



Consultation on Gas Industry Co FY2017 Statement of Intent and Levy

DATE ISSUED: 15 DECEMBER 2015
SUBMISSIONS CLOSE: 5 FEBRUARY 2016

ABOUT GAS INDUSTRY CO.

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

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

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

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

SUBMISSIONS CLOSE:
5 February 2016

ENQUIRIES:
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Executive summary

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

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

The Company must consult with stakeholders on the costs for the Work Programme for the forthcoming financial year (to 30 June 2017), to be set out in the annual Statement of Intent. These costs are principally funded through a levy and market fees, the latter imposed under relevant governance rules and regulations.

This Consultation Paper sets out the key elements of Gas Industry Co's Statement of Intent and the associated Levy Funding Requirement (LFR) to form part of levy regulations for the year ending 30 June 2017 (FY2017). Submissions on the Consultation Paper are taken into account in preparing:

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

The proposed FY2017 Work Programme set out in this document includes meeting statutory requirements, such as the administration of existing gas governance regulations, and also seeks to address Government and industry priorities through the completion of key project deliverables. It continues and develops existing multi-year workstreams. The Work Programme reflects significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Act and the GPS.

This paper has been prepared after taking into consideration feedback received on the Company's Strategy and draft Work Programme at the Co-Regulatory Forum held at Gas Industry Co's offices on 27 November 2015. Forum feedback generally supported the Draft Programme. We received and discussed a number of useful comments from participants which are addressed more fully in Section 2.1 and, where more specific to a current workstream, in Section 3.

The estimated FY2017 Levy Funding Requirement of \$3,907,111 is slightly less than the corresponding budgeted costs for FY2016 (budget \$3,916,821).

The estimated levy rates for FY2017 are: a retail levy of \$6.92 per ICP (based on 268,000 ICP's) and a wholesale levy of 1.21 cents per GJ of gas (based on a volume of 170PJ).

Submissions

Submissions on this Consultation Paper should be provided to Gas Industry Co by 5.00pm on Friday 5th February 2016. Submissions can be made by registering on Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). All submissions will be published on this website after the closing date. Submissions may be amended up to closure date.

Details of the submissions process are as follows:

- No email confirmation will be sent out acknowledging receipt of submissions. To check your submission has been successfully uploaded log in and check your account. If this is unsuccessful, contact Estelle Tolmay (Ph +64 4 472 1800) or email: estelle.tolmay@gasindustry.co.nz for confirmation.
- The closing time for submissions is 5.00pm on Friday 5th February 2016. Please note that submissions received after this date may not be able to be considered.
- Submissions will be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

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

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1. Legislative and Strategic Context

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

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

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

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

1.1 The Role of Gas Industry Co

The overall purpose of Part 4A of the Gas Act is to 'provide for the governance of the gas industry'. Gas Industry Co seeks to achieve this through developing gas governance arrangements¹ that meet the objectives of the Act and of the GPS.

The principal objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Other objectives set down in the Act include, but are not limited to:

- The facilitation and promotion of ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements.
- Barriers to competition in the gas industry are minimised.
- Incentives for investment in gas processing facilities, transmission, and distribution are maintained or enhanced.

¹ The Gas Act provides for the making of regulations or rules; however, Gas Industry Co is required to consider all reasonably practicable options for achieving the objectives of any regulations it might consider. As such, we generally refer to 'gas governance arrangements', which include rules, regulations, and any voluntary arrangements developed by or with the industry.

- Delivered gas costs and prices are subject to sustained downward pressure.

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

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

1.2 Statement of Intent and Levy

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

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

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

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

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

The Company's annual Work Programme is central to both the Statement of Intent and Levy Regulations, and both documents are timed to become effective at the start of the Company's financial

year on 1 July. So the two documents are developed together, and are covered in this joint Consultation Paper.

1.3 Gas Industry Co Corporate Strategy

The Board of Gas Industry Co has approved the following Strategy that assists in the delivery of its statutory role, including by framing the proposed FY2017 Work Programme.

Strategic Goal: Optimise the contribution of gas to New Zealand

Purpose: Provide effective governance and leadership for the gas industry

Objectives:

- Promote 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
- Develop and communicate the role of gas in meeting NZ's energy needs

The Company has also incorporated the following principles into the Corporate Strategy as a framework for the delivery of our objectives.

