



FY2018 Draft Work Programme And Budget Co-regulatory Forum

DATE:

22 November 2016



Agenda

- Strategic / Statutory context
- Proposed Work Programme
- Funding
- Other industry issues
- Forum discussion

FY2018 – Strategic Themes for Discussion

- Latest *Long Term Gas Supply/Demand Scenarios* signal market tightening and possible 'turning point'
- Climate change response is accelerating
- Technology is changing electricity markets, and affecting gas indirectly

Latest *Long Term Gas Supply/Demand Scenarios* signal market tightening and possible 'turning point'

- Low upstream investment continues
- Reserves/market tightening (gas price to increase?)
- Significant market uncertainty:
 - Future oil prices and the consequent likely extent of exploration effort
 - Future CO2 prices, and the consequent impact on gas demand – particularly the extent to which coal- and gas-fired power stations are displaced by renewables
 - The future of the Tiwai aluminium smelter, and the consequent impact on power generation demand.
 - Population and GDP growth
 - Future international gas and petrochemical prices
- Assumes by 2022 Methanex may have to shut one methanol train unless price/investment recovers

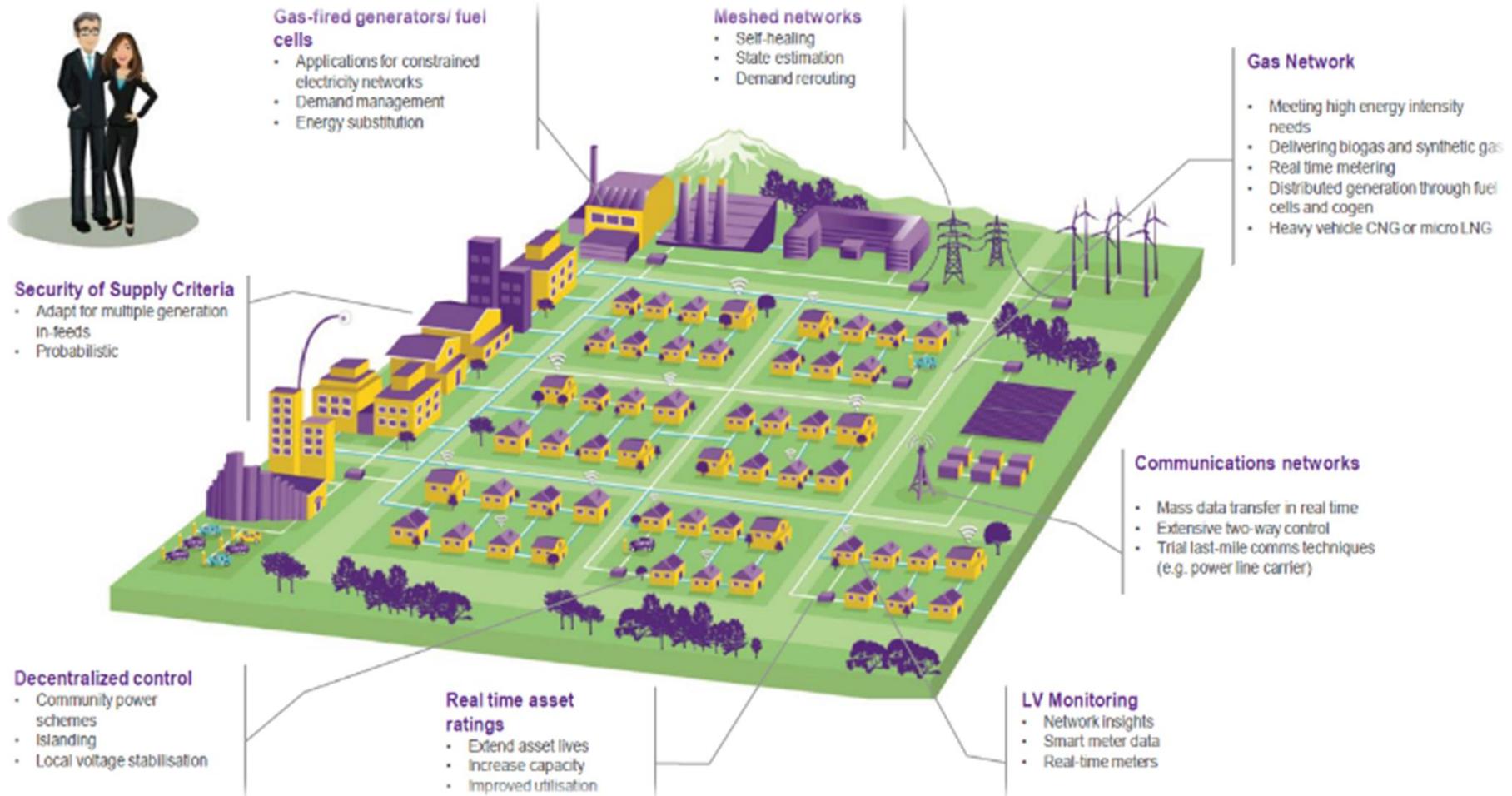
Climate change response is accelerating (1)

