



CONSULTATION PAPER

Consultation on Gas Industry Co FY2018 Statement of Intent and Levy

PAPER AMENDED: 16 JANUARY 2017 – SECTION 5 (ADDITIONS HIGHLIGHTED)

SUBMISSIONS CLOSE: FRIDAY 3 FEBRUARY 2017

Executive Summary

Gas Industry Co was established in 2004 to perform the role of the 'industry body' set out in Part 4A of the Gas Act 1992 (the Act). Along with objectives, powers and requirements set out in the Act, it must have regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS).

In consultation with the industry, Gas Industry Co develops an annual Statement of Intent, which includes an annual Work Programme together with an indication of further activity in the two following years.

The Company consults with stakeholders on the costs for the Work Programme. These costs are principally funded through a levy and market fees, the latter imposed under relevant governance rules and regulations.

This Consultation Paper sets out the proposed Work Programme for the forthcoming FY2018 financial year (to 30 June 2018), other key elements of Gas Industry Co's draft Statement of Intent and the proposed Levy Funding Requirement (LFR) to be included in Levy Regulations for the year. Submissions on the Consultation Paper are taken into account in preparing:

- the Statement of Intent, which is submitted to the Minister for review; and
- a formal recommendation to the Minister of Energy and Resources for the Levy Regulations, which require ministerial, cabinet and vice-regal approvals.

The proposed FY2018 Work Programme set out in this document includes meeting statutory requirements such as the administration of existing gas governance regulations, and also seeks to address Government and industry priorities through the completion of key project deliverables. It continues with existing multi-year workstreams and reflects significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Act and the GPS.

This paper has been prepared after taking into consideration feedback received on the Company's Strategy, proposed Work Programme and costs at the Co-Regulatory Forum held at Gas Industry Co's offices on 22 November 2016. Forum feedback generally supported these proposals. We received a number of useful comments from participants which are addressed more fully in Section 2.1.

The proposed FY2018 LFR of \$3,991,481 is \$78,421 more than the corresponding budgeted costs for FY2017 (budget \$3,913,060).

The corresponding proposed levy rates for FY2018 are: a retail levy of \$6.08 per ICP (based on 275,000 ICP's) and a wholesale levy of 1.30 cents per GJ of gas (based on a volume of 179PJ).

This paper also includes a section on the *Wholesale Levy Assurance Submissions Analysis*. Gas Industry Co recently invited stakeholders to submit on various options and, based on their responses, has identified a preferred option which combines aspects of two of the options – requiring receipt point nomination data on the Maui pipeline and gas producer sales volumes elsewhere. This is discussed further in Section 5.

Submissions

Written submissions on this Consultation Paper should be provided to Gas Industry Co by **5.00pm on Friday 3 February 2017**. Submissions can be made by logging-on to Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). All submissions will be published on this website after the closing date. Submissions may be amended up to closing date.

Details of the submissions process are as follows:

- No email confirmation will be sent out acknowledging receipt of submissions. To check your submission has been successfully uploaded log in and check your account. If this is unsuccessful, contact Estelle Tolmay (Ph +64 4 472 1800) or email: estelle.tolmay@gasindustry.co.nz for confirmation.
- The closing time for submissions is **5.00pm**. Please note that submissions received after this time may not be able to be considered.
- Submissions will be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

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

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1. Legislative and Strategic Context

Under the co-regulatory model established in Part 4A of the Gas Act 1992, the gas industry, through Gas Industry Co as the industry body, develops and maintains governance arrangements for gas market participants including processors, transporters, wholesalers, retailers and consumers.

In carrying out its role, Gas Industry Co develops an annual Statement of Intent (SOI) for the next financial year, with indicative activity for the subsequent two years in the three-year planning period covered by the SOI. This programme is developed in a consultation process with industry participants and other stakeholders that commences with an annual Co-Regulatory Forum, followed by the publication of this Consultation Paper. Submissions on the Consultation Paper are taken into account in preparing:

1. the SOI, which is submitted to the Minister for review; and
2. a formal recommendation to the Minister for regulations authorising the levy on industry participants for the ensuing year.

Gas Industry Co's annual Work Programme is designed to meet the policy objectives and outcomes set by the Act and GPS, address other matters identified by Gas Industry Co and stakeholders warranting priority attention, and any work stream activity requested from time to time by the Minister.

1.1 The Role of Gas Industry Co

The overall purpose of Part 4A of the Gas Act is to 'provide for the governance of the gas industry'. This is achieved principally through developing gas governance arrangements that meet the objectives of the Act and of the GPS.

The principal objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Other objectives in the Act include:

1. The facilitation and promotion of ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements.
2. Barriers to competition in the gas industry are minimised.
3. Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced.
4. Delivered gas costs and prices are subject to sustained downward pressure.

The GPS expands the principal objective to include consideration of fairness and environmental sustainability. It also sets out specific outcomes that the Government wants achieved for the gas industry.

The [Act](#) and the [GPS](#) can be found on our website.

1.2 Statement of Intent and Levy

The Act provides for Gas Industry Co to recommend to the Minister that levy regulations be made under Section 43ZZE to fund Gas Industry Co's costs for the next financial year.

The Company is required by Section 43ZZD to consult on the levy and for the Minister to approve it under section 43ZZB to 43ZZE. Following cabinet and vice-regal approvals, this results in annual levy regulations being promulgated.