Principles:

- Fairness
- Independence
- Openness and transparency
- Impartiality
- Evidence-based decision making

1.4 Submissions sought on this Consultation Paper

Written submissions on this Consultation Paper should be provided by 5.00pm on 5 February 2015. Submissions can be made by registering on Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). All submissions will be published on this website after the closing date. Submissions may be amended up to closure date. Details of the submissions process can be found in Appendix B.

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

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

2. Developing the Proposed Work Programme

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

Consistent with our statutory role and our Company Strategy, we propose a FY2017 Work Programme similar to that for FY2016, focussing on our core market governance role under existing rules/regulations and continuing key multi-year programmes.

2.1 Co-Regulatory Forum

This Consultation Paper takes into consideration feedback received on the Corporate Strategy, a Draft Work Programme and an indicative Levy at the Co-regulatory Forum held at Gas Industry Co's offices on 27 November 2015, which included the following (and which are reflected in the Work Programme proposals below):

- a) The need to ensure producers' input and requirements are built into the Work Programme.
- b) Consideration to be given to whether the current year's Metering workstream could lead to guidelines in relation to smart meters similar to those developed by the EA.
- c) Implications of the sales processes for the two transmission pipelines to be taken into account.
- d) Willingness of participants to provide Gas Industry Co with information requested under its Information Gathering Protocol, particularly in relation to market-based balancing and emsTradepoint trading, would determine whether the Company needs to develop disclosure regulations to fulfil its role.
- e) Consideration to be given to how the Work Programme would interface with the Commerce Commission's work, including its re-set of gas pipelines price/quality paths.

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

2.2 Prioritisation

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

Statutory roles

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

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

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

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

Committed and/or ongoing projects

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

Examples include:

- the D+1 pilot programme and whatever work flows from that;
- the transmission access and pricing project; and
- the bi-annual supply/demand report.

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

Stakeholder-identified priority work

This category includes work that commands a high priority for stakeholders from the gas industry, end users, and Government. Moreover, in many of these areas, a number of those stakeholders are supporting that programme of work by committing their own resources.

2.3 Flexibility and cost efficiencies

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

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of support services to the Company as a whole. There is a specific focus on delivering efficiency and value for money. Following the implementation of a programme in FY2013 to review non-operational costs, and having appropriate mechanisms for ensuring that procurement decisions are managed effectively, we have been able to successfully maintain downward pressure on support costs. We expect this to be maintained in the FY2017 budget.

As well, we have considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven (e.g. code changes and reviews of new interconnections) and it does not make sense to make full provision for each of these individually. Instead, we make a modest provision for these items as a whole and back ourselves to manage within the global amount².

2.4 Statement of Intent and Levy Setting Process

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



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

² Of course, there is now a risk that each line item may be fully active in a given year, leading to a budget deficit, but we expect to be able to manage this risk through re-prioritisation of other work.

3. Proposed FY2017 Work Programme

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

(a) Retail Contracts Oversight Scheme

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme that assesses retailers' posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the most recent full review in 2015 having shown 'substantial' compliance. The next full review is scheduled for FY2018.

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

Forecast activities FY2017

- Review retailer contracts on an exceptions basis (i.e. review new entrants and changed contracts).
- Publish compliance levels for individual retailers by exception.

Resources

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

(b) Gas Distribution Contracts Oversight Scheme

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

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

Forecast activities FY2017

- Continue to assess progress with executing new distribution contracts consistent with the scheme principles.
- Review, consider any changes or other actions required, and report.

Resources

This work will require 0.05 FTE for monitoring assuming that there is no requirement to amend the principles themselves. Any formal evaluations, if required, will be contracted out to an Independent Assessor.

(c) Retailer insolvency

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that the best solution is an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a [Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements](#) in the same year. With the framework set, it is not expected that any routine activity will be required in FY2017 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations for reports under those rules).

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

Contingent activities FY2017

- Make urgent recommendation for regulations in unlikely event of retailer insolvency.

Resources

Addressed by re-prioritisation in the event of a retailer insolvency.

(d) Gas quality

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

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

Forecast activities FY2017

- Determine actions to address any remaining gas quality issues.

- Update R&P document as required.