- 2015 Paris Agreement driving accelerated international measures:
 - Targets limiting global temperature rise to well below 2 degrees; net carbon zero by 2100
- NZ Government:
 - Early ratification; developing plan to meet commitments (emissions reduced to 30% below 2005 levels by 2030)
 - Targeting reduction measures consistent with ongoing economic growth
- Business NZ:
 - Recognises need for climate response and seek certainty
 - Deep Dive Reports: scenarios imply shrinking gas market; only 'kayak scenario' (more market intervention) will meet environmental goals

Climate change response is accelerating (2)

- Implications for gas industry and GIC?
 - e.g. *'Higher carbon costs will boost power prices – Genesis'* (Energy News, 6 October)
 - e.g. *'New Zealand Superannuation Fund will start getting rid of its investments in fossil fuel companies'* (RNZ, 19 October)
 - e.g. *'Greens call out Govt over [Nova Otorohanga] power plant'* (Newshub, 26 October)
- Ongoing role of gas in low carbon NZ:
 - supporting a predominantly renewable electricity system
 - industries that use gas as a feedstock to convert into other products (methanol/urea)
 - other energy-intensive industries that have no better option at present
 - businesses that could use alternatives, such as electricity, but to do so would likely increase their effective carbon footprint
 - households where the direct use of gas is more efficient or/and lower carbon footprint than the alternatives

Technology is changing electricity markets, and affecting gas indirectly



OUR DIVERSE PORTFOLIO INCLUDES



Electricity networks in the greater Auckland area



Gas treatment and processing plants in Taranaki



LPG sales, distribution and reticulated networks



Natural gas wholesale, trading and industrial retail business



A leading arboriculture and vegetation management organisation



Energy metering services



Investment in the sustainable generation of electricity from wind turbines



Fibre optic communications network



Solar, battery, storage and home energy management technology



Network of electric vehicle charging stations throughout Auckland

The Grand Transition

Disruptive trends are emerging that will create a fundamentally new world for the energy industry.

1. The world's primary energy demand growth will slow and per capita energy demand will peak before 2030
2. The demand for electricity will double to 2060.
3. The phenomenal rise of solar and wind energy will continue
4. Demand peaks for coal and oil and "stranded resources".
5. Decarbonising global transport is one of the hardest obstacles.
6. Limiting global warming to no more than a 2°C rise
7. Balancing the Energy Trilemma.

Gas Industry Co role...

- **Gas industry body** under Part 4A Gas Act; Government Policy Statement
- Co-regulator – **prefer non-regulated options; regulatory backstop**
- Principal objective (of regulation) to **ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner**
- Other objectives:
 - The facilitation and promotion of the **ongoing supply of gas** to meet New Zealand's energy needs, by providing **access to essential infrastructure and competitive market arrangements**
 - **Barriers to competition** in the gas industry are minimised
 - **Incentives for investment** in gas processing facilities, transmission, and distribution are maintained or enhanced
 - Delivered **gas costs and prices** are subject to sustained downward pressure