The Act also requires Gas Industry Co under Section 43ZQ to 43ZV to prepare an SOI for the forthcoming and at least the following two financial years which must contain the following information:

1. key background information about Gas Industry Co and its operating environment;
2. the nature and scope of the Gas Industry Company's intended operations;
3. specific impacts, outcomes or objectives that Gas Industry Co seeks to achieve or contribute to and how this may relate to any outcomes or objectives in the GPS;
4. how Gas Industry Co intends to conduct its operations to achieve (c) above;
5. the main financial and non-financial measures and standards which the future performance of Gas Industry Co may be judged;
6. matters on which Gas Industry Co will consult with the Minister, matters on which it will report to the Minister and the frequency of such reporting;
7. other matters Gas Industry Co is required to include in its Statement of Intent under the Act; and
8. any other matters that are reasonably necessary to achieve an understanding of Gas Industry Co's intentions and direction.

Gas Industry Co is required to provide its proposed Statement of Intent to the Minister for comment.

The Company's annual Work Programme is central to both the Statement of Intent and Levy Regulations, and both documents are timed to become effective at the start of the Company's financial year on 1 July. So the two documents are developed at the same time, and are covered in this joint Consultation Paper.

1.3 Gas Industry Co Corporate Strategy

The Board of Gas Industry Co has approved a Strategy that assists in the delivery of its statutory role, including by framing the proposed FY2018 Work Programme. The following diagram outlines the Company's Strategy for FY2018. It also includes the Company's principles as a framework for the delivery of its objectives.



Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy?

2. Developing the Proposed Work Programme

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

Consistent with our statutory role and our Company Strategy, we propose a FY2018 Work Programme similar to that for FY2017, focussing on our core market governance role under existing rules/regulations and continuing key multi-year programmes.

2.1 Co-Regulatory Forum

This Consultation Paper takes into consideration feedback received on the Corporate Strategy, draft Work Programme, and indicative Levy at the Co-regulatory Forum held at Gas Industry Co's offices on 22 November 2016. Questions at that Forum are set out below with responses:

- Downstream Reconciliation – will there be a development levy to fund D+1 if it is implemented?

The Downstream Reconciliation Rules provide for Gas Industry Co to recover the costs incurred under the Rules from allocation participants and that mechanism would be used to recover the cost of a 'production' D+1 system.

- Downstream Reconciliation – can industry participants have access to GIC's geo-tagging work?

In principle Gas Industry Co would be happy to pass over that information but we will need to consult with registry participants to determine if everybody is comfortable with that. If not, the fall-back position is to provide retailers with geotag information for ICPs for which they are the responsible retailer.

- Wholesale Market – are there any triggers for when/if there are any concerns?

Gas Industry Co does not have specific triggers but will continue to monitor the Market and will be guided by the objectives and outcomes set out in the Act and GPS. It is encouraging that the Market has been showing reasonable trading levels and emsTradepoint is looking to stimulate that further by looking to enter into market-making arrangements.

- LPG - is there a barrier to entry through lack of centralisation in the LPG market, particularly with new retailers coming in.

Gas Industry Co considers that there are not the same drivers in LPG that have seen regulatory intervention in areas such as switching and reconciliation. This is an area that we shall continue to monitor and would expect that the LPGA will work to ensure that its protocols are well-known among LPG retailers (both existing and prospective). If specific concerns arise then we shall look into those at the time.

- Private and LPG pipelines - Does GIC see a problem with open access to private pipelines?

As a general rule, open access is required where the asset in question is a natural monopoly. Accordingly, private natural gas pipelines that are “bypass” networks are not monopoly assets as there is an alternative. Similarly, bottled LPG can be a substitute for reticulated LPG. However, Gas Industry Co intends to look into LPG networks during the balance of FY2017 to identify whether there are strong arguments, and net benefits, that would support a requirement for open access.

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

2.2 Prioritisation

The following is the framework Gas Industry Co uses for assessing priorities and costs between, and within, project areas and between successive years’ Work Programmes.

Statutory roles

Gas Industry Co has a number of statutory accountabilities that arise from:

1. obligations under the various rules and regulations that Gas Industry Co administers; and
2. specific outcomes defined by the Gas Act and GPS.

Given that these are, or stem from, statutory obligations they must be given a high priority in the Work Programme. Funding for the first of these is from a combination of market fees and levy, and for the second, funding is from the levy. Examples of these are:

1. monitoring the performance of industry participants that are subject to the rules/regulations and encouraging, or enforcing, compliance as necessary;
2. monitoring and reporting on metrics arising from these processes so as to increase transparency and foster a well-informed market. For example, automating analysis and monitoring of allocation results so as to catch and correct errors at an earlier stage; and
3. maintaining rule-change registers where potential improvements are identified.

Committed and/or ongoing projects

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

Examples include:

1. the D+1 Pilot Programme and whatever work flows from that;
2. the Single Transmission Code Project; and
3. the bi-annual update of the *Long Term Gas Supply and Demand Scenarios*.

In order to ensure meaningful progress is made with such projects it is essential to programme them into the budget as a means of establishing or maintaining momentum.

Stakeholder-identified priority work

This category includes work that commands a high priority for stakeholders from the gas industry, end users, and Government. Moreover, in many of these areas, a number of those stakeholders are supporting that programme of work by committing their own resources. A recent significant example is the review undertaken of gas transmission security and reliability, which resulted from questions from end users and has resulted in ongoing work by First Gas.

