



FY2016 Indicative Work Programme and Budget Co-regulatory Forum

28 November 2014

Agenda

- Strategic context
- Proposed Work Programme
- Funding
- Forum discussion

NZ Gas Story and FY2016 Planning Framework

In December 2014, Gas Industry Co marks 10 years since its inception

So how are we all travelling?

What do we need to work on for FY2016 and beyond?

The gas industry has matured greatly over the past decade

....in 2004	...today
Maui field in steep decline; 6.5 years' reserves	15 producing fields (incl Maui); 13 years' reserves
Total gas use 156PJ	Total gas use 190PJ
238,000 gas consumers	265,000 gas consumers
Methanex cuts production to one methanol production train	3-train methanol production reinstated; 90PJ gas demand
Gas meets baseload electricity generation (21%)	Reduced 'peaking' role for gas in electricity generation (19%)
Maui pipeline not open access	2 open access transmission systems (Vector/Maui)
Transmission/distribution price regulation emerging	Commerce Commission's price/quality regime
Retail competition emerging from old franchises	10 gas retailers (latest Trustpower, Pulse)
Consumer protection focus emerging	Consumer protection legislation reforms
Downstream gas industry governance via voluntary codes	Formal regulation/rules for critical contingency management, downstream reconciliation, switching

Gas industry 5-year trends are largely positive...

- Remaining gas reserves 
- Wells drilled 
- Petroleum mining licence expenditure 
- Producing fields (all Taranaki) 
- Total transmission pipeline (km) 
- Total distribution networks 
- Gas consumer numbers 
- Petrochem gas volumes 
- Gas-fired generation volumes 
- Other consumer gas volumes 

Gas remains crucial to the NZ economy...

- ***Gas underpins electricity security and is used by many large NZ businesses:***
 - 41% electricity generation in 2013 (and dropping)
 - Contact, Genesis, MRP, Nova
 - 38% petrochemicals in 2013 (and growing)
 - Methanex, Ballance Agri-Nutrients
 - 13% other industrial
 - incl Fonterra, NZ Refining, NZ Steel, Carter Holt Harvey
- ***NZ business has a strong dependence on gas supply*** - for many, no practical alternative fuel

We have good governance of customer markets..

Customer choice

- Approx **265,000 customers** on Gas Registry
- Over 98% of customers have a **choice of at least 6 retailers** at their gas gate

Competition

- Customer **churn rate robust at around 18% p.a.**
- Average **switching time down around 6 business days**

Efficiency

- Annual **unaccounted-for gas (UFG) has reduced by 60%** to an average 1% (of injected volumes)

Compliance/Standards

- **High level compliance** across all rules/regulations; 'substantial' alignment with retail contract benchmarks and distribution contract principles

Transparency

- Monthly customer **data published and reported** widely
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Gas Industry Co's NZ Gas Story – Update 2014

Headlines:

- *New Zealand's gas industry is in good health, and remains on track in terms of consumer needs and Government policy objectives for the sector*
- *Gas reserves have increased, but we are mindful of the long lead-time for delivering new supply...*
- *The industry is investing substantially in new supply and is actively addressing downstream issues*
- *90% of supply concentrated on 1% of users, but gas still a good choice for over 248,000 households and 14,000 businesses*

Gas Industry Co's NZ Gas Story – Update 2014

Other key themes:

- *New wholesale market is evidence of maturing markets*
- *Existing gas infrastructure will likely carry us through to a next step-change from a significant new find*
- *Gas is increasingly seen as part of the carbon/climate challenge in NZ, though:*
 - *in NZ, gas often holds its own on 'carbon footprint' or as backup to renewables*
 - *viewed as part of the answer globally*
- *How long will current supply 'overhang' persist?*
- *Are we 'demand-side constrained'?*

Gas Industry Co role continues to be fit-for-purpose...

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

GPS outcomes are well advanced, including:

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

Gas Industry Co's Strategy remains...

