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RECOMMENDATION

## Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2018

# Executive Summary

**Pursuant to section 43ZZB of the Gas Act 1992 (the Act), Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2018, totalling \$3,982,551 on the following basis:**

- **From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of \$6.18 for each ICP for each retail customer.**
- **From every industry participant on the first day of each month, a wholesale levy rate of 1.2374c /GJ based on gas purchases made directly from gas producers during the previous month.**

Gas Industry Co remains principally reliant on annual levies to provide the effective governance of the downstream gas sector that Part 4A of the Act requires, and aims to do that at least cost to consumers. The contents of this Levy Recommendation achieved broad support from industry stakeholders, through a robust annual consultation process. Gas Industry Co believes that the recommended levy represents good value for gas consumers and the wider industry.

Key industry background is:

1. The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Act.
2. Gas is a key contributor to New Zealand, at around 22% of primary energy supply. In the past decade, the gas industry in New Zealand has undergone substantial change, transitioning from reliance on the large Maui field, to drawing supplies from multiple smaller fields. There are now 15 producing fields and around 9 years' P50 reserves.
3. Gas is an important fuel for industrial, commercial, and residential consumers. In 2009, there were about 250,000 gas consumers; today, there are over 280,000.
4. Gas Industry Co has developed a mix of formal rules and regulations (e.g. critical contingency management, reconciliation, switching) and non-regulated arrangements (e.g. retail contracts, distribution contracts) that are well-advanced in meeting the legislative and policy objectives and outcomes that the Government expects the industry to achieve.
5. These arrangements have contributed to the development of a healthy downstream gas market. Key indicators include:
  - (a) With recent new entries, there are now 10 retail gas brands owned by nine different retail companies.
  - (b) Nearly 99% of gas customers are connected to a network where seven or more retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.
  - (c) Market concentration, as measured by the Herfindahl-Herschman Index, has decreased significantly in all regions since the commencement of the formal switching regime in

2009, as new retailers have increased market share and incumbent retailers' share has declined.

- (d) About 3,600 gas consumers switch gas supplier each month, which translates to an annual churn of about 16% of gas consumers. Over 75% of customer switches are completed within three business days.
- (e) 64% of residential consumers have switched retailer at least once in the past eight years; 67% of small commercial and 55% of large commercial sites have switched at least once.
- (f) Average annual unaccounted-for gas (UFG) over the past year stands at about 0.9% (compared with about 2% in 2009).

Section 1 of this paper describes the framework for this Levy Recommendation. Gas Industry Co develops its annual Levy Recommendation through a consultation process with industry participants who pay the levy ('levy payers') and other stakeholders. Gas Industry Co also uses this process to develop its draft Statement of Intent, which is required to be provided to the Minister by section 43ZQ of the Act. The Levy Recommendation and draft Statement of Intent are provided to the Minister in March following industry input, ahead of implementation of the levy regulations from 1 July.

The diagram below sets out the principal steps in the combined process:



This combined process includes development of an annual Work Programme (required by the Act to be included in the Statement of Intent), an indication of future activity, and the resulting estimated Total Work Programme Costs (TWPC) covering all activities to be undertaken by the industry body in FY2019. The majority of Gas Industry Co's funding comes from the levy, although some activities are funded through market fees, where they are provided for in the relevant gas governance regulations.

The Work Programme is consistent with the powers and objectives provided for Gas Industry Co and has regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS). A detailed description of strategic alignment with Government policy objectives and outcomes is included as [Appendix C](#).

In performing its statutory role and in its industry consultation, the Company employs a Corporate Strategy goal to *Optimise the contribution of gas to New Zealand*, with its purpose being to provide effective governance and leadership for the gas industry. The Company's Mission to *Provide good governance and leadership for the gas industry* leads to the following strategic objectives which form the remainder of the Corporate Strategy and are used to frame the proposed FY2019 Work Programme set out in this Levy Recommendation:

1. Promote efficient, competitive and confident gas markets.
2. Facilitate efficient use of, and investment in, gas infrastructure.
3. Deliver effectively on Gas Industry Co's accountabilities as the gas industry body.
4. Develop and communicate the role of gas in meeting New Zealand's energy needs.

With a finite budget and a constant focus on containing costs imposed on levy payers, Gas Industry Co must prioritise the Work Programme projects. Priority projects are driven by a matrix of:

1. Statutory and policy requirements;
2. Maintaining momentum on existing and committed projects; and
3. Attending to any new work that is seen as a priority by the Company and stakeholders.

Gas Industry Co's aim is to deliver value in both its operational workstreams and in the provision of non-operational support services to the Company. There is continued focus on delivering cost efficiency and value for money.

Section 2 of this Levy Recommendation details the consultation process undertaken for FY2019's levy proposals, including costs, leading to this Levy Recommendation and the draft Statement of Intent. In summary, there was broad support for Gas Industry Co's strategy, role, Work Programme and costs.

This Levy Recommendation has been approved by Gas Industry Co's Board of Directors.

[Appendix A](#) sets out the proposed FY2019 Work Programme in full.

Section 3 sets out the recommended FY2019 Levy Funding Requirement, including the relevant levy methodology and levy rates for FY2019.