Flexibility and cost efficiencies

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

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of support services to the Company as a whole. There is a specific focus on delivering efficiency and value for money. We have had a programme in place since FY2013 to review non-operational costs, and having appropriate mechanisms for ensuring that procurement decisions are managed effectively, we have been able to successfully maintain downward pressure on support costs. We have been able to absorb inflationary increases for the past five financial years with costs dropping each year. Last year the costs remained flat and FY2018 will show only a very slight increase in our non-operational costs.

As well, we have considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven (e.g. code changes and reviews of new interconnections) and it does not make sense to make full provision for each of these individually. Instead, we make a modest provision for these items as a whole and back ourselves to manage within the global amount¹.

Statement of Intent and Levy Setting Process

The diagram below outlines the process undertaken to develop the SOI and Levy.



Q2: *Do you have any comments on the process for developing Gas Industry Co's Statement of Intent and Levy?*

¹ Of course, there is now a risk that each line item may be fully active in a given year, leading to a budget deficit, but we expect to be able to manage this risk through re-prioritisation of other work.

3. Proposed FY2018 Work Programme.

3.1 Strategic Objective: Provide efficient, competitive and confident gas markets

Retail Contracts Oversight Scheme (Retail Scheme)

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme that assesses retailers' posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the last full review in 2015 having shown 'substantial' compliance.

Details of the Scheme can be found [here](#).

Forecast Activities FY2018

1. Full retail contracts review to be undertaken
2. Publish compliance levels for individual retailers
3. Provide additional information to assist new entrant retailers to understand their obligations and governance processes

Resources

This work will require 0.1 FTE to oversee the assessment work and to liaise with retailers on possible amendments and future assessments. A modest budget is additionally provided for the Independent Assessor.

Gas Distribution Contracts Oversight Scheme (Distribution Scheme)

In 2012, Gas Industry Co established the Distribution Scheme under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. Over recent years, distributors have developed new agreements in consultation with their customers. The second assessment by an Independent Assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. Checks with retailers and distributors in FY2015 and FY2016 identified that incremental changes continue to be made. In addition, the practice is to make those incremental changes available to retailers that have executed earlier versions of the distribution contracts.

Details of the Scheme can be found [here](#).

Forecast Activities FY2018

1. Continue to assess progress with executing new distribution contracts consistent with the Distribution Scheme principles
2. Review the Distribution Scheme, consider any changes or other actions required, and report
3. Consider any activity in respect of non-open access LPG networks in light of FY2017 findings

Resources

This work will require 0.25 FTE for considering whether the scheme requires any amendment in light of the fact that many retailers are operating with out of date, or expired, contracts. Any formal evaluations, if required, will be contracted out to an Independent Assessor.

Retailer insolvency

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that the best solution is an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements in the same year. With the framework set, it is not expected that any routine activity will be required in FY2018 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations for reports under those rules). Once the shape of the new transmission access arrangements becomes clear it might be necessary to make amendments to related aspects of the drafting instructions, those changes are regarded as minor.

Details of our work on Retailer Insolvency can be found [here](#).

Contingent activities FY2018

1. Implement the new retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency.
2. Make any necessary amendment to the drafting instructions once new transmission arrangement are known.

Resources

Insolvency-related activities addressed by re-prioritisation in the event of a retailer insolvency. Amending drafting instructions not specifically provided for as this is expected to be very low-level activity.

Gas quality

This workstream originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. In FY2015, the Company published a [Gas Quality Requirements and Procedures](#) document aimed at clarifying current arrangements and making them accessible. An update will be prepared in early 2017. We will continue to oversee industry-led work in this area, and will consider whether further action is required arising from that update.

Details of our work on Gas Quality can be found [here](#).

Forecast activities FY2018

1. Oversee industry-led work on gas quality
2. Determine actions to address any remaining gas quality issues
3. Update the Requirements and Procedures document as required

Resources

For budgeting purposes, this workstream is assumed to require 0.1 FTE.

Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

The last eighteen months involved an intensive period of reviewing aspects of the daily allocation process and developing improvements, including the provision of tools to assist shippers to better manage their daily balancing positions. This work will continue into FY2018, steered by the progress in developing the new Gas Transmission Access Code (GTAC), which will dictate any required changes to regulatory arrangements.

Details of all regulations and rules administered by Gas Industry Co can be found [here](#).

Forecast activities FY2018

Downstream Reconciliation

1. Keep the D+1 Pilot Scheme running and consider/implement any worthwhile refinements.
2. Once the new GTAC is identified, develop any required changes to the Downstream Reconciliation Rules and consult.
3. Subject to submissions, make a recommendation to the Minister to amend the Downstream Reconciliation Rules.
4. Subject to Ministerial approval, develop, test and implement the supporting systems.

Critical Contingency Management (CCM)

1. Review contingency pricing and imbalance arrangements.
2. Consult and work with stakeholders on any improvements to these arrangements.
3. Once the new GTAC is identified, review CCM arrangements for any required changes.
4. Consult and work with stakeholders to ensure alignment with final GTAC.
5. Recommend amendments and implement as required

Resources

In respect of downstream reconciliation, this workstream will require a significant amount of internal resource of 1 to 1.5 FTE in FY2018 to keep the D+1 pilot running successfully and, once the direction of the new GTAC is known, commence working with industry working groups and the Allocation Agent to design the necessary rules changes, and to address implementation and transition issues.