Resources

A modest amount has been provided in the budget to engage external advisers to assist with any remaining gas quality issues. For budgeting purposes, this workstream is assumed to require 0.1 FTE.

(e) Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements. The pilot scheme for delivering daily allocations and daily BPP information will have been under way for over six months by the end of FY2016.

Progress on D+1 is a little harder to predict at the time of writing as it will be highly dependent on the success or otherwise of the algorithm for preparing the daily allocations as well as the availability of the requisite input data. There was also a call at the Co-Regulatory Forum to review the definitions of the allocation groups to assess whether they continue to remain appropriate. All of the above indicates that FY2016 will be a busy year for reviewing and developing ways to change the downstream allocation arrangements to be able to provide the tools that shippers need to better manage their daily positions throughout the consumption month.

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

Forecast activities FY2017

- Consider any refinement to D+1 algorithm in light of experience with the pilot scheme.
- If pilot scheme is successful, move to implement by:
 - issuing SoP proposing amendments to the Downstream Reconciliation Rules;
 - subject to submissions, provide a recommendation to the Minister to amend the Downstream Reconciliation Rules;
- Subject to the Minister accepting the recommendation:
 - run a tender for system development; and
 - test and implement the system.

Resources

In respect of switching and reconciliation, this workstream will require a significant amount of internal resource of 1 to 1.5 FTE in FY2017 to work with industry working groups; to liaise with the Allocation Agent; to finalise the necessary rules changes, and to address implementation and transition issues.

(f) Gas measurement

In FY2016 we proposed some high-level work that would 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. As that work has not yet been done, it is not possible to know what, if anything, might flow from that.

Accordingly, the need for any work in this area in FY2017 will depend on the conclusions from the FY2016 work, whether that work identifies any issues that need to be addressed, and the relative urgency of those.

(g) Information Gathering Protocol

In 2012, Gas Industry Co established its [Information Gathering Protocol \(IGP\)](#) as an industry arrangement (rather than a regulated process as had earlier been proposed). Since that time Gas Industry Co has made a number of requests for information and, as a general rule, these have been responded to positively by industry participants. Indeed, the D+1 workstream would not have achieved the results so far had it not been for the willingness of allocation participants to support that workstream by providing access to their detailed submissions and allocation results.

We were perturbed by the less than universal response to our request for information in respect of analysing the events surrounding the near-critical contingency incident of 15 April 2015. In the associated report, [Potential Critical Contingency on 15th April 2015 – Analysis of Data](#), we noted that we would review the situation.

Since that time we have sent out a request for information from the transmission system owners and the market operator (emsTradepoint) to allow us to both monitor the development of MBB and to undertake a post-implementation review of MBB in calendar 2016.

The purpose for which we are requesting the information is clear – Gas Industry Co is looking to ensure that balancing arrangements are efficient and fit for purpose and an evidence-based, post-implementation review is clearly the best way to establish whether MBB is providing efficient outcomes or not. Accordingly, as discussed at the 2015 Co-Regulatory Forum, we need to be prepared for the possibility that the information may not be provided and that, in order to be able to undertake sound analysis we may need to recommend regulation to the Minister to ensure that the required information is made available.

Other potential use of the Information Gathering Protocol (or regulation in the event that is not successful) is in relation to the sections below discussing Transmission Access and Pricing and Transmission Security and Reliability.

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

Contingent activities FY2017

- Consult on regulations to require supply of information to inform analysis of efficiency of MBB compared with the previous balancing arrangements.
- Depending on outcome of consultation, make recommendation to the Minister to regulate for information provision.

Resources

Given that this item is a contingent workstream there is no explicit budget or resource commitment. However, should it prove necessary, i.e. Gas Industry Co is not able to procure voluntary provision of the information, then we shall rearrange priorities in order to free up the resources needed to move this forward.

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

(a) Transmission access and pricing

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

During FY2015 Gas Industry Co consulted on its second options paper [Transmission Access: Options for Improvement Options Paper 2](#) and, after considering submissions in our [Submissions Analysis - Transmission Access Options for Improvement Paper #2](#), concluded that work on a vision for converged transmission arrangements would be valuable as the next step in the journey to achieving efficient commercial gas transmission arrangements.

Details of our Transmission access and pricing work can be found [here](#).