[Appendix B](#) provides background financial information. In particular:

1. Gas Industry Co's Board of Directors has a policy of refunding any unutilised levy funds annually, unless specific needs dictate otherwise. At its November 2017 Board meeting, the Board approved the refund of unutilised levies for FY2017.
2. The impact of the levy on gas consumers is relatively small. Assuming the levy is accepted, residential gas consumers would each pay approximately \$6.49 per annum, or around 0.68% of their annual gas bill. For larger consumers, the amount of levy paid is proportionate to wholesale gas purchases and adds about 0.2% or less to the unit cost of gas. The largest consumers, who together consume the majority of the gas supply, are active participants in consultation and have raised no objections to the levy rate.

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# 1. Framework for Levy Recommendation

## 1.1 Introduction

The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the industry body as set out in Part 4A of the Act.

Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. Gas Industry Co continues this process to develop its draft Statement of Intent, which includes an annual Work Programme and associated levy funding requirements for the next financial year, and provides an indication of further activity through the following two years.

Gas Industry Co is responsible for developing and recommending gas governance arrangements, including rules and regulations and for the administration of those rules and regulations. These arrangements cover a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, retail market development, and consumer protection.

Gas Industry Co has two main sources of funding: an industry levy and market fees. A further funding source is the annual shareholder fee (currently set at \$2,000 per share).

Gas governance rules and regulations include provisions to recover the costs directly required to administer those arrangements ('market fees'). Market fees cover the contractually-agreed costs of any service providers (such as the Allocation Agent and the Registry Operator) and any other expected direct costs related to the operation and monitoring of those arrangements. The internal costs of administering those rules and regulations is covered by the industry levy.

Gas Industry Co must publish a formal estimate of market fees for each set of rules or regulations two months prior to the start of the new financial year. Collected market fees are applied to actual expenses incurred for each set of rules or regulations; any shortfall or excess fees must be collected from or returned to the market fee payers in a year-end 'wash-up'.

The levy funds the industry body's main costs including direct workstream costs and organisational costs. Subpart 2 of Part 4A of the Act provides for a levy to be collected through annual regulations, on recommendation to the Minister by the industry body. This paper provides that recommendation for the year commencing 1 July 2018 (FY2019).

## 1.2 Gas Industry Co's role

The overall purpose of Part 4A of the Act is to 'provide for the governance of the gas industry'. Gas Industry Co is required to achieve this through developing gas governance arrangements that meet the objectives of the Act and of the GPS. Under the co-regulatory model, it is required to consider regulatory and non-regulatory options; to consult with stakeholders; and to recommend any regulation to the Minister.

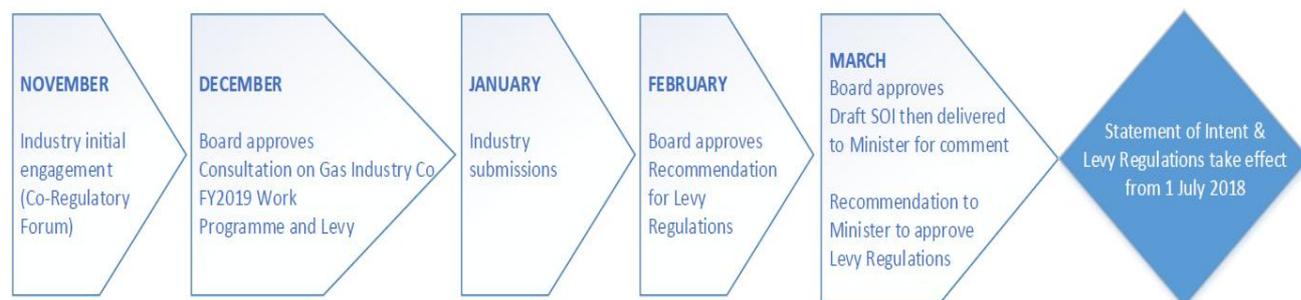
Under the Act, the principal objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. Other industry body objectives when recommending gas governance arrangements are:

1. Facilitating and promoting the ongoing supply of gas to meet New Zealand’s energy needs, by providing access to essential infrastructure and competitive market arrangements;
2. Minimising barriers to competition in the gas industry;
3. Maintaining or enhancing incentives for investment in gas processing facilities, transmission, and distribution;
4. Ensuring that delivered gas costs and prices are subject to sustained downward pressure;
5. Ensuring that risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
6. Maintaining consistency with the Government’s gas safety regime.

The April 2008 Government Policy Statement on Gas Governance (GPS)<sup>1</sup> expands the Act’s principal objective to include consideration of fairness and environmental sustainability. It also sets out specific tasks or outcomes that the Government wishes Gas Industry Co and the industry to pursue, and against which it must report to the Minister.

### 1.3 Making Levy Regulations

As noted above, Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. The diagram below set out principal steps in the combined process.



This process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated Total Work Programme Costs covering all activities to be undertaken by the industry body in FY2019.

### 1.4 Gas Industry Co’s Corporate Strategy

The Board of Gas Industry Co annually reviews a Corporate Strategy that assists in the delivery of its statutory role, including by framing the proposed FY2019 Work Programme. The Company’s strategic goal is supported by the Company’s mission and objectives to help frame the Work Programme. These objectives are further supported by a set of overarching principles underpinning how we set out to achieve them.

<sup>1</sup> Further information can be found in Appendix C.

