












FY2014 Indicative Work Programme and Budget Co-regulatory Forum

22 November 2012

Agenda

- Strategic context
- Work programmes
- Funding
- Forum discussion

NZ Gas Story 2005 -11: The trends are good

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

Key industry issues

2011

- Ensuring ongoing robust gas supplies
- Appropriate transmission access and investment
- Re-discovering the small gas consumer proposition

} *Gas Supply/Demand Scenarios 2012-2027*

} *Consumer Energy Options 2012*

2012

- Infrastructure resilience
- Other?

Gas Industry Performance – Consumer Gas

Customer choice

- Registry – approx 260,000 customers
- 96% of customers have a choice of 6 or more retailers at their gas gate

Competition

- Switching Rules have tripled the rate of churn to around 15% / annum as at the end of September– an uptick under ‘what’s my number campaign’!
- Average time to process switches is less than 6 days (Switching before the rules used to take weeks / months)

Efficiency

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

Compliance/Standards

- High level compliance across all rules/regulations

Transparency

- Customer numbers and volume market shares published
- Switching gains / losses readily available
- Market information routinely reported by the media

Markets need different arrangements

Electricity



- Essential energy
- 1,974,000 consumers
- Sophisticated wholesale market
- NZ wide

Gas



- Optional energy
- 260,000 consumers
- Multiple fields
- Domestic production
- Bilateral wholesale market
- North Island only

LPG



- Optional energy
- ≈100,000 bulk/ domestic consumers
- 10,000 vehicles
- 9kg bottle users – countless!
- Export/import capability
- NZ wide

Gas Industry Co Role

- 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, and reliable 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

Gas Industry Co Strategy

- **STRATEGIC GOAL:**

 - Optimise the Contribution of Gas to New Zealand

- **PURPOSE:**

 - Provide leadership for the Gas Industry and the New Zealand Gas Story

- **OBJECTIVES:**

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

Indicative Work Programme

- **November** – Industry engagement
- **December** - Board approval of Levy Regulations statement of proposal
- **January** – Consultation process
- **February** – Board approves Sol and Levy recommendation
- **March** – Recommendation to Minister for Levy regulations



Indicative Work Programme

The work programme for FY2014 is based around providing outcomes for the Company's strategic objectives as follows:

- Strategic Objective 1: Build efficient, competitive and confident gas markets
- Strategic Objective 2: Facilitate efficient use of, and timely investment in, infrastructure
- Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as industry body
- Strategic Objective 4: Build and communicate the New Zealand Gas Story

Objective 1:

Build efficient, competitive, and confident gas markets

Gas quality

Expected position FY2013

- Address immediate concerns by facilitating industry-led solutions to address any issues arising from GIC's review
- Consider whether further work required to ensure gas quality arrangements allow for the safe, efficient, and reliable delivery of gas

Forecast activities FY2014

- Continue to monitor/assess industry-led solutions for gas quality
- Consult on any substantive issues that arise and, if necessary, implement further measures to address the Gas Act and GPS objectives

Indicative milestone(s)

- Provide ongoing updates to Minister on progress of gas quality issues

Rule changes

Expected position FY2013

- Convene/work with implementation group to address transition issues in the Downstream Reconciliation rule changes
- Finalise DR rule amendments and provide recommendation to Minister
- Address Compliance, Switching, Gas Processing and Critical Contingency rules and regulations

Forecast activities FY2014

- Ongoing monitor/review of existing gas governance arrangements; implement improvements where identified
- Address any remaining rule improvements carried over from FY2013
- Implement transition arrangements for amended CCM Regulations

Information gathering project

Expected position FY2013

- Develop and implement information request protocol
- Implement information gathering process

Forecast activities FY2014

- Monitor voluntary information gathering process
- Consider design of further arrangements if substantive issues arise; implement further arrangements as necessary

Objective

- Information flows support policy development and implementation

Arrangements to address retailer insolvency

Expected position FY2013

- Consider options available – from regulated to market-based solutions
- Provide advice to the Minister in FY2013

Forecast activities FY2014

- High-level design of possible governance framework and associated consultation process
- Liaise with the EA

Retail contract benchmarks

Expected position FY2013

- Annual Assessment in July 2012
- Publication of individual assessments
- Work with retailers to promote compliance with the benchmarks

Forecast activities FY2014

- Review scheme design to consider assessing contracts by exception
- Review of benchmarks in light of proposed consumer law reforms

Indicative milestone(s)

- Report to Minister on outcomes of review of scheme.