The CCM review will be comparatively less resource intensive, but does involve a reasonably contentious issue and—due to being regulations rather than rules—requires a longer process. We expect it will require 0.5 FTE in FY2018.

Gas measurement

High-level work to review the current contracting arrangements between metering equipment providers and retailers as well as consider the outlook for the introduction of gas smart metering technology is expected to be completed in FY2017. Current indications are that there will be little, if any, work required in FY2018 in this area.

Contingent activities FY2018

1. Develop any future activity required in light of the findings from the initial review which commenced in FY2016

Resources

A minor budget provision has been provided for this workstream in FY2018 along with 0.05 FTE. If not required, those resources will be redirected.

Supply/demand model

As part of the GTIP work, Gas Industry Co commissioned the first dedicated study on gas supply and demand and the most recent update was published in October 2016 as *Long Term Gas Supply and Demand Scenarios Report* (Concept Consulting, 2016). It is clear that the contribution of the report is significant, and it is worth ensuring it is updated bi-annually.

Forecast activities FY2018

1. Review and update the *Report* every two years after first publication.

Resources

As the work for this is outsourced there will only be a modest requirement of 0.1 FTE for contract administration, stakeholder liaison and communication. Typically the work spans two financial years, so the update scheduled to be published in FY2019 will commence in late-FY2018.

3.2 Strategic Objective: Facilitate efficient use of, and investment in, gas infrastructure

Gas transmission access

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

During FY2016 Gas Industry Co consulted on its *Gas Transmission Access Single Code Options Paper - Part 1* (SCOP1) that was aimed at establishing the problem definition and regulatory objective for creation of a single transmission access code. First Gas has now issued *Gas Transmission Access: Single Code Options Paper* (SCOP2) and FY2018 will see considerable activity in this workstream. At this stage, it is not possible to say whether that activity will focus on implementation of a new, single transmission code or whether it will focus on completing arrangements for a recommendation to the Minister for regulating transmission access arrangements. Either way, this will be a high-intensity workstream requiring considerable resources

Details of our transmission access work can be found [here](#).

Forecast Activities FY2018

1. Work with First Gas and stakeholders on detailed design of single new transmission code.
2. Assess detailed design against Gas Act & GPS objectives and outcomes.
3. Draft regulations if backstop required (address any shortcomings).
4. Move to recommend/implement regulation if industry process stalls.

Resources

At a minimum, this workstream will require 1.5 FTE across the year, but there will likely also be periods where additional resources are required. Accordingly, we are budgeting an internal requirement of 1.75 FTE.

Wholesale Market

The emsTradepoint Wholesale Market (eTp) has now been in operation for over three years and has increased in both membership and volume over that time. We note that the GPS seeks an outcome of "Efficient arrangements for the short-term trading of gas" and eTp makes a transparent contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date.

Gas Industry Co intends to continue to monitor activity and developments in the Wholesale Market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

Forecast activities FY2018

1. Monitor Wholesale Market activity and developments
2. Ensure that market information is provided to Gas Industry Co in a timely fashion to support this monitoring

Resources

This workstream is expected to require 0.1 FTE as the work will be at a low level except for a concentrated period of time when preparing the post-implementation review of MBB.

Transmission pipeline balancing

Market-based balancing (MBB) was implemented in FY2016 and Gas Industry Co has published an interim review that points to a number of areas of improvement. However, those improvements have required improved information availability – the D+1 Pilot Programme plus daily cash-out information delivered on business days – as well as greater attention by shippers and welded parties. The transmission access work will need to determine a set of balancing arrangements for the new single code and Gas Industry Co will be monitoring those developments.

Details of our work on transmission pipeline balancing can be found [here](#).

Forecast activities FY2018

Work with stakeholders on balancing-related matters and incorporate findings from MBB review to enhance efficiency where warranted

Resources

This workstream has connections with a number of other workstreams. Accordingly, although no specific allocation of external resources has been made for the workstream, any requirement for external advice will need to come from a pool that has been set aside for balancing, interconnection, and code changes.

Transmission code changes and appeals

Under a Memorandum of Understanding with the owner of the Maui pipeline, Gas Industry Co has a role in processing MPOC change requests on an 'as required' basis. In addition, the Company is invited to submit on change requests under the VTC.

Details of our work on transmission code changes and appeals can be found [here](#) (MPOC) and [here](#) (VTC).

Forecast activities FY2018

1. Perform agreed role in relation to proposed MPOC changes
2. Make submissions on proposed changes to the VTC where appropriate

3. Review above once single code adopted

Resources

Although there has been significant activity in this area in recent years, given the focus on balancing through that period, it is likely that there will be little or no activity in this area in FY2018 as the focus will be on the new code. Accordingly, the resource requirement will be provided from the shared pool for balancing, interconnection, and code changes.

Transmission pipeline interconnection

Gas Industry Co has established *Interconnection Guidelines* that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. We have previously commissioned independent reviews of new interconnections and, in recent years, these have shown that the Guidelines have been adopted by the transmission system owners.

Given this, we do not consider that formal reviews of each new interconnection are required. We will monitor interconnections at a high level and expect that any issues will be brought to our attention.

Details of our work on Interconnection can be found [here](#).

Forecast activities FY2018

1. Review interconnections as required
2. Address any concerns regarding reasonable access
3. Amend the *Guidelines* as required

Resources

There is no specific provision for this work as there is no forward information on the rate of new connections. However, given the sporadic nature of interconnections and the small amount of work required to undertake high-level monitoring it is considered that it is unnecessary to make a specific allowance. If required, external advice will be provisioned from a pool shared with balancing and code changes.