**Strategic goal:** Optimise the contribution of gas to New Zealand

**Mission:** Provide good governance and leadership for the gas industry

**Objectives:**

1. Promote efficient, competitive and confident gas markets
2. Facilitate efficient use of, and investment in, gas infrastructure
3. Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
4. Develop and communicate the role of gas in meeting New Zealand's energy needs

**Principles:**

*Fairness; independence and impartiality; openness and transparency; responsibility; evidence-based decision making.*

## 1.5 Process for developing the Work Programme and Levy Recommendation

As illustrated in the process chart above, development of a given financial year's Work Programme, Levy Recommendation and Statement of Intent 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 to determine what further work, if any, might be necessary for each workstream in the following year, with indications forward for at least the following two years.

Gas Industry Co's Levy Recommendation takes into consideration feedback received on the Corporate Strategy and a Draft Work Programme at the Co-Regulatory Forum held at Gas Industry Co's offices on 24 November 2017. Forum feedback provided a number of useful discussions but nothing major to add to, or subtract from, our proposals.

The following factors are then particularly considered in the process:

### Statutory roles

Gas Industry Co has a number of statutory obligations that arise from the various rules and regulations that Gas Industry Co administers and specific outcomes defined by the Act and GPS. Funding for obligations under rules and regulations is from a combination of market fees and levy, while funding for specific outcomes defined by the Act and GPS is from the levy. Examples of matters funded by the levy are:

1. Monitoring and reporting on metrics arising from these processes, to increase transparency, gauge the effectiveness of the arrangements, and foster a well-informed market. For example, Gas Industry Co analyses and monitors allocation results to identify and correct errors at an early stage; and
2. Maintaining rule-change registers by adding potential improvements whenever those are identified.

### Committed and/or ongoing projects

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

Examples include:

1. The D+1 allocation pilot project, and whatever work flows from that; and
2. 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.

### **Priority work**

This category includes work that commands a high priority for stakeholders from the gas industry, end-users, and Government.

The key work stream in FY2019 (as for FY2018) will be the work on a single transmission access code. During FY2019 Gas Industry Co expects that work will either entail supporting and assisting with implementation of a contract-based code, or will focus on preparations for recommending regulations.

### **Flexibility and cost efficiencies**

It is always possible that unplanned, unbudgeted work might need to be undertaken in any one year. The Company prefers not to budget amounts for these sorts of contingencies in order to keep the levy funding requirement at a reasonable level. However, in the event unplanned work is required to be performed, the Company will need to reassess its capacity to deliver on planned milestones as set out in the Statement of Intent.

Similarly, existing priorities may reduce in light of market developments. This could result in work and expenditure being reduced, deferred, or even (in rare cases) stopped.

Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of organisational support services to the Company as a whole. The Company has had a continuous focus on delivering efficiency and value for money.

As well, we have carefully considered how each line item in the Work Programme should be budgeted. Some areas are demand-driven (such as code changes and interconnection reviews) 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 group and back ourselves to manage within the global amount.

While satisfied that each workstream is justifiably included in the proposed Work Programme, Gas Industry Co will continue to assess the value of each workstream within the financial year. Should the need or priority for a given workstream decrease, resources originally earmarked for that work can be re-allocated or the funding saved, and any surplus is usually returned to levy payers at year-end under the Gas Industry Co Board's standing policy.

## 2. Consultation Process and Outcomes

### 2.1 Levy Consultation Process

In developing its annual Levy Recommendation to the Minister, Gas Industry Co consults on all aspects of its Work Programme, including costs and any forward indication for subsequent requests to be included in the Statement of Intent, and engages with interested stakeholders, including gas industry participants and major gas users. The process includes consultation on the proposed levy rate and amount, consistent with section 43ZZD(2)(b).

### 2.2 Key Steps in FY2019 Consultation Process

This consultation process commenced at the annual Co-Regulatory Forum on 24 November 2017. Feedback from this Forum was generally positive, with particularly strong support for work on the single gas transmission code. The paper [\*Consultation on Gas Industry Co FY2019 Work Programme and Levy \(Consultation Paper\)\*](#) was published on 7 December 2017.

The *Consultation Paper*:

1. Set out Gas Industry Co's strategic direction and supporting rationale;
2. Described the work that Gas Industry Co will undertake in FY2019 and the estimated costs to carry out this work;
3. Outlined the calculation and amount of the Levy Funding Requirement for FY2019;
4. Outlined the proposed levy rates for FY2019; and
5. Proposed an amendment to the requirement (introduced in FY2018) for wholesale levy payers to provide additional information to GIC to allow it to better assess the accuracy of returns.

The *Consultation Paper* included a proposed Work Programme attached to this Recommendation as [Appendix A](#). In summary, the FY2019 Work Programme largely continues the FY2018 Programme, focussing on our core market governance role under existing rules and regulations and continuing our key multi-year workstreams aimed at further improving governance arrangements. This position reflects the significant progress made over recent years in substantially addressing the goals set for Gas Industry Co and the industry in the Act and the GPS.

The *Consultation Paper* indicated a total Work Programme cost and a levy funding requirement that are slightly higher than in FY2018 (0.77% and 1.82% respectively).

The *Consultation Paper* was sent to stakeholders and published on the Company's website. Formal submissions on the Consultation Paper were received from First Gas, Genesis, Greymouth Gas, Nova, Trustpower and Vector.

All submissions and an *Analysis of Submissions* are published on Gas Industry Co's website. In summary, there was broad support for Gas Industry Co's strategy, role, Work Programme and costs and strong support for the GTAC work in particular.

