy audit powers** – allow audits of Wholesale Levy Returns, under certain circumstances. This would invariably derive from reference to the allocation and injection data, provided by the Allocation Agent

## 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>