Forecast activities FY2017

- Depending on FY2016 progress, complete work on 'vision'.
- Move to detailed design and implementation of vision, including consultation as appropriate.

Resources

This project will continue to be a key focus for Gas Industry Co with a significant external budget for specialist advice and internal resource of up to 1.5 FTE.

(b) Supply/demand model

As part of the GTIP work, Gas Industry Co commissioned the first dedicated study on gas supply and demand. An update, including a toolset for stakeholders to model their own scenarios, was developed in FY2014 and published in FY2015 as [Long Term Gas Supply and Demand Scenarios Report](#) (Concept

Consulting, 2014). It is clear that the contribution of the report is significant, and it is worth ensuring that the model and report are updated bi-annually. The next update is scheduled to commence in FY2016 with publication expected in FY2017.

Forecast activities FY2017

- Review and update supply/demand model biannually.

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.

(c) Wholesale market

The emsTradepoint market (eTp) has now been in operation for over two 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 spot market with a particular focus on the market’s role as the source of volume and pricing for transmission balancing. This matter is discussed further in the ‘Information Gathering Protocol’ [section 3.1 \(g\)](#).

Forecast activities FY2017

- Monitor activity and developments, particularly in relation to MBB.
- Ensure that market information is delivered in a timely fashion to support monitoring.

Resources

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

(d) Transmission pipeline balancing

Market-based balancing (MBB) was implemented in FY2016 with a go-live date of 1 October 2015. The first month of MBB was characterised by concerns over the lack of non-balancing-related transactions in the wholesale market. This related to:

- many participants (shippers) not knowing their daily positions; and
- the initial default rule creating perverse incentives.

The first of these is being addressed by the introduction of a pilot scheme to provide retailers with daily allocations on a D+1 basis and shippers being provided with their opening positions on business days (for previous business and non-business days). The second issue was addressed by MDL changing the default rule to remove the perverse incentive.

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

Forecast activities FY2017

- Continue to monitor MBB.
- Undertake a post-implementation review of MBB (subject to obtaining the necessary retailer/shipper and market information for both the MBB and prior periods).
- Based on the post-implementation review, consider whether there are any shortcomings and, if so, how best to address those.

Resources

This workstream has connections with GTIP, code changes, downstream reconciliation and the wholesale market. 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.

(e) Transmission code changes and appeals

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

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

Forecast activities FY2017

- Process MPOC change requests as required.
- Submit on VTC change requests where necessary.

Resources

Although there has been significant activity in this area in recent years, given the focus on balancing through that period, it is likely that recent history is not a good predictor of future activity. Also, equivalent work is expected to be led by Gas Industry Co under the transmission access and pricing workstream (discussed above). Accordingly, the resource requirement will be provided from the shared pool for balancing, interconnection, and code changes.

(f) Interconnection

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

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

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

Forecast activities FY2017

- Review interconnections as required.
- Address any concerns regarding reasonable access.
- Amend Interconnection Guidelines if needed.

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.

(g) Gas Transmission Security and Reliability

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

We expect the review to be completed and it to be discussed with stakeholders during FY2016. Our initial findings are that existing information and arrangements give significant assurance about both standards and performance. However, it is possible that further work may be required around provision of information and oversight of significant transmission investments. The latter falls clearly within the jurisdictions of the Commerce Commission and Worksafe, but might be relevant to Gas Industry Co's powers, including to recommend regulations that require expansions, upgrades or service quality improvements.

Contingent activities FY2017

- Develop and oversee any information gathering and disclosure that the review of transmission security and reliability identifies is essential and is not already covered in the Commerce Commission information disclosure regime.

- In conjunction with the Commerce Commission and Worksafe, review significant transmission investment proposals.
- In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider need for additional governance arrangements.

Resources

There is no specific provision for this work in FY2017, as the most likely scenario is agreed disclosures and major transmission investments are relatively rare. It is accordingly considered that this can be fitted within the available resources, or priorities adjusted.

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

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

(a) Downstream reconciliation

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

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

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

Forecast activities FY2017

- Monitor Allocation Agent.
- Assess ongoing performance of the Reconciliation Rules.