Gas Transmission Security and Reliability

Gas Industry Co undertook a review of existing information and requirements associated with gas transmission security and reliability in FY2016/17. These are found in several locations, span responsibilities of several regulators, and can be difficult to bring together and interpret.

Our findings were that existing information and arrangements give significant assurance about both standards and performance. However, it is possible that further work may be required around provision of information and oversight of significant transmission investments. The latter falls clearly within the jurisdictions of the Commerce Commission and Worksafe, but might be relevant to Gas Industry Co's powers, including to recommend regulations that require expansions, upgrades or service quality improvements. Gas Industry Co will undertake an update review of this area in early 2017.

Contingent activities FY2018

1. Consider outcomes of the Commerce Commission 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
2. In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider the need for additional governance arrangements

Resources

There is no specific provision for this work in FY2018, as the most likely scenario is agreed disclosures and major transmission investments are relatively rare. It is accordingly considered that this can be fitted within the available resources, or priorities adjusted.

3.3 Strategic Objective: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

There are various functions that the industry body is required to perform either under the Gas Act or under gas governance rules or regulations. The activities associated with these are described in this section.

Downstream reconciliation

The purpose of the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) is to 'establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities'. Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and other Rules. Gas Industry Co monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and/or the Allocation Agent.

The Reconciliation Rules have been instrumental in reducing the level of unaccounted for gas (UFG) at the final allocation stage. This is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date. Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of \$2.5 million per annum.

The Reconciliation Rules and further details about downstream reconciliation can be found [here](#).

Forecast activities FY2018

1. Monitor Allocation Agent
2. Assess ongoing performance of the Rules
3. Monitor allocation results,
4. Commission performance and event audits as required
5. Make determinations under the Rules as required

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to be continuing to run the pilot scheme for D+1 allocations until that is either overtaken by changes to the Reconciliation Rules or a better solution identified. These are discussed further under 'Regulation and Rule Changes' section.

Resources

Because allocation is a complex, bottom-up process involving large amounts of data, significant resources are required for this workstream. The need to run and monitor the D+1 Pilot Scheme has caused us to reassess the requirements and, for planning purposes, it is assumed that this workstream will require a full FTE. The Allocation Agent is funded from market fees.

Switching and registry

The Gas (Switching Arrangements) Rules 2008 (Switching Rules) have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

Introduction of the Switching Rules tripled the rate of switching and the trend over the past six years has been increasing annual rates of customer switching. Over the past few years Gas Industry Co, in conjunction with the Electricity Authority, has provided modest support to Powerswitch so as to ensure the continued existence of an independent, credible source of information for consumers.

The Switching Rules and further details about the Switching Registry can be found [here](#).

Forecast activities FY2018

1. Monitor Gas Registry Operator
2. Assess the ongoing performance of the Switching Rules
3. Monitor and report on switching statistics
4. Make determinations under the Switching Rules as required
5. Continue to provide support to Powerswitch pending new arrangements and/or emergence of switching agents.

In addition, changes to the Switching Rules in September 2015 introduced the requirement for the industry body to arrange performance audits of registry participants. Baseline audits of retailers commenced in FY2016 and should be completed in the FY2017 year. Audits of distributors will follow in FY2017-FY2018.

Resources

Although this was previously resource-intensive, particularly in the first year of operation, administering the Switching Rules is now more of a routine activity (outside of any activities related to changes to the Rules - addressed later in the Work Programme narrative). Gas Industry Co has allowed for 0.25 FTE internally. The service provider is funded from market fees under the Rules.

Critical contingency management

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. The nature of the gas system means that it is not possible to turn off customers remotely as is done in the electricity industry. Accordingly, to manage a reduction in gas supplies it is necessary to instruct consumers themselves to turn off their gas-using equipment and that, in turn, requires regulatory backing. These Regulations provide for the appointment of a Critical Contingency Operator (CCO) and that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated four times since they came into full effect in 2010, with one of those being the five-day outage as a result of a break in the Maui pipeline in October 2011.

The CCM Regulations and further details about CCM can be found [here](#).

Forecast activities for FY2018

1. Monitor CCO
2. Assess ongoing performance of the CCM Regulations
3. Appoint/monitor experts as required
4. Monitor exercises and events as required
5. Administer contingency pool as required
6. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing and electricity supply as required

Resources

The CCO function is performed by a service provider funded through market fees, which also include funding for one annual contingency event. Gas Industry Co considers that its 'business as usual' arrangements will require approximately 0.2 FTE. However, that may be subject to increase depending on the rate and type of applications and renewals received for priority designations. Given that gas critical contingencies are relatively rare events, Gas Industry Co does not budget internal resources to cover those. Rather, should a critical contingency eventuate, we will re-prioritise resources to meet our obligations under the CCM Regulations for the period concerned.

Compliance and enforcement

The Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules/regulations breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's Quarterly Performance Reports demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various rules and regulations.

The Compliance Regulations and further details about Compliance can be found [here](#).

Forecast activities FY2018

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

Resources

Each of the Investigator and Rulings Panel is engaged and funded by market fees as provided for in the Compliance Regulations. The Market Administrator role is undertaken by Gas Industry Co and, based on recent experience, is approximately 0.2 FTE. However, that level could rise in the event of any significant or complex material breaches. Once matters are referred for investigation or referred to the Rulings Panel, the input from Gas Industry Co will increase,

potentially substantially, in significant and complex cases. Accordingly, the overall resources required in this area are almost entirely demand-driven. Based on the low level of enforcement activity over the past several years, we do not budget for any increased level of activity.