Gas Industry Co also consulted on a proposal to amend the Levy Regulations to ensure that the additional information required to be provided by gas producers since 1 July 2017, is adequate to verify wholesale levies paid by the Maui pipeline owner<sup>2</sup>.

Some matters were raised in submissions, and Gas Industry Co is working with the industry on recommended drafting changes. These changes will not extend information requirements beyond those parties already covered under the existing Levy Regulations, and as such, Gas Industry Co considers that the proposed solution is both feasible and low-cost. Gas Industry Co is also liaising with MBIE in relation to the proposed changes.

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<sup>2</sup> Information provided by the Maui pipeline owner has not always allowed for verification because it does not distinguish between producer arrangements and other arrangements for gas transported on that pipeline.

## 3. FY2019 Levy Funding

### 3.1 Levy funding summary

The costs corresponding to the Work Programme (set out in [Appendix A](#)) and the steps involved in the levy methodology are set out in the following tables. In summary:

1. The recommended FY2019 levy funding requirement is \$3.98m. This is 1.82% higher than the same figure for FY2018 (\$3.91m).
2. Total Work Programme costs (TWPC) have increased 0.77% from FY2018.
3. The levy methodology is the same as that used in previous years and is based on the principle of beneficiary pays.
4. The retail levy rate is the same as it was in FY2018. The wholesale levy shows a small increase from FY2018, which is due to considerably more work being anticipated in this area.

### 3.2 Levy funding calculation and trends

The following table provides details of the levy funding calculation:

**Table 1: FY2019 Levy funding calculation**

Strategic Objective	TWPC	Indicative Market Fees		Levy Funding Requirement	
		Wholesale	Retail	Wholesale	Retail
<b>Strategic Objective 1</b> Promote efficient, competitive and confident gas markets	751,438				751,438
<b>Strategic Objective 2</b> Facilitate efficient use of, and investment in, gas infrastructure	1,357,072			1,357,072	
<b>Strategic Objective 3</b> Deliver effectively on Gas Industry Co's accountabilities as the gas industry body	3,146,828	567,000	874,169	803,387	902,272
<b>Strategic Objective 4</b> Develop and communicate the role of gas in meeting New Zealand's energy needs	168,382			91,692	76,690
<b>TOTAL</b>	<b>5,423,720</b>	<b>1,441,169</b>		<b>3,982,551</b>	

The following table shows the actual Levy Funding Requirement for FY2015-18, and the recommended Levy Funding Requirement for FY2019, along with published market fees to FY2018 and the indicative estimate for FY2019.

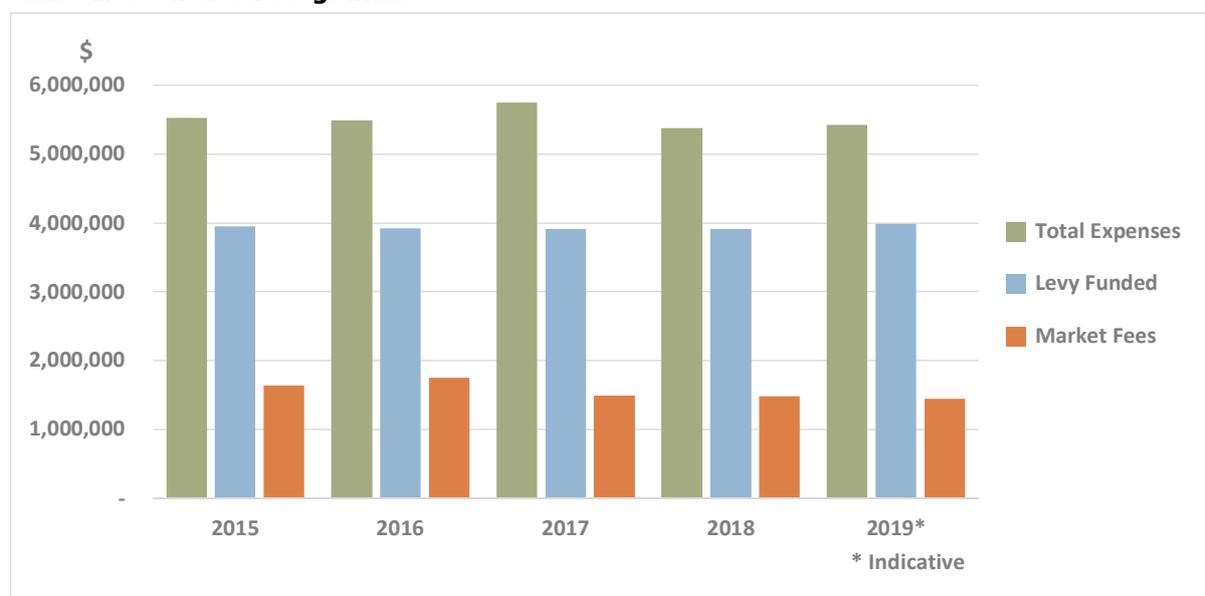
**Table 2: Levy Funding Requirement and Market Fees - FY2015-19**

	Levy Funding Requirement	Market Fees
<b>2015</b>	3,948,818	1,635,396
<b>2016</b>	3,916,821	1,750,000
<b>2017</b>	3,913,060	1,489,000
<b>2018</b>	3,911,481	1,482,000
<b>2019*</b>	3,982,551	1,441,169

\*recommended levy funding requirement/indicative market fees

Based on the combination of the FY2019 Levy Recommendation and indicative market fees in table 2, Total Work Programme Costs are expected to be \$5,423,720 for FY2019, as against \$5,382,481 in FY2018.