- Monitor allocation results.
- Commission performance and event audits as required:
 - performance audit timings to be determined with reference to the result of each participant's most recent performance audit; and
 - event audits will be driven by anomalous allocation results and are likely to be a mix of more immediate issues and chronic, low-level issues.
- Make determinations made under the Reconciliation Rules as required.
- In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to be continuing to run the pilot scheme for D+1 allocations until that is either overtaken by changes to the Reconciliation Rules or a better solution identified. These are discussed further under 'Regulation and Rule Changes' section.

Resources

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

(b) Switching and registry

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

Introduction of the Switching Rules tripled the rate of switching and the trend over the past six years has been increasing annual rates of customer switching.

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

Forecast activities FY2017

- Monitor Registry Operator
- Assess ongoing performance of the Rules.
- Monitor and report on switching statistics.
- Make determinations under the Rules as required.

- In addition, the recent changes to the Switching Rules introduced the requirement for the industry body to arrange performance audits of registry participants. It is expected that baseline audits will commence in FY2016 and be completed in the FY2017 year.

Resources

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

A decision was taken in 2015 to extend the service provider appointment for a further (and final) two years under the existing contract, but the expiry of that contract in March 2018 requires us to tender the role.³ Work is already underway to run a tender process for registry services jointly with the Electricity Authority. While the bulk of the work associated with the tender is expected to be completed in FY2016, depending on the outcome of that tender there will be a range of work require in FY2017 which may include some or all of the following:

- in the event that the result of a tender is to implement a replacement system, there would be a need for extensive user acceptance testing prior to transferring to the replacement system;
- continued use of the existing registry system but transition to a new operator would also require a process to be managed to transfer the system to a new provider and to test those arrangements before cutting over; and/or
- in the event that the outcome of the tender is to continue with the current service provider but to take the opportunity to implement enhancements (e.g. greater use of web services) that would also require a testing and implementation phase.

It is estimated that an additional 0.1 FTE will be required in the FY2017 year (separate from any external resources that would be funded through market fees).

(c) Critical contingency management

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

³ The existing contract provides for an 18-month period beyond expiry for disengagement services in the event that transition to a different service provider is the outcome of the tender process.

determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

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

The CCM Regulations were reviewed following the 2011 critical contingency and found to be soundly-based and fit for purpose. However, a number of improvements were developed and implemented in March 2014. In particular, the review found that many "essential service providers" were not actually providing essential services. To address this, the system of providing designations for priority access to gas was overhauled and the responsibility for approving those was moved to Gas Industry Co. As a result, FY2015 was a busy year in this area and, as a result of the designations granted in that year requiring renewal in December 2016, there will be a requirement to provide for that work in FY2017.

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

Forecast activities for FY2017

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

Resources

The CCO function is performed by a service provider funded through market fees, which also include funding for one annual contingency event. With the transition to the new CCO having completed, Gas Industry Co considers that its 'business as usual' arrangements will require approximately 0.2 FTE. However, that may be subject to increase depending on the rate and type of applications received for 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.

(d) Compliance and enforcement

The [Gas Governance \(Compliance\) Regulations 2008 \(Compliance Regulations\)](#) provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are

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

Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's Quarterly Performance Reports⁴ demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various rules and regulations.

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

Forecast activities FY2017

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

Resources

Each of the Investigator and Rulings Panel is engaged as prescribed by the Compliance Regulations. Those costs, and any associated expenses, are 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.

(e) Statement of Intent and Annual Report

The Gas Act requires that the industry body to provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of

⁴ These reports can be found on the Gas Industry Co website: <http://gasindustry.co.nz/publications-library/landing-pages/performance-measures/>

Representatives). Similarly, the Statement of Intent is required to be submitted to the Minister for comment prior to being finalised and published.

Annual Reports and Statements of Intent can be found [here](#).

Forecast activities FY2017

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

Resources

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

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

(a) New Zealand Gas Story

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry.

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

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

Forecast activities FY2017

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

Resources

This work is predominantly carried out internally utilising staff from the Communications Team. Other staff resources from across the Company may be called upon from time to time. A small degree of specialist external input has been engaged for particular aspects of the document, such as gas pricing.

(b) Other Reporting

The purpose of this reporting is to fulfil a statutory requirement for good information to be available on the performance and present state of the gas industry. During FY2015 and FY2016 Gas Industry Co published three 'requirements and procedures' documents dealing with:

- gas quality;
- gas measurement; and
- gas reconciliation.