- **STRATEGIC GOAL:**

- Optimise the contribution of gas to New Zealand

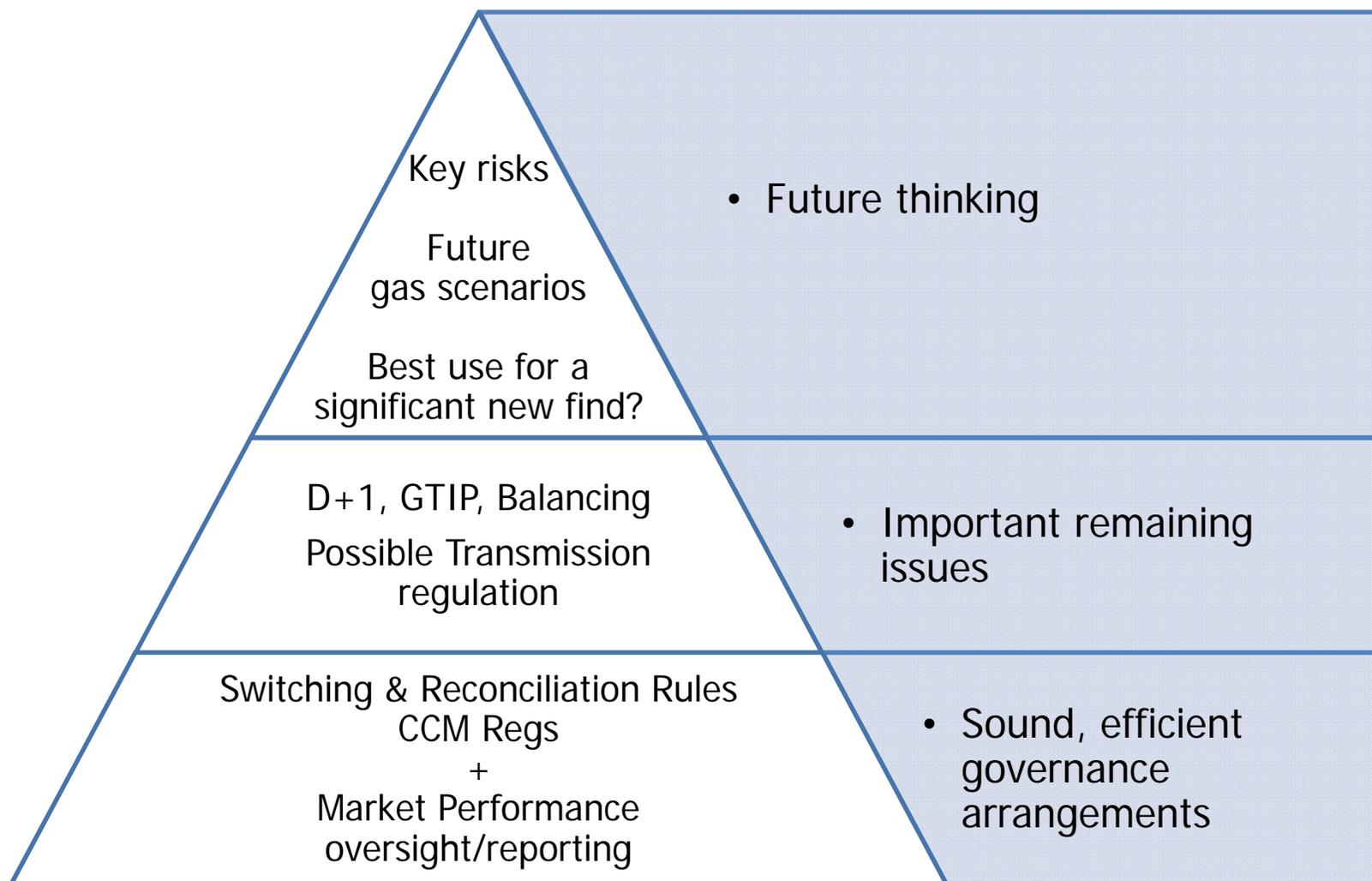
- **PURPOSE:**

- Provide leadership for the gas industry and the New Zealand Gas Story

- **OBJECTIVES:**

- Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
- Build and communicate the NZ Gas Story
- Facilitate efficient use of, and investment in, gas infrastructure
- Promote efficient, competitive and confident gas markets