Statement of Intent and Annual Report

The Gas Act requires that the industry body to provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual SOIs are required to be submitted to the Minister for comment prior to being finalised and published.

[Annual Reports](#) and [Statements of Intent](#) can be found on our website.

Forecast activities FY2018

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

Resources

This work is predominantly carried out internally utilising staff resources from across the Company. External printing costs and some design work is required, although the first of these is controlled by shorter print runs and increased use of email and website communication.

3.4 Strategic Objective: Develop and communicate the role of gas in meeting NZ's energy needs

New Zealand Gas Story

During FY2013 Gas Industry Co published the first *New Zealand Gas Story*. It is intended that this document is updated at least annually to ensure the information is current and topical. The first annual update was issued during FY2014 with a third edition published in FY2015. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to better understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the *New Zealand Gas Story* through such other channels as its website, the Company's annual and quarterly reports, and presentations to various stakeholder groups. The latter has been highly successful throughout FY2015 and FY2016 with a large number of stakeholders having attended presentations in Wellington, Auckland, and Taranaki.

The *New Zealand Gas Story* can be found [here](#).

Other Reporting

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

Gas Industry Co has also commissioned reports focussing on particular aspects of the industry, such as the *Consumer Energy Options Report* (Concept Consulting, 2012/2016), *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand* (Woodward Partners, 2013) and *Possible Commercialisation Options for New Gas Discoveries* (Concept Consulting, 2015). Further occasional reports will be published, and existing reports updated, where of value to the industry.

Forecast activities FY2018

1. Continue to prepare/publish Quarterly Reports, Switching Statistics and Industry Performance Measures.
2. Maintain the currency of the New Zealand Gas Story as new information comes to hand.
3. Continue seminars and other communications for interested stakeholders.
4. Commission occasional reports, and update existing reports where of value to industry.

Resources

This work is predominantly carried out internally by communications staff, with a small budget retained for external experts assisting with specialist areas/reports.

Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2018? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS?

Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2018? Please provide reasons for your response?

4. Funding of Operations

4.1 Sources of Funding

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

Market Fees

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

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

Levy

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

The main focus of the following section is on the FY2018 Levy Funding Requirement (LFR).

Downward Pressure on Cost

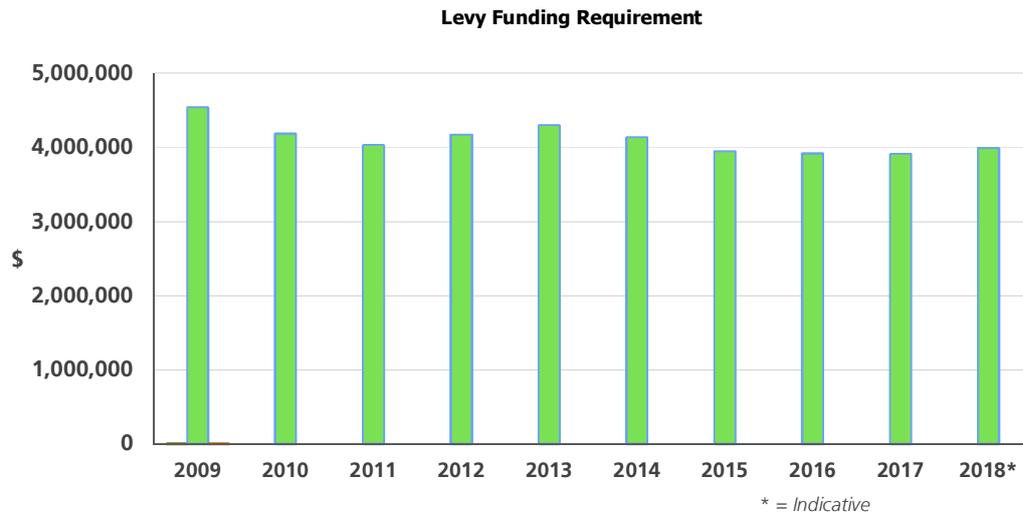
Over recent years we have committed to putting downward pressure on costs, including in our annual Levy Recommendations to the Minister. We have kept a flat-to-dropping profile across the past four years, while absorbing increases in staff and other costs. For FY2018, we are showing a small increase in costs (2% or \$78,421), which reflects heightened activity and resources anticipated, particularly in relation to development of the new single transmission code.

4.2 Levy Funding Requirement

We expect the LFR to be \$3,991,481 (compared to FY2017 - \$3,913,060). The method for deriving this figure is set out below.

The following chart shows the actual LFR for FY2009-17 and proposed LFR for FY2018.

Chart 1:



Our indicated market fees for FY2018 are \$1.471m (published market fee estimate for FY2017=\$1.490m).

Chart 2 shows published market fees to FY2017 and the indicative estimate for FY2018.

