

30 March 2017

Hon Judith Collins  
Minister of Energy and Resources  
Parliament Buildings  
Wellington

Dear Minister

***Draft Statement of Intent FY2018-2020 and Levy Recommendation FY2018***

We enclose:

- Gas Industry Co's *Draft Statement of Intent (Draft SOI)* setting out Gas Industry Co's strategic priorities and Work Programme for financial year 2018 (1 July 2017 to 30 June 2018), and indicatively for the following two financial years FY2019-FY2020.
- Gas Industry Co's *Recommendation to the Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2017 (Levy Recommendation)* for the financial year 2018. The annual levy is to recover the principal costs of Gas Industry Co exercising its functions as the 'industry body' appointed under Part 4A of the Gas Act 1992. The levy meets slightly over two-thirds of our total annual costs, with the remainder being principally met by market fees paid to Gas Industry Co directly by industry participants for services under gas governance rules and regulations.

The *Draft SOI* and *Levy Recommendation* have both been approved by the Gas Industry Co Board for presentation to you. In essence, these two documents provide the programme and principal funding for Gas Industry Co to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise fulfil our mandate as the industry body, for the coming financial year and beyond.

Your role as Minister of Energy and Resources is to provide any comments on the *Draft SOI* (section 43ZZB of the Gas Act 1992) and, if appropriate, accept the *Levy Recommendation* and recommend to the Governor-General that annual levy regulations be made (section 43ZZD). Normally, the *Final SOI* is published by, and the annual regulations take effect from, 1 July each year.

**Industry Consultation Process**

The *Draft SOI* and *Levy Recommendation* were developed after consultation with stakeholders on strategic priorities; developing a Work Programme and budget that addressed these priorities; issuing a formal *Consultation Paper*<sup>1</sup>; and considering submissions on that paper. Submitters broadly supported the Work Programme and budget, and specifically congratulated Gas Industry Co for continuing to keep downward pressure on costs.

The *Draft SOI* and *Levy Recommendation* also respond to initial comments received from MBIE.

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<sup>1</sup> *Consultation on Gas Industry Co FY2018 Statement of Intent and Levy*

The key priorities are:

- Administering and meeting our responsibilities under existing gas governance arrangements (regulatory and non-regulatory).
- Progressing multi-year projects to which Gas Industry Co has previously committed and which are supported by industry stakeholders such as:
  - supporting the D+1 pilot scheme that has been put in place to provide retailers with the information they need to operate more efficiently under market-based balancing;
  - based on the outcomes of the D+1 pilot, and once the design of the Gas Transmission Access Code (GTAC) is known, identifying changes needed to the Reconciliation Rules and any associated changes to the Allocation Agent's role and system.
- Continuing to provide industry leadership in terms of the *New Zealand Gas Story*, including future scenarios and challenges for the industry.

### ***Draft Statement of Intent***

Gas Industry Co is required by the Gas Act to publish each year an *SOI* containing certain information, including the nature and scope of its intended operations. We look forward to receiving your comments on the *Draft SOI* for FY2018-2020, which focuses on our Work Programme, and addresses the following key objectives:

- Promoting efficient, effective and confident gas markets.
- Facilitating efficient use of, and timely investment in, gas infrastructure.
- Delivering effectively on Gas Industry Co's accountabilities as the gas industry body.
- Developing and communicating the role of gas in meeting New Zealand's energy needs.

The FY2018 Work Programme has been developed having regard to the objectives and outcomes that have been set for Gas Industry Co by the Gas Act and the April 2008 Government Policy Statement on Gas Governance (GPS). It is also designed to meet other statutory accountabilities such as monitoring and administering existing governance arrangements or reporting requirements under the Gas Act and Companies Act.

In preparing the *Final SOI*, we will consider any comments you provide and update forecast FY2017 financial information to include actual results for months to be completed.

### ***Levy Recommendation***

The *Levy Recommendation* is structured to particularly fund the following activities:

- Meeting Gas Industry Co's statutory accountabilities (including administration of existing gas governance arrangements).
- Work with First Gas and other stakeholders on the detailed design of the new GTAC.
- As the GTAC design emerges, consider consequential changes required to existing regulated arrangements, including downstream reconciliation and critical contingency management.
- Continue to support D+1 until that is incorporated into new arrangements.
- Completing ongoing workstreams previously agreed with industry stakeholders, or initiated by Ministerial request.

Since FY2013 we have continued to apply discipline to our costs to ensure that we deliver value for money in our operations.

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The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through by gas retailers, the approximately 275,000 residential gas consumers would pay only around \$6.48 per annum, or around 0.73% of a typical annual gas bill. Larger consumers pay more, proportionate to their wholesale gas purchases. The largest consumers pay more proportionate to their wholesale gas purchases, but the largest consumers, who together consume the majority of supply, are active participants in the consultation process and have raised no objections to the levy rate.

### **Conclusion**

We are confident that the *Draft SOI* and the *Levy Recommendation* provide us with what we need to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise ensure we can continue to successfully fulfil our mandate as the industry body.

We look forward to your response to these matters.

Yours sincerely



**Rt Hon Jim Bolger, ONZ**  
*Chairman*



**Steve Bielby**  
*Chief Executive*

Copy: Justine Cannon MBIE

Encl: Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2017

Statement of Intent - Financial Years 2018 – 2020

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