**Chart 1: Total Work Programme Costs**



### 3.3 Proposed levy methodology and rates

#### Gas Industry Co's existing levy methodology:

1. Is based on a 'beneficiary pays' approach and a set of Levy Principles (Principles) that were developed in consultation with stakeholders and endorsed by the Gas Industry Co Board. In summary, those Principles are economic efficiency, rationality, simplicity, equity, and revenue sufficiency. The full [Principles](#) are available on Gas Industry Co's website.
2. Has two components: a wholesale component based on energy quantities of gas and a retail component that is apportioned based on ICP market shares (i.e. customers). These components are derived according to the costs allocated to each part of the annual work programme. In years when the Work Programme focusses on retail issues the retail levy rate will increase, while the wholesale levy will decrease. The converse is true when the focus shifts to the wholesale workstream.

The levy methodology has been in place since 2006 and has been consulted on annually. It has undergone only minor refinements in that time. Gas Industry Co considers that it remains fit-for-purpose for FY2019, with the addition of amending the regulations to ensure that the additional information required to be provided by gas producers since 1 July 2017, is adequate to verify wholesale levies paid by the Maui pipeline owner.

**In summary:**

1. The wholesale levy rate has been calculated using an assumption of 182 PJ (182,000,000 GJ) of gas consumption during the year (FY2018 179 PJ).
2. The retail levy rate is calculated using the current number of ACTIVE-CONTRACTED entries in the gas registry of 280,000 (FY2018 275,000).

This results in the following levy rates:

**Table 3: FY2019 Levy rates**

<b>FY2019 Levy rates</b>			
	<b>Retail</b>	<b>Wholesale</b>	<b>Total</b>
Direct costs	1,104,807	1,411,232	2,516,039
Indirect costs	625,593	840,919	1,466,512
<b>Total Levy Funding Requirement</b>	<b>1,730,400</b>	<b>2,252,151</b>	<b>3,982,551</b>
Basis of apportionment:	Per ICP	Per GJ	
Number	280,000	182,000,000	
Levy rate	\$6.18/ICP	1.2374c/GJ	

## 4. Recommendation

Pursuant to section 43ZZB of the Gas Act 1992, Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2018, totalling \$3,982,551, on the following basis:

1. From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of \$6.18 for each ICP for each retail customer.
2. From every industry participant on the first day of each month, a wholesale levy rate of 1.2374c /GJ based on gas purchases made directly from gas producers during the previous month.

### **Recommended drafting changes**

Gas Industry Co consulted on a proposal to amend the Levy Regulations to ensure that the additional information required to be provided by gas producers since 1 July 2017, is adequate to verify wholesale levies paid by the Maui pipeline owner.

Some matters were raised in submissions, and Gas Industry Co is working with the industry on recommended drafting changes. These changes will not extend information requirements beyond those parties already covered under the existing Levy Regulations, and as such, Gas Industry Co considers that the proposed solution is both feasible and low-cost. Gas Industry Co is also liaising with MBIE in relation to the proposed changes.

# Appendix A Work Programme

## **A.1 Strategic objective 1: Promote efficient, competitive, and confident gas markets**

### **Retail contracts oversight scheme (Retail Scheme)**

In 2010, Gas Industry Co established the Retail Scheme, which 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. The last full review in 2015 showed 'substantial' compliance.

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

#### **Forecast Activities FY2019**

1. Undertake full retail contracts review
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 0.2 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. Since then, 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 Distribution Scheme can be found [here](#).

#### **Forecast Activities FY2019**

1. Continue to assess progress with executing new distribution contracts consistent with the Distribution Scheme principles; and
2. Review the Distribution Scheme, consider any changes or other actions required, and report.

#### **Resources**

This work will require 0.2 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 in 2010, 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 [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 FY2019 beyond that already provided for within the audits under the Gas (Switching Arrangements) Rules 2008 (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 likely to be minor.

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

### Contingent activities FY2019

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 arrangements 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 a 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 believed that the respective responsibilities were 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 was published in March 2017. The GTAC work has a bearing on this workstream, and Gas Industry Company will consider whether further action is required following any completion of the new Gas Transmission Access Code (GTAC).

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

### Forecast activities FY2019

1. Oversee industry-led work on gas quality
2. Review industry arrangements for notifying gas quality excursions and procedures for managing gas quality incidents
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 two years 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 FY2019, steered by the progress in developing the GTAC, which (if implemented) 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 FY2019

#### Downstream Reconciliation

1. Keep the D+1 pilot project running and consider/implement any worthwhile refinements.
2. Subject to the new GTAC being finalised, develop any required changes to the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) and consult.
3. After considering submissions and making any further amendments, make a recommendation to the Minister to amend the 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. Subject to the new GTAC being finalised, 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 FY2019 to keep the D+1 pilot project running successfully and, once the direction of any 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 FY2019.

## 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 FY2018. A technical advisory group has been established to develop a minimum voluntary standard for gas advanced metering. Once the standard is developed and consulted upon, it is anticipated that it will be reviewed on an annual basis. Current indications are that there will be little, if any, work required in FY2019 in this area.