Chart 2:

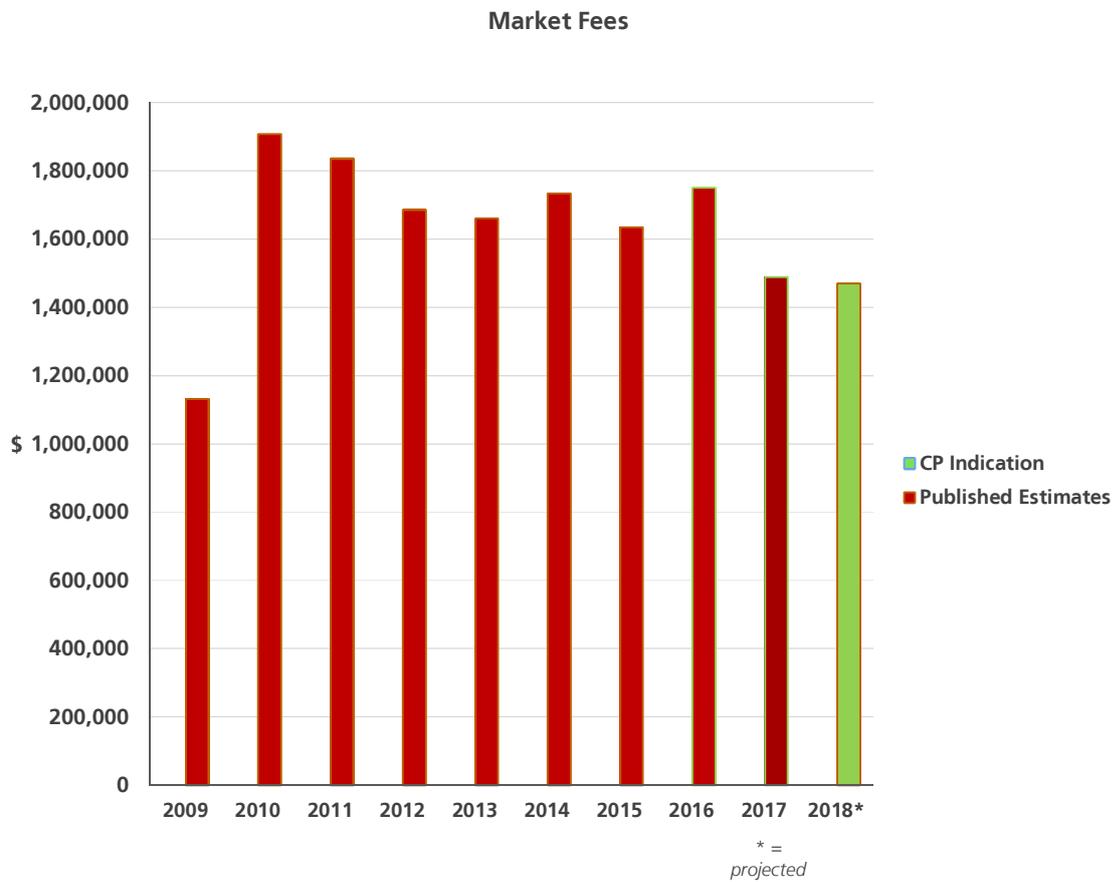


Chart 3 shows Total Work Programme Costs (TWPC) which are based on a combination of the proposed Levy Funding Requirement and indicative market fees above. They are expected to be lower in FY2018 at \$5,462,481 (FY2017= \$5,749,060) due to the decrease in market fees as shown in Chart 2 above.

Chart 3:



Combining all of the above, the LFR can be calculated as follows:

Description	\$
Strategic Goal 1: Provide efficient, competitive, and confident gas markets	
<i>Comprising: Retail Contracts Oversight Scheme, Gas Distribution Contracts Oversight Scheme; Regulation and Rule Changes; Retailer Insolvency: Gas Quality; Gas Measurement; Supply/Demand Model</i>	772,729
Strategic Goal 2: Facilitate efficient use of, and investment in, gas infrastructure	
<i>Comprising: Transmission Access and Pricing; Transmission Pipeline Balancing; Transmission Code Changes and Appeals; Transmission Pipeline Interconnection; Wholesale Market; Gas Transmission Security and Reliability.</i>	1,167,206
Strategic Goal 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body	
<i>Comprising: Downstream Reconciliation; Switching and Registry; Critical Contingency Management; Compliance and Enforcement; Statement of Intent and Annual Report.</i>	3,450,852
Strategic Goal 4: Develop and communicate the role of gas in meeting New Zealand's energy needs	
<i>Comprising: New Zealand Gas Story; Other Reporting</i>	71,694
Total Work Programme Costs	5,462,481
Less: Indicative Market Fees	1,471,000
Levy Funding Requirement	3,991,481

4.3 Proposed Levy Method and Rates

Gas Industry Co's existing levy method:

1. is based on a 'beneficiary pays' approach and a set of [Levy Principles](#). In summary, those Principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency; and
2. has two components: a wholesale component based on energy quantities of gas and a retail component based on ICPs. These components are apportioned according to the cost allocated to each part of the annual Work Programme. In years when the Work Programme focusses on retail issues, for instance, the retail levy rate will increase while the wholesale levy rate will decrease.

These arrangements have remained in place since 2006, including through annual consultations, with only minor refinements.

Based on the TWPC above, the levy rates for FY2018 would be:

1. Wholesale levy - 1.30c /GJ (up from 1.15c/GJ in FY2017, a 13.04% increase)
2. Retail levy - \$6.08/ICP² (down from \$6.92/ICP in FY2017 a 12.14% decrease)

Assumptions:

1. The draft gas volume assumption for FY2018 is 179PJ. This reflects wholesale gas volumes being estimated at the same rate as for the current FY2017 year.
2. The ICP assumption of approximately 275,000 is based on the current number of ACTIVE-CONTRACTED entries in the gas registry.