2015 and beyond



'Future Thinking' role for GIC increasingly welcomed

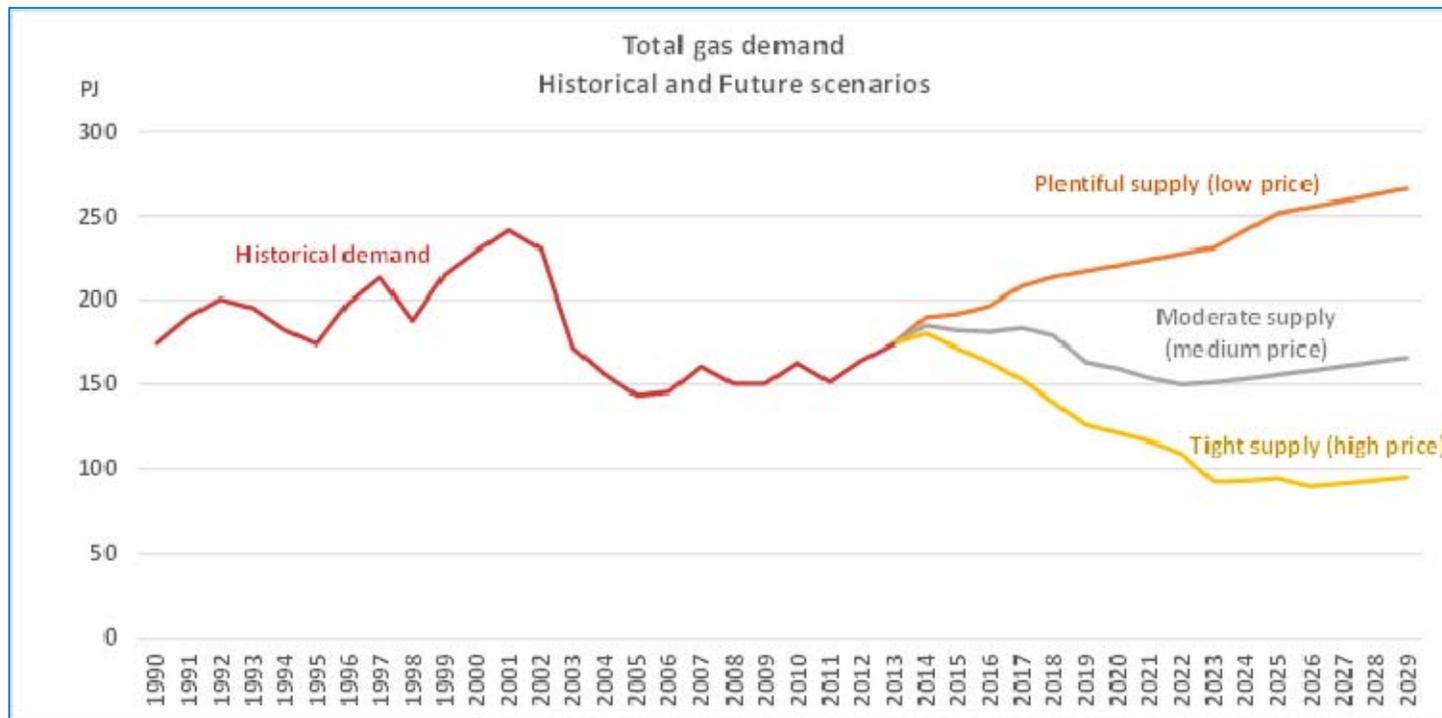
<ul style="list-style-type: none"> • <i>NZ Gas Story</i> (GIC) 	'State and current performance of industry'
<ul style="list-style-type: none"> • <i>Consumer Energy Options</i> (Concept) 	Gas still a good/preferred choice for households and process heat
<ul style="list-style-type: none"> • <i>Commercialisation Issues/Opportunities from a substantive new gas find</i> (Woodward Partners) 	Challenges/opportunities in commercialising a new gas find
<ul style="list-style-type: none"> • <i>Supply/Demand Study</i> (Concept) 	High/medium/low case scenarios to 2025, with detailed model.
<ul style="list-style-type: none"> • <i>Demand-Side Opportunities</i> (Concept - pending) 	What demand opportunities are economic under the 'high case' scenario?