Those documents are [all available on the Gas Industry Co website](#) and are useful as either reference documents or as introductory documents for new entrants to the industry.

Gas Industry Co has also commissioned reports focussing on particular aspects of the industry, such as the *Consumer Energy Options* Report (Concept Consulting, 2012). There has also been strong support for reporting that explores scenarios for the industry's development, such as *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).

Forecast activities FY2017

- Compliance reporting.
- Industry performance measures.
- Switching statistics.
- Other 'state and performance reporting'.

Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2017? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2017? Please provide reasons for your response.

4. Funding of Operations

4.1 Sources of Funding

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

Market Fees

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

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

Levy

The levy funds the industry body's costs that are not covered by market fees, including the Direct Costs of workstreams and Non-Operational expenditure for the business.

The main focus of the following section is on the FY2017 Levy Funding Requirement (LFR).

Downward Pressure on Cost

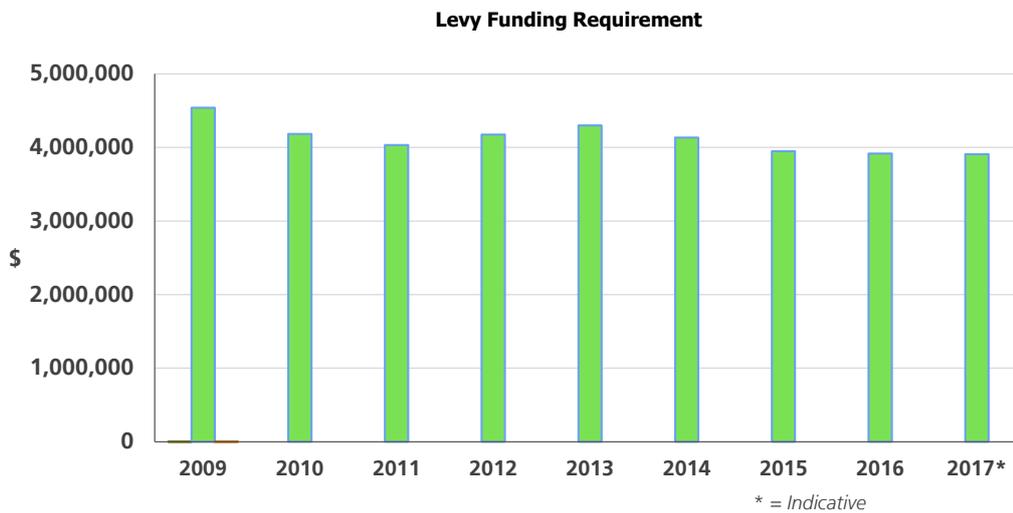
As noted in section 2.3 above, over recent years we have committed to putting downward pressure on costs, including in our annual Levy Recommendations to the Minister. We have kept a flat-to-dropping profile across the past four years, while absorbing increases in staff and other costs. For FY2017, we have again managed to keep costs flat. This has been driven by reductions in both Direct Costs of workstreams and Non-Operational Costs for the business.

4.2 Levy Funding Requirement

We expect the LFR to be \$3,907,111 (compared to FY2016 - \$3,916,821). The method for deriving this figure is set out below.

The following chart shows the actual LFR for FY2009-16 and proposed LFR for FY2017.

Chart 1:



This year we are indicating an increased market fee figure of \$1.836m (market fees for FY2016=\$1.750m). This figure includes provision for development of an enhanced D + 1 allocation system (and, possibly, GTA/BPP calculations). This is conditional on the current D + 1 pilot being successful, which will be clearer in April 2016.