Distribution principles

Expected position FY2013

- Design evaluation process & consult
- Evaluate UoSAs against principles and report

Forecast activities FY2014

- Undertake 2nd assessment as per distribution scheme requirements

Indicative milestone(s)

- Review and report to Minister by May 2014

Gas Metering (raised by retailers – for discussion)

Forecast activities FY2014

- Review current state of metering arrangements. If necessary, consider and assess further options for metering arrangements; undertake consultation

Objective

- Efficient and fit-for-purpose metering arrangements

Strategic Objective 2:

Facilitate efficient use of, and timely investment in, infrastructure

Bridge commitments

Expected position FY2013

- Monitor tenders
- Monitor capacity trading activity
- Operate capacity trading bulletin board (GTX)

Forecast activities FY2014

- Monitor tenders
- Monitor capacity trading activity
- Operate capacity trading bulletin board (GTX)

Objective

- Monitor effectiveness of these commitments in enhancing retail competition on the north pipeline
- Provide stepping stone to longer term transmission access/pricing arrangements

GTIP Market projects

Expected position FY2013

- Identify near term improvements
- Facilitate improvements by industry arrangements and/or regulation as appropriate
- Continued engagement with wider gas community

Forecast activities FY2014

- Continued development of industry and/or regulatory arrangements

Objective

- To ensure that transmission pipeline access arrangements transparently provide for the efficient utilization of physical capacity and effectively signal the need for efficient investment in additional capacity

Supply/demand model

Expected position FY2013

- Develop gas supply/demand outlook scenarios and test these with stakeholders

Forecast activities FY2014

- Use model to assist with testing investment options for transmission or non-transmission alternatives
- Review/update model as required

Objective

- Range of scenarios that can assist stakeholders in their business planning
- Toolset for stakeholders to model their own scenarios

Testing investment options

Expected position FY2013

- Investigate options for implementing new transmission capacity where that is required
- Work closely with Commerce Commission and other stakeholders

Forecast activities FY2014

- Test efficient investment options in the regulatory context

Objective

- Identify any further work needed to confirm how an investment would be treated inside or outside current regulatory arrangements

PEA/PSA

Expected position FY2013

- Provide secretariat service to the PEA, including preparing meeting papers and arranging meetings as required (including engaging external providers as required)

Forecast activities FY2014

- Transmission pricing and access issues to be considered by expert advisory groups
- Provision of supporting secretariat services by GIC

Code changes & appeals

Expected position FY2013

- Process MPOC change requests and VTC appeals as required

Forecast activities FY2014

- Process MPOC change requests and VTC appeals as required

Transmission pipeline balancing

Expected position FY2013

- Facilitate industry-led initiatives, participate in appeals in relation to any VTC changes and process any MPOC change requests

Forecast activities FY2014

- Consider need for any regulated solutions if industry-led initiatives inadequate. If such action needed, likely to be subsumed by or at least delayed until, outcomes of GTIP access and pricing work known

Interconnection

Expected position FY2013

- New interconnections reviewed following commissioning – monitor two new interconnection arrangements on each transmission pipeline and advise Minister of any new interconnection issues by 2013

Forecast activities FY2014

- Dependent on inter-connection activity

Indicative milestone(s)

- As agreed with Minister, as interconnections occur, GIC assesses new transmission interconnection processes against guidelines

Strategic Objective 3:

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

Access to gas processing

Forecast activities FY2013

- Receive and publish returns from processing facility owners
- Receive reports from access-seekers (if any)
- Survey facility owners and others on expiration of Rules
- Consult
- Provide recommendation to Minister

Forecast activities FY2014

- Receive and publish returns from processing facility owners
- Receive reports from access-seekers (if any)

Indicative milestone(s)

- Report to Minister in FY2013 whether rules should be extended or repealed

Downstream reconciliation

Forecast activities FY2014

- 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

Switching

Forecast activities FY2014

- Monitor gas registry service provider
- Assess ongoing performance of the Rules
- Monitor switching statistics
- Make determinations under the Rules as required

Critical contingency management

Expected position FY2013

- Monitor CCO under the Service Provider Agreement
- Appoint/monitor service providers as required
- Monitor exercises and events as required
- Administer contingency pool as required

Forecast activities FY2014

- Monitor CCO under the Service Provider Agreement
- Appoint/monitor service providers as required
- Monitor exercises and events as required
- Administer contingency pool as required
- Process ESP/MLC applications

Compliance

Forecast activities FY2014

- Perform Market Administrator role
- Assist Investigator & Rulings Panel as required
- Monitor rules & regulations for effectiveness

Statement of intent & annual report

Forecast activities FY2014

- Prepare/publish Statement of Intent (Strategic Plan) to meet statutory timeframes. Requires Ministerial approval
- Prepare/publish Annual Report, provide copies for tabling in the House
- Prepare/publish quarterly reports to the Minister

Strategic Objective 4:

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

NZ Gas Story

Expected position FY2013

- Publication and release of the Review in FY2013, depending on the timing of any material developments in the meantime, including the supply/demand study and outcomes of the GTIP

Forecast activities FY2014

- Regularly update statistics and changes occurring in the industry using different communications media

Quarterly and monthly reporting

Forecast activities FY2014

- Quarterly report
- Compliance reporting
- Performance measures
- Switching statistics

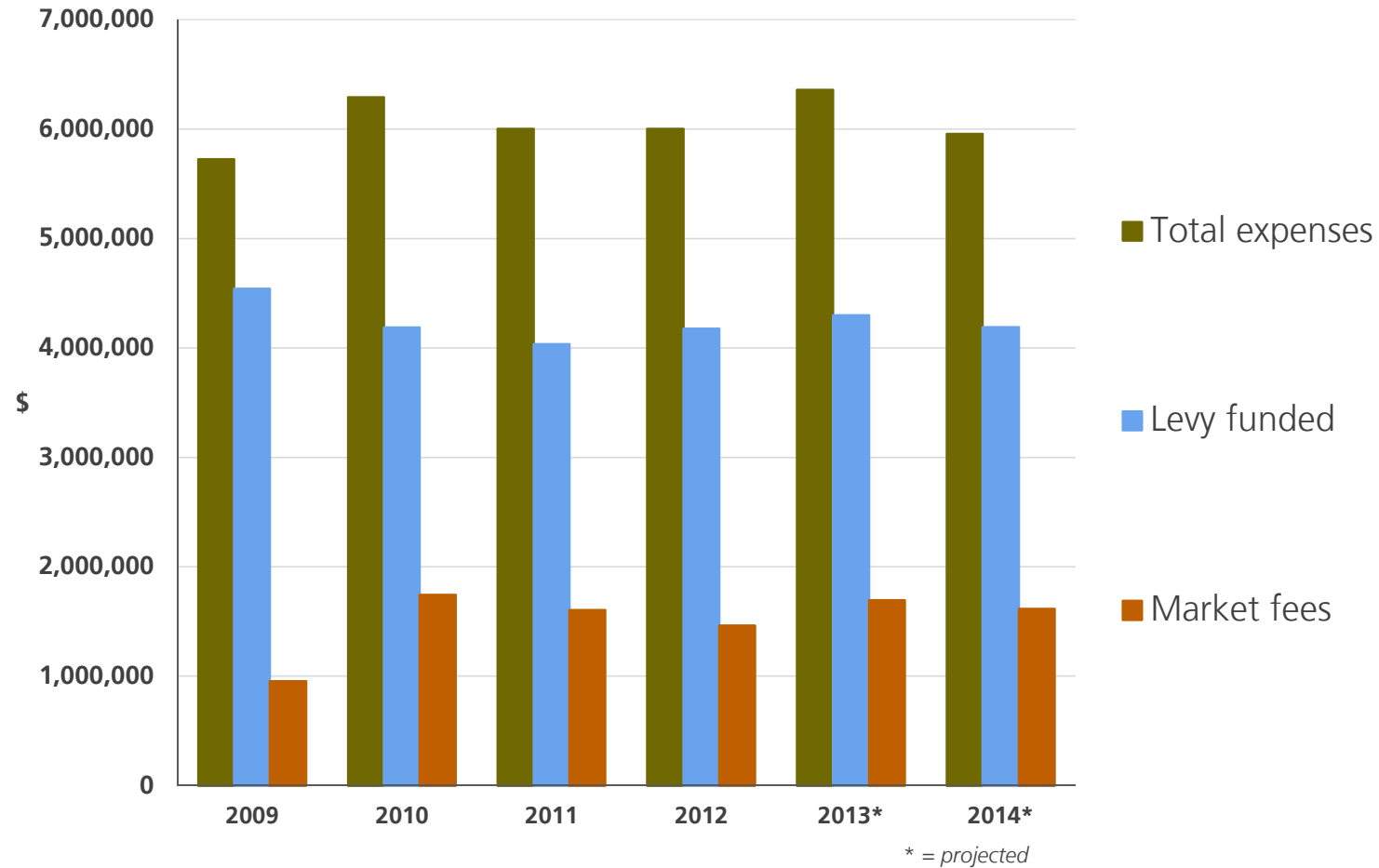


Establishing the Indicative Work Programme

- Start with expected activity end-point for current year (FY2013)
- FY2014 work programme assumes continuation of GTIP and other committed deliverables and statutory roles
- Expenditure expected to be less in FY2014
- No contingency built in for unplanned workstreams
 - Priorities to be re-ordered in case of unexpected changes to scope of operations