How could key industry risks affect the strategy/work programme?

Examples:

- *Tiwai Point closure*
- *Next Pohokura/Maui not in place*
- *Embedded generation disrupts network investment*
- *Methanol price drops*

There's a range of future NZ gas supply scenarios...



Concept Consulting: Long term gas supply and demand scenarios 2014

Proposed Work Programme

Proposed Work Programme

Proposed FY2016 Programme is again:

- based on Part 4A Gas Act 1992 and Government Policy Statement on Gas Governance 2008; and
- framed around the Company's Strategy objectives:

Objective 1: Deliver effectively on Gas Industry Co's accountabilities as the industry body

Objective 2: Build and communicate the New Zealand Gas Story

Objective 3: Facilitate efficient use of, and investment in, gas infrastructure

Objective 4: Promote efficient, competitive and confident gas markets

Objective 1:

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

Downstream reconciliation

Forecast activities FY2016

- Monitor Allocation Agent
- Assess ongoing performance of the Rules
- Monitor allocation results, commission performance and event audits as required
- Make determinations under the Rules as required

Objective

- To establish a set of uniform processes that enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities

Switching

Forecast activities FY2016

- Monitor Gas Registry Operator
- Assess ongoing performance of the Rules
- Monitor switching statistics
- Make determinations under the Rules as required

Objective

- To establish a set of gas switching and registry arrangements that will enable consumers to switch efficiently and satisfactorily between competing retailers

Critical contingency management

Forecast activities FY2016

- Monitor Critical Contingency Operator
- Assess ongoing performance of the Regulations
- Appoint/monitor experts as required
- Monitor exercises and events as required
- Administer contingency pool as required
- Process applications for designations for critical care, essential services, critical processing, and electricity supply as required

Objective

- To achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply

Compliance

Forecast activities FY2016

- Perform Market Administrator role
- Assess ongoing performance of the Regulations
- Assist Investigator and Rulings Panel as required
- Monitor compliance trends for indications of regulatory inefficiency

Objective

- To provide an efficient, low-cost monitoring and enforcement regime for gas governance rules and regulations

Strategic Objective 2:

**Build and communicate the New Zealand
Gas Story**

New Zealand Gas Story

Expected position FY2015

- Third full update of New Zealand Gas Story produced
- Stakeholder seminars and other initiatives held to communicate the New Zealand Gas Story

Forecast activities FY2016-18

- Maintain currency of the New Zealand Gas Story as new information comes to hand
- Continue Gas Story seminars for interested stakeholders

Objective

- Build and communicate the New Zealand Gas Story
- Report to the Minister on the performance and present state of the gas industry

Statutory reporting

Forecast activities FY2016

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

Objective

- Fulfil reporting requirements of the Gas Act and GPS
- Perform the functions of the industry body
- Report on the performance and present state of the gas industry

Other reporting

Forecast activities FY2016

- Compliance reporting
- Industry performance measures
- Switching statistics
- Other 'state & performance reporting'

Objective

- Fulfil statutory requirements for good information to be available on the performance and present state of the gas industry

Strategic Objective 3:

**Facilitate efficient use of, and investment in,
gas infrastructure**

Transmission access and pricing

Expected position FY2015	Forecast activities FY2016-18	Objective
<ul style="list-style-type: none">• Preferred option for counterfactual design determined• Watching brief on GITAWG progress	<ul style="list-style-type: none">• Develop detailed design of preferred option• Watching brief on GITAWG progress	<ul style="list-style-type: none">• To ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal the need for efficient investment in additional capacity

Supply/demand model

Expected position FY2015	Forecast activities FY2016-18	Objective
<ul style="list-style-type: none">• Published updated Supply/Demand Report, including toolset for stakeholders to model their own scenarios	<ul style="list-style-type: none">• Review/update Report and model biannually	<ul style="list-style-type: none">• Scenario information available to stakeholders

Transmission pipeline balancing

Expected position FY2015

- Driven by outcome of market-based balancing MPOC change request
- Monitored balancing activities

Forecast activities FY2016-18

- Review efficiency of balancing arrangements
- Address any identified shortcomings