### **Contingent activities FY2019**

1. Review/update of advanced metering standards document if required.

#### **Resources**

A minor budget provision has been provided for this workstream in FY2019 along with 0.05 FTE. If not required, those resources will be redirected.

### **Supply/demand model**

Gas Industry Co first published a study on long-term gas supply and demand scenarios in 2012. It is clear that the contribution of the report is significant, and it has been updated biennially since then. The most recent update was published in October 2016 as [Long Term Gas Supply and Demand Scenarios Report](#) (Concept Consulting, 2016). The next update report is due to be published in calendar 2018 (FY2019).

#### **Forecast activities FY2019**

1. Review and update the supply and demand scenarios 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 FY2018.

## **A.2 Strategic objective 2: 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.

The past two years have seen an intense amount of activity dedicated to the development of a single transmission access code, from First Gas, industry stakeholders, and Gas Industry Co. This work is expected to continue in FY2019. 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 FY2019**

1. Oversee implementation of new transmission access code; or
2. If industry process has stalled,
  - (a) design and consult on regulated option; and
  - (b) Move to recommend/implement regulation.

#### **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 FY2019

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
3. Consider whether there is sufficient transparency for an informed market. If not, identify ways to address that, including regulation if required.

### Resources

This workstream is expected to require 0.1 FTE. However, that might increase if we identify transparency issues that cannot be resolved by agreement.

## Transmission pipeline balancing

Market-based balancing (MBB) was implemented in FY2016 and Gas Industry Co has published a review that points to a number of areas of improvement. However, those improvements have required improved information availability – the D+1 pilot project plus daily cash-out information delivered on business days – as well as greater attention to primary balancing by shippers and welded parties. Balancing arrangements may change again, when a new transmission access code or regulations are implemented.

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

### Forecast activities FY2019

Work with stakeholders on balancing-related matters and monitor new arrangements if/when implemented.

### 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 Maui Pipeline Operating Code (MPOC) change requests on an 'as required' basis. In addition, the Company is invited to submit on change requests under the Vector Transmission Code (VTC).

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

### **Forecast activities FY2019**

Perform agreed role in relation to proposed code changes.

#### **Resources**

Although there has been significant activity in this area in previous years, given the focus on balancing through that period, it is likely that there will be little or no activity in that area in FY2019. However, if a new code is implemented, there may be issues identified and/or tidy-ups required that would require code changes. The resource requirement will be provided from the shared pool for balancing, interconnection, and code changes.

### **Transmission pipeline interconnection**

Gas Industry Co has established [Guidelines on Interconnection with Transmission Pipelines](#) 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 FY2019**

1. Review interconnections as required
2. Address any concerns regarding reasonable access
3. Review new transmission system owner's interconnection arrangements, once developed
4. 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. With the change in ownership of the transmission systems last year, Gas Industry Co published an update paper in March 2017. That paper canvassed issues that had been raised by stakeholders and found that they had been substantially addressed. However, we expect that matters with a strong security and reliability component will emerge from time to time, and these matters will be dealt with when they arise. Gas Industry Company will continue to monitor successive asset management plans.

### **Activity FY2019**

Continue to monitor asset management plans for gas transmission and report on any significant matters

## Resources

There is no specific provision for this work in FY2019, as the most likely scenario is that transmission disclosures are fit for purpose and informative for stakeholders. It is accordingly considered that this can be fitted within the available resources, or priorities adjusted.

### **A.3 Strategic objective 3: 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 Act or under gas governance rules or regulations. The activities associated with these are described in this section.

#### **Downstream reconciliation**

The purpose of the 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 monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. Gas Industry Co also has an ongoing obligation to oversee the operation of the allocation agent. 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 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 \$5 million per annum.

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

#### **Forecast activities FY2019**

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

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to continue the pilot project for D+1 allocations until it is either overtaken by changes to the Reconciliation Rules or a better solution identified. The D+1 project is discussed above under the Regulation and rule changes section.

## Resources

Allocation is a complex, bottom-up process that involves large amounts of data and requires significant resources. Because of the need to run and monitor the D+1 pilot project, we estimate that this workstream will continue to require a full FTE. The allocation agent is funded from market fees.

## Switching and registry

The 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.

The introduction of the Switching Rules has more than tripled the rate of switching. In recent years, switching has stabilised to between 3,500 and 4,000 per month (in comparison to the 1,000 or so switches prior to the Switching Rules). 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.

Amendments made 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 have now been completed, and audits of distributors will be completed by June 2018.

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

### Forecast activities FY2019

1. Monitor the 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 sustainable retailer commissions.
6. Follow up on any issues identified in the switching audits.

### 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). Gas Industry Co has allowed for 0.25 FTE internally. The service provider is funded from market fees under the Switching 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. The CCM Regulations provide for the appointment of a Critical Contingency Operator (CCO) who is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as training stakeholders and running exercises.

The CCM Regulations have been activated five times since they came into full effect in 2010: three have been caused by production station outages, one by a break in the Maui pipeline, and one, in May 2017, by a system imbalance event.

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

### **Forecast activities for FY2019**

1. Monitor the 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

As outlined above in the Regulation and rule changes section, Gas Industry Co also intends to review aspects of the CCM Regulations and to consider what amendments are necessary to ensure consistency with a new transmission code.

### **Resources**

The CCO function is performed by a service provider funded through market fees; the market fees also include funding for one annual contingency event. Gas Industry Co considers that its 'business as usual' arrangements will require approximately 0.2 FTE, but that amount is 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.