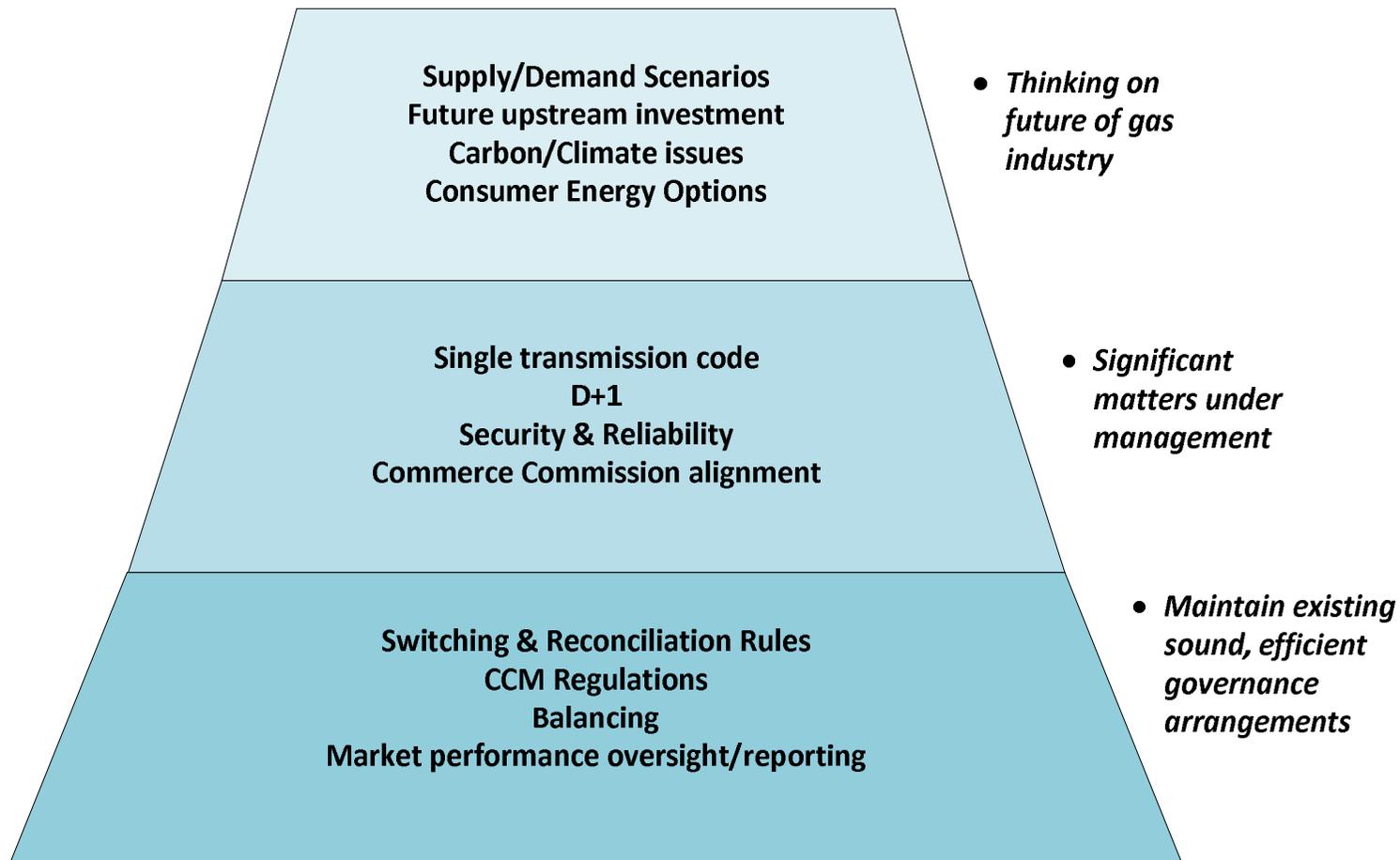
How Gas Industry Co will fulfil its role – Current Strategy



We are well advanced with Objectives/Outcomes set for us/industry, including:

GPS Outcome	Status
Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers.	Retail Gas Contracts Benchmarks Oversight Scheme
Effective and efficient customer switching arrangements that minimise barriers to customer switching.	Gas (Switching Arrangements) Rules 2008
Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.	Gas (Downstream Reconciliation) Rules 2008
Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.	Active workstreams: <ul style="list-style-type: none"> - Single transmission code - Balancing - interconnection
Sound arrangements for critical gas contingency management .	Gas Governance (Critical Contingency) Regulations 2008
Efficient arrangements for the short-term trading of gas .	emsTradepoint wholesale market platform
All small gas consumers have effective access to a complaints resolution system .	Utilities Disputes body – no significant gas consumer issues

Important matters still to be addressed...



FY2018 Planning process starts early ...

October 2016	Board approves Indicative Work Programme & Budget
November	Industry initial engagement (Co-Regulatory Forum)
December	Board approves Consultation Paper for Statement of Intent (SOI), Work Programme and Levy
January 2017	Industry Submissions
February	Board approves SOI and Levy Recommendation
March	Recommendation to Minister for Levy Regulations

SOI Released/
Levy Regulations
take effect
1 July 2017

Proposed Work Programme

Objective 1:

Provide efficient, competitive and confident gas markets

Retail contracts scheme	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Full retail contracts review to be undertaken FY2018 • Review retailers' contracts on an exceptions basis (new entrants/changed contracts) • Publish compliance levels for individual retailers by exception • Provide additional information to assist new entrant retailers to understand their obligations and governance processes 	<p>Small consumer contracts are fair and reasonable</p>

Distribution principles scheme	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Continue to assess progress with executing new distribution contracts consistent with the Distribution Scheme principles • Review the Distribution Scheme, consider any changes or other actions required, and report • Consider any activity in respect of non-open access LPG networks in light of FY2017 findings 	<p>Distribution contracts are efficient</p>

Retailer insolvency	Contingent activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> Implement the retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency 	Provide a system of transition arrangements in event of insolvent gas retailer
Gas quality	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> Oversee industry-led work on gas quality Determine actions to address any remaining gas quality issues Update the <i>Requirements and Procedures</i> document as required 	An efficient market structure for the provision of energy services
Gas measurement	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> Develop any future activity required in light of the findings from the initial review which commenced in FY2016 	An efficient market structure for the provision of gas metering services

Regulation and rule changes — DR	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Keep the D+1 pilot scheme running and consider/implement any worthwhile refinements • Once new GTAC identified, develop any required changes to Reconciliation Rules and consult • Subject to submissions, make a recommendation to the Minister to amend the Downstream Reconciliation Rules • Subject to Ministerial approval, develop, test and implement the supporting systems 	<p>Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities</p>

	Forecast activities FY2018-20	Act\GPS Reference
Regulation and rule changes — CCM	<ul style="list-style-type: none"> • Once new GTAC identified, review CCM arrangements for any required changes • Consult and work with stakeholders to ensure alignment with final code • Recommend amendments and implement as required 	<p>Sound arrangements for the management of critical gas contingencies</p>

Supply/demand report

Forecast activities FY2018-20

- Review and update the supply/demand report every two years after first publication

Act\GPS Reference

Good information is publicly available on the performance and present state of the gas sector

Objective 2:

Facilitate efficient use of, and investment in, gas infrastructure

	Forecast activities FY2018-20	Act \ GPS Reference
Transmission access and pricing	<ul style="list-style-type: none"> • Work with First Gas and stakeholders on detailed design of single new transmission code • Assess detailed design against Gas Act & GPS objectives and outcomes • Draft regulations if backstop required (address any shortcomings) • Move to recommend/implement regulation if industry process stalls 	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions

	Forecast activities FY2018-20	Act \ GPS Reference
Transmission pipeline balancing	<ul style="list-style-type: none"> • Work with stakeholders on balancing-related matters and incorporate findings from MBB review to enhance efficiency where warranted 	An efficient market structure for the provision of pipeline services