Objective

- Efficient pipeline balancing arrangements

Code changes and appeals

Expected position FY2015

- Market-based balancing MPOC change request determined
- Processing MPOC change requests and VTC appeals as required

Forecast activities FY2016-18

- Process MPOC change requests and VTC appeals as required

Objective

- Efficiently meet GIC obligations in relation to code changes and appeals

Interconnection

Expected position FY2015

- Physical interconnections reviewed
- Interconnection Guidelines considered fit for purpose

Forecast activities FY2016-18

- Review interconnections as required
- Address any concerns regarding reasonable access

Objective

- Access to transmission pipelines available on reasonable terms and conditions

Strategic Objective 4:

**Promote efficient, competitive and confident
gas markets**

Retail contract benchmarks

Expected position FY2015	Forecast activities FY2016-18	Objective
<ul style="list-style-type: none">Benchmarks revised	<ul style="list-style-type: none">Review retailer contractsPublish compliance levels for individual retailersReport as required to Minister	<ul style="list-style-type: none">Small consumer contracts are fair and reasonable

Distribution principles

Expected position FY2015	Forecast activities FY2016-18	Objective
<ul style="list-style-type: none">Any follow-up actions from FY2014 assessment or from Minister's response to the Second Assessment report undertaken	<ul style="list-style-type: none">Assess progress with executing new distribution contracts consistent with principlesReview and report to Minister (as required)	<ul style="list-style-type: none">Distribution contracts are efficient

Arrangements to address retailer insolvency

Expected position FY2015

- Drafting instructions complete
- Related amendments to Switching and Downstream Reconciliation Rules implemented

Forecast activities FY2016-18

- Implement in unlikely event of retailer insolvency

Objective

- Any instances of retailer insolvency able to be managed in an efficient and effective way

Gas quality

Expected position FY2015

- Requirements and Procedures (R&P) document published

Forecast activities FY2016-18

- Determine actions to address remaining gas quality issues
- Update R&P document as required

Objective

- Transparent gas quality arrangements
- Reliable information available to industry participants and new entrants

Metering arrangements

Expected position FY2015

- “Requirement and procedures” document on gas measurement

Forecast activities FY2016-18

- Seed paper to consider issues associated with introduction of new metering technology
- Any other issues, e.g. contract benchmarks?

Objective

- An efficient market structure for the provision of gas metering

Regulation and rule changes

Expected position FY2015	Forecast activities FY2016-18	Objective
Downstream reconciliation <ul style="list-style-type: none">• Trial of D+1 commenced• Other options considered	<ul style="list-style-type: none">• Refine D+1 algorithm in light of experience• Evaluate D+1 trial• If positive, implement by:<ul style="list-style-type: none">• Expand to daily trial• Recommend changes to Downstream Reconciliation Rules• Appoint service provider• Develop D+1 system	<ul style="list-style-type: none">• An efficient market structure for the provision of gas metering
Switching <ul style="list-style-type: none">• Minister amends Rules• Data cleansing complete• Extra metering fields implemented	<ul style="list-style-type: none">• Monitor performance of amended Rules• Conduct baseline audits	

Funding

Establishing the Indicative Work Programme

- Start with expected activity end-point for current year (FY2015)
- FY2016 Work Programme assumes continuation of committed deliverables and statutory roles
- Expenditure expected to be slightly less than that budgeted in FY2015
- No contingency built in for unplanned workstreams
- Priorities to be re-ordered in the event of unexpected changes to scope of operations

Levy Funding Requirement



Projected FY2016 expenditure

- FY16 Total Work Programme Costs = Levy Funding Requirement + Market Fees
- FY16 indicative market fees \$1.57m - down slightly (FY15 \$1.63m- formally assessed in April 2015).
- Therefore FY 16 Total Work Programme Costs – small drop
- Retail/Wholesale levy components - split reflects higher FY2016 retail weighting (e.g. Rules Reviews, D+1)

Comparison of FY2015 and FY2016

	FY2015	FY2016 (indicative)
Levy funding requirement ('000)	\$3,948	\$3,916
Wholesale volume estimate	190PJ	190PJ
Wholesale Levy (c/GJ)	1.30	1.09
Retail Levy (\$/ICP)	5.48	6.97