Gas Industry Co's experience is that industry participants make great efforts to ensure their business processes are compliant with their obligations under the Switching Rules, Reconciliation Rules, and CCM Regulations. 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 FY2019**

1. Perform market administrator role
2. Assess ongoing performance of the Compliance Regulations
3. Assist the 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 (SOI) 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 FY2019

1. Prepare and publish SOI to meet statutory timeframes. Provide to Minister for comment prior to publication
2. Prepare and 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 relatively short print runs and an emphasis on electronic distribution of these documents through email and website communication.

## A.4 Strategic objective 4: Develop and communicate the role of gas in meeting New Zealand'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 annually to ensure the information is current and topical. The most recent edition was published in December 2017. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to 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 channels as its website, the Company's annual and quarterly reports, and presentations to various stakeholder groups.

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 they can be of value to the industry.

**Forecast activities FY2019**

1. Continue to prepare and 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 as required.

**Resources**

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

# Appendix B Other Financial Information

This Appendix provides further background on two aspects of Gas Industry Co's finances, namely:

1. The Company's Reserves and Board policy for refunding any surplus resulting from over-collection and/or budget underspend.
2. Impact on consumers.

The Company's audited annual Financial Statements are included in its Annual Report and forecast Financial Statements are included in its annual Statements of Intent. Both can be accessed on the Company's website at Annual Reports and Statements of Intent.

## **B.1 Gas Industry Co Reserves and Refund Policy**

Gas Industry Co's equity balance is made up of two components:

1. Industry Advances Reserve; and
2. Retained earnings.

The **Industry Advances Reserve** contains surplus funds from any net over-collection of levies and/or budget underspend from previous years. Gas Industry Co has determined that it should refund unutilised levies as soon as the annual accounts have been received by shareholders at the Annual Meeting. This also has some similarity with the wash-up arrangements collected under Market Fees. This policy encourages a predictable and stable levy by removing from the levy calculations any variability resulting from a fluctuating level of reserves.

**Retained earnings** are the accumulation of the shareholders' annual fees, set aside as a reserve against future contingencies and do not impact on the levy calculation.

## **B.2 Small impact on consumers**

The impact of the levy on gas consumers is relatively small. Assuming the levy is passed through to end users, residential gas consumers would each pay approximately \$6.49 per annum, or around 0.68% of their annual gas bill. For larger consumers, the amount of levy paid is proportionate to wholesale gas purchases and adds about 0.2% or less to the unit cost of gas. The largest consumers, who together consume the majority of the gas supply, are active participants in consultation and have raised no objections to the levy rate.

# Appendix C Strategic Alignment with Government Policy Objectives and Outcomes

Gas Industry Co’s strategic objectives— delivering effectively on the Company’s accountabilities as the industry body; building and communicating the New Zealand gas story; facilitating efficient use of, and investment in, gas infrastructure; and promoting efficient, competitive, and confident gas markets —stretch across all of the Company’s objectives and are aligned with the objectives and outcomes contained in the Act and GPS. The Company’s diverse workstreams all help the Company move toward meeting those objectives and outcomes.

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner	<ul style="list-style-type: none"> <li>The full costs of producing and transporting gas are signalled to consumers</li> <li>the quality of gas services, where those services include a trade-off between quality and price, reflect consumers’ preferences as far as possible</li> <li>The gas sector contributes to achieving the Government’s climate change objectives ... by minimising gas losses and promoting demand-side management and energy efficiency</li> <li>Energy and other resources used to deliver gas to</li> </ul>	<ul style="list-style-type: none"> <li>Providing small consumers with an effective complaints process</li> <li>Ensure retail contracts adequately protect the long-term interests of small consumers</li> <li>Provide public information on the performance and state of the gas sector</li> </ul>	<ul style="list-style-type: none"> <li>Created the Retail Contracts Oversight Scheme in 2010. It provides assurance that standard retail contracts protect small consumers’ long-term interests</li> <li>Carried out assessments in 2010, 2011, 2012 and 2015</li> <li>Considered that further LPG regulation is not currently needed (FY2015)</li> </ul>	<ul style="list-style-type: none"> <li>Assisting new entrant retailers</li> <li>Continue to work with Utilities Disputes to identify and address any systemic issues raised by gas consumers</li> <li>Next full Retail Contracts Oversight Scheme assessment will occur this year</li> <li>Monitor the LPG market to determine if current non-regulatory arrangements are satisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Continuing Market Administrator work</li> <li>Work with industry on new transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved.</li> </ul>

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
	consumers are used efficiently	<ul style="list-style-type: none"> <li>• Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes</li> <li>• Provide efficient arrangements for short-term gas trading</li> <li>• Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities</li> <li>• Provide an efficient market structure for the provision of gas metering, pipeline, and energy services</li> </ul>	<ul style="list-style-type: none"> <li>• Published the NZ Gas Story (Sixth Edition December 2017) and <i>Long Term Supply and Demand Scenarios</i> (Third Edition October 2016)</li> <li>• Recommended the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the allocation agent</li> <li>• Recommended the Gas Governance (Compliance) Regulations 2008; ongoing administration through Market Administrator, Independent Investigator, and Rulings Panel</li> <li>• A private company created a gas trading market in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• A technical advisory group has been established to develop a minimum voluntary standard for gas advanced metering</li> <li>• Update the <i>Long Term Gas Supply and Demand Scenarios Report</i></li> <li>• Continuing Market Administrator work</li> <li>• Refinement of D+1 and, depending on the form of the new single transmission code, begin the process to introduce D+1 rules into the Downstream Reconciliation Rules</li> <li>• Work with industry on new transmission code and be prepared to regulate if the objectives and outcomes in the Gas Act and GPS are not being achieved</li> </ul>	