Transmission code changes and appeals	Forecast activities FY2018-20	Act \ GPS Reference
	<ul style="list-style-type: none"> • Perform agreed role in relation to proposed MPOC changes • Make submissions on proposed changes to the VTC where appropriate • Review above once single code adopted 	<p>Gas governance arrangements ... are monitored by Gas Industry Co for ongoing relevance and effectiveness</p>

Transmission pipeline interconnection	Forecast activities FY2018-20	Act \ GPS Reference
	<ul style="list-style-type: none"> • Review interconnections as required • Address any concerns regarding reasonable access • Amend the <i>Guidelines</i> as required 	<p>Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions</p>

Wholesale market	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Monitor wholesale market activity and developments • Ensure that market information is provided to Gas Industry Co in a timely fashion to support this monitoring 	Efficient arrangements for the short-term trading of gas
Gas transmission security and reliability	Contingent activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Consider outcomes of the Commerce Commissions planned work relevant to gas transmission disclosure and whether any further improvements are appropriate/necessary to achieve relevant objectives/outcomes of the Gas Act and GPS • In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider the need for additional governance arrangements 	<p>Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner</p> <p>Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions.</p> <p>Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements</p> <p>Good information publicly available on the performance and present state of the gas sector</p>

Objective 3:

Deliver effectively on Gas Industry Co's accountabilities
as the gas industry body

	Forecast activities FY2018-20	Act\GPS Reference
Downstream reconciliation	<ul style="list-style-type: none"> • Monitor Allocation Agent • Assess ongoing performance of the Rules • Monitor allocation results, • Commission performance and event audits as required • Make determinations under the Rules as required 	To establish a set of uniform processes that enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities

	Forecast activities FY2018-20	Act\GPS Reference
Switching & registry	<ul style="list-style-type: none"> • Monitor Gas Registry Operator • Continue to manage Registry Operator contract renewal process • Assess the ongoing performance of the Switching Rules • Monitor and report on switching statistics • Make determinations under the Switching Rules as required 	To establish a set of gas switching and registry arrangements that will enable consumers to switch efficiently and satisfactorily between competing retailers

Critical contingency management	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Monitor Critical Contingency Operator • Assess ongoing performance of the Regulations • Appoint/monitor experts as required • Monitor exercises and events as required • Administer contingency pool as required • Process applications for designations and renewals for critical care, essential services, critical processing and electricity supply as required 	<p>To achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply</p>

Compliance & enforcement	Forecast activities FY2018-20	Act\GPS Reference
	<ul style="list-style-type: none"> • Perform Market Administrator role • Assess ongoing performance of the Compliance Regulations • Assist Investigator and Rulings Panel as required • Monitor compliance trends for indications of regulatory inefficiency 	<p>To provide an efficient, low-cost monitoring and enforcement regime for gas governance rules and regulations</p>

Statutory reporting

Forecast activities FY2018-20

- Prepare/publish Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication
- Prepare/publish Annual Report; meet requirements for tabling in Parliament
- Prepare/publish quarterly reports to the Minister

Act \ GPS Reference

Meet reporting requirements of the Gas Act and GPS and report on the performance and present state of the gas industry

Objective 4:

Develop and communicate the role of gas in meeting New Zealand's energy needs

New Zealand Gas Story	Forecast activities FY2018-20	Act \GPS Reference
	<ul style="list-style-type: none"> • Maintain the currency of the New Zealand Gas Story as new information comes to hand • Continue seminars and other communications for interested stakeholders 	<p>Good information is publicly available on the performance and present state of the gas sector</p>

Other reporting	Forecast activities FY2018-20	Act \GPS Reference
	<ul style="list-style-type: none"> • Compliance reporting • Industry performance measures • Switching statistics • Other 'state and performance' reporting 	<p>Good information is publicly available on the performance and present state of the gas sector</p>

