

Analysis of Submissions on Consultation on Gas Industry Co FY2017 Statement of Intent and Levy

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

Submitter	Comment	GIC Response
Genesis Energy Ltd	None	Gas Industry Co appreciates the acceptance/support for its role and Strategy. See submissions and responses below in relation to Commerce Commission's work and expected joint ownership of gas transmission systems
Colonial First State Global Asset Management ("Colonial First State")	Supportive	
Vector Ltd	Happy with GIC's progress and underlying principles – believe they are now widely accepted and practiced by industry participants	
Nova Gas Ltd	None	
Major Gas Users Group (MGUG)	None	
Powerco Ltd	Pleased GIC have been working closely with the Commerce Commission (ComCom) and encourage us to do so to ensure alignment between work plans, mechanisms and outcomes. The Commerce Commission's work on 2017 Input Methodologies and gas 2017 DPP requires an holistic approach to ensure it is 'fit for purpose' and the timing and resource requirements of this work need to be considered by GIC when executing its FY2017 work programme.	
Methanex New Zealand Ltd	Supports GIC's strategic objectives. Expects sale of transmission pipelines to one owner will dramatically change context for transmission matters and anticipates a need for increased regulatory oversight, including by GIC.	

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

Submitter	Comment	GIC Response
Genesis Energy Ltd	None	Pleasing that the process is well understood and accepted/supported by most submitters.
Colonial First State	Supportive	
Vector Ltd	As per Q1.	
Powerco Ltd	Powerco supports the process and considers the use of an industry pre-consultation forum a positive step.	
Nova Gas Ltd	Nova agrees it is not necessary for GIC to hold reserves for potential expenditure due to unplanned circumstances. Believes there is sufficient flexibility in work programme to allow for such contingencies.	
Major Gas Users Group (MGUG)	Seeks broader representation from producers, smaller consumers, and emerging opportunities (e.g. micro-gen & transport).	Gas Industry Co acknowledges the benefits of wide representation in its work. MGUG's engagement is appreciated, and we would be pleased to foster further consumer and emerging sector involvement. In relation to producers, the large proportion of production is represented by Gas Industry Co shareholders, who are also regular contributors to the Company's work. Note that Gas Industry Co's jurisdiction does not extend to gas production per se, and essentially commences with gas entering gas processing facilities

Methanex New Zealand Ltd

Methanex recommends an earlier consultation process to avoid the process crossing over the New Year period. Sees merit in separating the strategy/work programme consultation process from the proposed levy consultation.

We will reflect on the consultation process, including whether it could be split along the lines suggested. However, consultation begins in late November each year and bringing it earlier to complete before the New Year period would increase risks around predicting industry conditions and priorities from the existing 19-month total period (to when the statement of intent and levy regulations expire).

**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 achieve the outcomes sought under the Gas Act and GPS.**

Submitter	Comment	GIC Response
Genesis Energy Ltd	<ol style="list-style-type: none"> <li data-bbox="645 347 1308 751">1. Competition in gas market (reticulated/LPG) - has significantly increased over past year. New retailers, while helping drive product innovation and competitive prices also present a risk in that they may not all have same level of understanding as to safety and operational nuances in gas market. Would like to see: clear processes in place for monitoring and guidance to new retailers and; review whether current use of system agreements between network owners/retailers can be better standardised to improve national retail competition.</li> <li data-bbox="645 1150 1308 1364">2. Closed networks - are an unreasonable barrier to competition – investors must be able to make fair return on their investment without this being a perpetual retail monopoly. Competitive retail market should require closed network operators to provide access to retailers on fair and reasonable terms. Genesis considers it</li> </ol>	<ol style="list-style-type: none"> <li data-bbox="1339 347 2040 1129">1. Gas Industry Co provides basic assistance to new reticulated gas retailers, providing them with an introduction to the governance arrangements and the need to comply with those. We also ensure that new entrant retailers are made aware of the gas safety &amp; measurement regulations and the need to meet their obligations under those. However, there would be value in formalising the current arrangements and publishing those so that they can benefit from wider industry scrutiny. With regard to use of system agreements, an important first point in relation to standardisation is that there is only three of those. Distributors and retailers have previously requested that they be allowed to negotiate the content of those agreements. Gas Industry Co introduced the Gas Distribution Contracts Oversight Scheme, providing for independent assessment of system agreements against a set of Distribution Principles. While that should drive a degree of standardisation and improvement, there will continue to be some differences in the agreements.</li> <li data-bbox="1339 1150 2040 1364">2. In the natural gas arena the closed networks are, primarily, the bypass networks which face competition from the adjacent open-access networks. By contrast, reticulated LPG networks do not face such competition other than from bottled LPG. This LPG issue is one that we should explore further with retailers and network</li> </ol>