Historical and Projected Company Expenses

Projected change FY2013 to FY2014



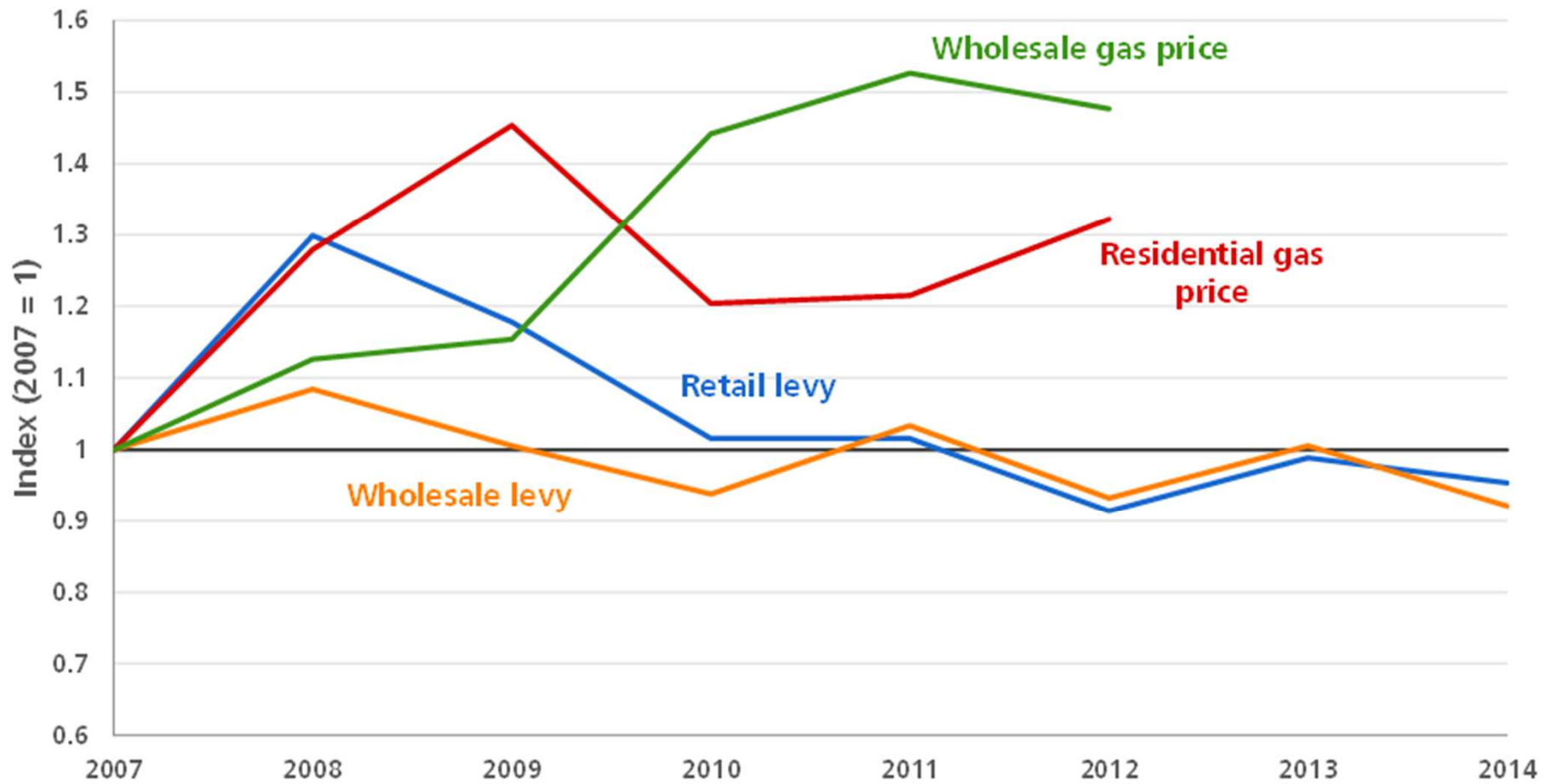
Projected expenditure into FY2014

- Total expenditure decreasing (both levy and market fee funded spending)
- Scope of work programme expected to be similar, thus direct external costs (consultants, cost of consultation) remain similar
- Discipline on organisational support costs (downward pressure)
- Support costs being addressed through:
 - some industry body costs (statement of intent, annual report) being absorbed into work programme, and
 - direct savings in some support costs

Comparison of FY2013 and FY2014

	FY2013	FY2014
WPC	\$6,357,307	\$5,955,684
Market Fees	\$1,693,925	\$1,615,025
LFR	\$4,299,578	\$4,190,624
Retail Levy (\$/ICP)	6.23	6.01
Wholesale Levy (c/GJ)	1.74	1.64

Relative changes to gas prices and levy amounts



Forum Discussion