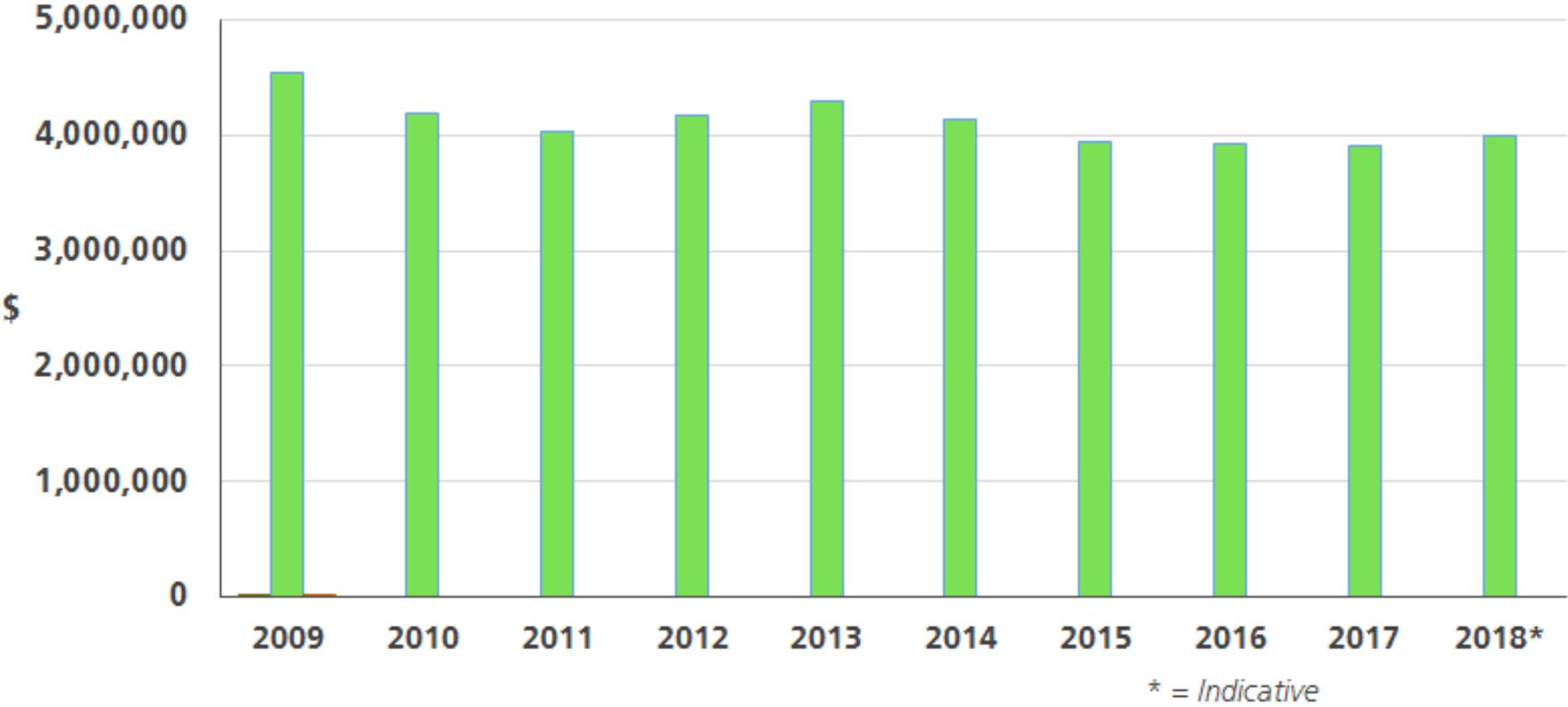
Funding

Projected FY2018 expenditure

Levy Funding Requirement	Market Fees	TWPC
+ = \$3.99m	= \$1.47m (placeholder)	= \$5,462,481
Slight increase from \$3.91m in FY2017	Market fees estimated in April 2017	Decrease from \$5.7m in FY2017

Levy Funding Requirement

Levy Funding Requirement



Prior year levies



Comparison of FY2017 and FY2018

	FY2017 (published)	FY2018 (indicative)
Levy Revenue/Funding requirement ('000)	\$3,913	\$3,991
Wholesale volume estimate (PJ)	179	179
Wholesale Levy (c/GJ)	1.15	1.30
Retail Levy (\$/ICP)	6.92	6.08

Other industry issues ?

- Industry proposals outside GIC Work Programme?
- Coordination?



Thank you