Q5: We are particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?

Q6: Do you have any comment on the proposed levy for FY2018?

² This figure equates to a sum of \$0.5067 per month

5. Wholesale Levy Assurance

5.1 Options paper – analysis and conclusions

In September 2016, Gas Industry Co issued an options paper *Wholesale Levy Assurance* that described a significant issue in respect of wholesale levy returns: the inability to independently verify whether those returns are accurate. Submissions were received from seven parties.

Submitters were asked whether they agreed that the status quo did not provide adequate assurance and that changes were required. None of the submitters considered that no change was required, but a number cautioned that any change should be simple and low-cost.

The options paper offered a number of options to address the problem and the options fell broadly under two headings:

Introduce new means for verifying wholesale levy returns

There are two options that would seek to correct the shortcomings of the existing approach by allowing verification of wholesale levy return data:

Option 1: provide for Gas Industry Co to obtain an independent source of data for comparison with industry participants' wholesale levy returns by requiring gas producers to provide data on monthly sales volumes, by customer, to Gas Industry Co; or

Option 2: periodically audit wholesale levy payers to check their returns, to incentivise accurate returns as well as provide a high level of assurance.

Base the wholesale levy on data independent of levy payers

These options are similar to the approach to the current retail levy (which uses data from the gas registry). The third and fourth options would seek to base the wholesale levy on:

Option 3: transmission billing volumes, sourced from the transmission service provider (TSP); or

Option 4: a combination of downstream reconciliation volumes and deliveries to transmission-connected customers, sourced from the allocation agent.

Submitters offered a range of views on which of the options was preferred. Four of the submitters favoured Option 1 (and some suggested that the incidence of the wholesale levy be moved so that gas producers themselves pay that levy), and three favoured Option 3 (which Gas Industry Co had indicated was its preference in the options paper).

Gas Industry Co can see the intuitive appeal of Option 1 - it appears to offer information from a source independent of the levy payers and at minimal cost or inconvenience to the gas producers (aside from the initial cost/effort to amend their systems to provide a monthly report). However, the particular issue that was the impetus for the options paper involved an integrated gas producer/shipper/retailer, and in that case Option 1 fails to provide a source of independent information.

Submitters who rejected Option 3 cited several concerns:

1. the potential for changing the cost allocation of the wholesale levy and, therefore, potentially requires some changes to contracts;
2. does not directly capture gas transported in private pipelines so that would require a separate set of arrangements to be documented in the levy regulations;
3. complexity of nominations data means that pipeline billing information will need to be disaggregated and that requires significant work;
4. breaking out the volumes from gas production stations will be unnecessarily complex and costly; and
5. because First Gas buys gas for its own use it raises issues of conflict (or perceived conflict) of interest.

Gas Industry Company had already noted the existence of the first two concerns in the options paper but accepts that it may have under-estimated the extent of changes to contracts that might be required as a result of altering the allocation of payment of the wholesale levy. On items 3 and 4, Gas Industry Co had acknowledged that some set-up work would be required but had assumed that, once this was done, it would be an automated process into the future. Gas Industry Co does not believe that item 5 is of any moment given the current arrangements for the pipeline mean that the data on gas for own-use is transparent either through OATIS or BGIX data.

The key difficulty that Gas Industry Co faces with adopting Option 1 is the lack of independent verification where the gas producer is an associated company of one or more parties that pay the wholesale levy. That situation raises a very real conflict of interest and that conflict is unable to be cured simply because of the lack of transparency of upstream data.

Discussions to date have caused Gas Industry Co to think that a hybrid of options 1 & 3 might be feasible. The hybrid option would require:

1. where gas sales occur at a Maui receipt point, the pipeline owner would provide the nominations data for the receipt point that identifies volumes acquired by each shipper who trades at that point; and
2. in all other cases, including sales transported via private pipelines, gas producers would be required to provide a monthly schedule of those sales by customer.
3. [the data in points 1 & 2 above would be required to be forwarded to Gas Industry Co by the last day of the month following the month of gas flow; e.g. data on January nominations or \(TSP\) or January sales \(gas producers\) would be due by the last day of February.](#)

[Note that the data requirements in this hybrid option would be in addition to the wholesale levy returns that are currently furnished by those who purchase gas from gas producers.](#)

The hybrid has the advantage that for a significant percentage of sales the information required, i.e. nominations data, is held by the pipeline and that data originates from the purchasers. For non-Maui receipts there would be an additional burden on gas producers, but a lesser burden than would apply under Option 1. In addition, the hybrid appears to make no change to the current incidence of the wholesale levy, i.e. the parties who pay the wholesale levy currently would be the same parties that would pay the levy under the hybrid.

Q7: Do you have any comment on the options proposed?

Appendix A: Recommended format for submissions

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

Question	Comment
Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy?	
Q2: Do you have any comments on the process for developing Gas Industry Co's SOI and Levy?	
Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2018? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS?	
Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2018? Please provide reasons for your response?	
Q5: We are particularly interested in industry comment on the forecast gas volumes - do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?	
Q6: Do you have any comment on the proposed levy for FY2018?	
Q7: Do you have any comment on the hybrid option proposed?	

ABOUT GAS INDUSTRY CO

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.

SUBMISSIONS CLOSE:

5.00pm on Friday, 3 February
2017

SUBMIT TO:

www.gasindustry.co.nz

ENQUIRIES:

Glenda MacBain