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
			<ul style="list-style-type: none"> <li>• D+1 implemented in December 2015 to assist the more efficient arrangements for balancing gas introduced in late-2015</li> <li>• Continued involvement in the development of a new gas transmission code</li> </ul>		
Facilitate and promote the ongoing supply of gas to meet New Zealand’s energy needs, by providing access to essential infrastructure and competitive market arrangements		<ul style="list-style-type: none"> <li>• Gas industry participants and new entrants are able to access third party gas processing facilities; transmission pipelines; and distribution pipelines; on reasonable terms and conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewed Gas Distribution Use-of-System Agreements with retailers</li> <li>• Continued involvement in the development of a new gas transmission code</li> <li>• A private company created a gas trading market in 2013</li> </ul>	<ul style="list-style-type: none"> <li>• Work with industry on new transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved</li> </ul>	<ul style="list-style-type: none"> <li>• Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market</li> </ul>

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
		<ul style="list-style-type: none"> <li>Consistent standards and protocols apply to the operations relating to access to all distribution pipelines</li> </ul>	<ul style="list-style-type: none"> <li>Post-implementation review of market-based balancing</li> </ul>		
Minimise barriers to competition in the gas industry	<ul style="list-style-type: none"> <li>Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users</li> </ul>	<ul style="list-style-type: none"> <li>Minimise barriers to customer switching</li> <li>Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes</li> </ul>	<ul style="list-style-type: none"> <li>Recommended the Gas (Switching Arrangements) Rules 2008</li> <li>Continued involvement in the development of a new gas transmission code</li> </ul>	<ul style="list-style-type: none"> <li>Wholesale market monitoring</li> <li>Determine the extent to which GIC should support Powerswitch</li> <li>Continue involvement in the development of a new gas transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved</li> </ul>	<ul style="list-style-type: none"> <li>Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market</li> <li>Continue involvement in the development of a new gas transmission code and be prepared to regulate if agreement cannot be achieved</li> </ul>
Maintain or enhance incentives for investment in gas		<ul style="list-style-type: none"> <li>Provide an efficient market structure for the</li> </ul>	<ul style="list-style-type: none"> <li>Addressed in multiple workstreams, including switching,</li> </ul>		

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
processing facilities, transmission, and distribution		provision of gas metering, pipeline, and energy services	downstream reconciliation, and single gas transmission code <ul style="list-style-type: none"> <li>Revoked Gas Processing Information Disclosure Rules in 2014</li> </ul>		
Subject delivered gas costs to sustained downward pressure	<ul style="list-style-type: none"> <li>The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible</li> </ul>	<ul style="list-style-type: none"> <li>Minimise barriers to customer switching</li> <li>Provide efficient arrangements for short-term gas trading</li> </ul>	<ul style="list-style-type: none"> <li>Recommended the Gas (Switching Arrangements) Rules 2008</li> <li>A private company created a gas trading market in 2013 to replace the Company's trading platform</li> </ul>	<ul style="list-style-type: none"> <li>Determine the extent to which GIC should support Powerswitch</li> <li>Continue to publish monthly switching statistics</li> <li>Continue involvement in the development of a new gas transmission code and be prepared to regulate if the objectives and outcomes in the Act and GPS are not being achieved</li> </ul>	<ul style="list-style-type: none"> <li>Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market</li> </ul>
Have all parties properly and efficiently manage		<ul style="list-style-type: none"> <li>Produce sound arrangements for the management</li> </ul>	<ul style="list-style-type: none"> <li>Recommended the Gas Governance (Critical Contingency</li> </ul>	<ul style="list-style-type: none"> <li>Review critical contingency price and imbalance</li> </ul>	<ul style="list-style-type: none"> <li>Working closely with the Commerce</li> </ul>

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What we have done	FY2019 Work Programme	Future work areas
risks relating to security of supply, including transport arrangements		of critical gas contingencies	Management) Regulations 2008; continuing to address this through the CCM designation process <ul style="list-style-type: none"> <li>Gas Transmission Security and Reliability Issues Paper released in April 2016</li> </ul>	arrangements. Ensure that the arrangements for the management of critical gas outages align with transmission access arrangements	Commission to ensure that security and reliability are adequately reported on
Maintain consistency with the Government's gas safety regime		<ul style="list-style-type: none"> <li>Produce sound arrangements for the management of critical gas contingencies</li> </ul>	<ul style="list-style-type: none"> <li>Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process</li> </ul>	<ul style="list-style-type: none"> <li>Ensure new gas transmission code is consistent with the Government's gas safety regime</li> </ul>	<ul style="list-style-type: none"> <li>Working closely with the Commerce Commission to ensure that security and reliability are adequately reported on</li> <li>Ensure that gas transmission arrangements are consistent with the Government's gas safety regime</li> </ul>

## ABOUT GAS INDUSTRY CO

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Gas Industry Co is the gas industry body and co-regulator under the Gas Act 1992. 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'.