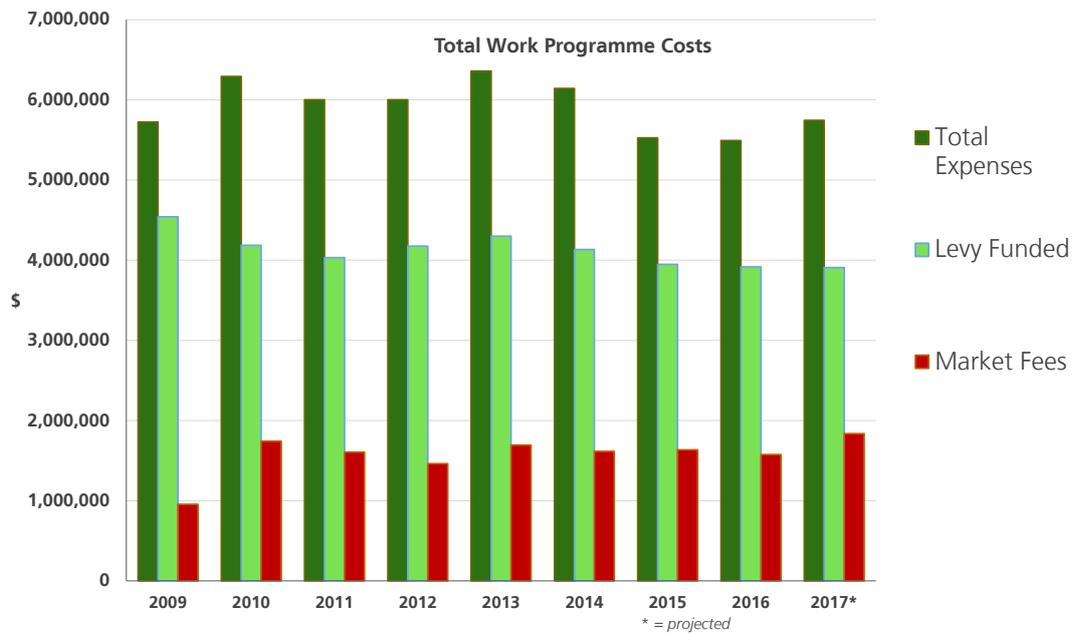
Chart 2 shows published market fee estimates to FY2016 and the indicative estimate for FY2017.

Chart 2:



Chart 3 shows Total Work Programme Costs which are based on a combination of the proposed Levy Funding Requirement and indicative market fees above. They are expected to be slightly higher than in FY2017 at \$5,753,111 (\$5,491,821 budgeted for FY2016) although this increase is as a result of the estimated market fees as shown in Chart 2 above.

Chart 3:



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

Table 1: Levy Funding Requirement Calculation

Description	\$
Strategic Goal 1: Provide efficient, competitive, and competent gas markets	813,269
<i>Comprising: Retail Contracts Scheme; Distribution Principles Scheme; Regulation and Rule Changes.</i>	
Strategic Goal 2: Facilitate efficient use of, and investment in, infrastructure	1,228,441
<i>Comprising: Transmission Access and Pricing; Transmission Pipeline Balancing; Code Changes; Interconnection; Wholesale Market Monitoring</i>	
Strategic Goal 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body	3,539,848
<i>Comprising: Downstream Reconciliation; Switching & Registry; Critical Contingency Management; Compliance.</i>	
Strategic Goal 4: Develop and communicate the role of gas in meeting New Zealand's energy needs	166,002
<i>Comprising: New Zealand Gas Story; Statement of Intent and annual Report; Other Reporting.</i>	
Total Work Programme Costs	5,747,560
Less Indicative Market Fees	1,836,000
Levy Funding Requirement	3,911,560

4.3 Proposed Levy Method and Rates

Gas Industry Co's existing levy method:

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

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

Based on the TWPC above, the levy rates for FY2017 would be:

- Wholesale levy – 1.21c⁵/GJ (up from 1.12c/GJ in FY2016, a 7.86% increase)
- Retail levy - \$6.92/ICP (down from \$6.97/ICP in FY2016, a 0.77% decrease)

Assumptions:

- The draft gas volume assumption for FY2017 is 170PJ. This particularly reflects wholesale gas volumes for the current FY2016 year being considerably below that year's estimate of 185PJ.
- The ICP assumption of approximately 268,000 is based on the current number of ACTIVE-CONTRACTED entries in the gas registry.

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

Q6: Do you have any comment on the proposed levy for FY2017?

⁵ LFR requirement same as FY2016, Wholesale volume estimate 15PJ lower.

Appendix A: Recommended format for submissions

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

Submission prepared by:

(company name and contact)

Question	Comment
Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy?	
Q2: Do you have any comments on the process for developing Gas Industry Co's SOI and Levy?	
Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2017? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.	
Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2017? Please provide reasons for your response.	

Question	Comment
Q5: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?	
Q6: Do you have any comment on the proposed levy for FY2017?	