	<p>timely for GIC (or MBIE) to consider broader implications of small monopoly infrastructure owners on consumers.</p> <p>3. Access to information – currently GIC relies on voluntary disclosure which is important to co-regulatory model. Failure to meet this expectation by participants may impact on overall effectiveness of co-regulatory model. Genesis supports GIC looking at regulatory options if there is evidence of systematic resistance by participants. However, this should not create new burdens on participants who are meeting current ID requirements.</p>	<p>operators so as to gather information on the effects of inter-fuel competition and the scope for efficiency losses.</p> <p>3. Gas Industry Co has preferred to use voluntary arrangements as these have worked quite well over the years. However, such arrangements are only effective if participants are supportive and willing to provide information (or authorisation) in a timely manner. Recent examples of lack of co-operation have caused us to look at this area more closely and, as indicated in the draft FY2017 Work Programme, we will revert to considering regulatory options if necessary in relation to issues such as monitoring market-based balancing and associated emsTradepoint activity.</p>
<p>Colonial First State</p>	<p>1. GIC/ Commerce Commission roles - encourage GIC to carefully consider link between economic regulation and access arrangements, particularly on comment on inter-dependency of GIC's work plan with the Commerce Commission's current consultation process on economic regulation of gas pipelines. Currently no annual wash-up in price quality arrangements for gas transmitters with result that potentially this is a barrier to code convergence (Vector tariffs are substantially less risky than MDL's). Colonial encourages GIC to work with the Commerce Commission on this.</p>	<p>1. Gas Industry Co is aware of the link. We intend to work with the Commerce Commission to address potential issues as part of this workstream.</p>

	<p>2. Transmission access arrangements - GIC's work should reflect the timing of decisions on the economic regulation of gas pipelines. ComCom currently reviewing input methodologies (IM) which will apply to 2017 price reset. To have any significant input, GIC should communicate to ComCom any issues of significance.</p>	<p>2. Gas Industry Co agrees that its work with the Commission should reflect the respective process timelines, and significant access issues highlighted for the Commission. The industry also has a key role in assisting, and has commenced that with recent submissions to the Commission on its IM review..</p>
<p>Vector Ltd</p>	<p>1. Roadmap - recommend GIC include development of roadmap for all transmission-related work. Do not see this allowed for in FY17 work programme/budget. Vector envisage a 'living roadmap' that could be regularly updated similar to evolution of <i>NZ Gas Story</i>. Seek certainty at strategic level but prefer roadmap to be flexible to ensure governance arrangements not rigidly pre-determined and incentives for participants to seek industry solutions within wider roadmap are preserved. Vector believe GIC should take lead in this process – it is not a simple task.</p> <p>Development of a finalised solution for D+1 arrangements requires a close alignment with convergence of codes. Without this risk that changes to Gas DR Rules will not fit with converged codes. Roadmap would assist in highlighting these key dependencies.</p> <p>Roadmap will assist industry participants in making preparations for smooth transition to new Tx arrangements ensuring ongoing success of the gas industry.</p>	<p>1. Gas Industry Co agrees that a roadmap is not a simple task. This reflects the fact that Gas Industry Co takes a collaborative and consultative approach to policy development and a roadmap could readily be perceived as prejudging policy outcomes. Gas Industry Co's SOI already provides a forward vision for the work programme and this is, necessarily, at a high level. We can revisit previous draft roadmap documents to more clearly outline the forward work programme and relevant industry-led work, to better project possible outcomes into the future.</p>

	<p>2. D+1 – following completion of D+1 pilot, role of [Allocation Agent] be subject to competitive tender to ensure efficient and fair outcome.</p> <p>3. Balancing – timing of post-implementation review of MBB should not be tied up with post-implementation review of D+1 pilot. Believe each has distinctive objectives and timeframes. MBB must be reviewed separately to D+1 review in a way that can separate changes in balancing on Maui pipeline from any effects D+1 may have.</p>	<p>2. This is a challenging request given that we are part-way through a five-year Allocation Agent contract. It would be relatively easy to tender the D + 1 system development role. But separating the existing Allocation Agent role from the ongoing D+1 administration/implementation role would likely be inefficient.</p> <p>3. Agree - these items will be reviewed/evaluated separately.</p>
Nova Gas Ltd	<p>Access to information - appropriate for GIC to monitor key market metrics and focus its resources if/when there is market failure. GIC needs to examine in detail operation of MBB on Maui pipeline to determine if it is producing net benefit to market. As such, GIC will need significant access to market information which Nova supports (this however does not mean GIC should seek automatic access to all market information by default.</p>	<p>Gas Industry Co appreciates industry participant support for the MBB review as well as support for provision of market information. In general, Gas Industry Co agrees that automatic access to all market information is not necessarily required. However, the gas market would benefit from increased levels of transparency.</p>

Major Gas Users Group (MGUG)

1. Wholesale Market Development - supports GIC initiating a programme to accelerate maturity of gas wholesale trading platform but would like to see more depth and liquidity, further development to ensure gas is priced efficiently and concerned about contractual barriers in negotiated bi-lateral agreements.
2. Gas Transmission Pricing methodologies - supports GIC regulating price methodologies for gas transmission to avoid inefficient pricing outcomes it sees on the Vector system. Believes this particular aspect of pricing falls outside of ComCom's work.
3. General Co-ordination Role - supports GIC engaging with ComCom on its IM review and DPP reset to ensure alignment between GIC/ComCom objectives.

1. Gas Industry Co continues to support the emsTradepoint market, consistent with the purposes in section 43F of the Gas Act, including to help address issues associated with a pure bi-lateral contracts market. The spot market is showing some fluctuations in pricing of short-term trades arising from the recent implementation of MBB. However, the longer-term trades (weekly and monthly strips) are showing more price stability, and the volumes of these show that certain parties consider the emsTradepoint market is providing opportunities for innovative procurement. It is too early to draw conclusion but the trends are looking promising. As provided for in the FY2016 and draft FY2017 Work Programmes, Gas Industry Co will continue to monitor, and to liaise with the market operator and participants.
2. This matter can be considered as part of the proposed transmission code convergence work, including because tariff structures are an outcome of the carriage arrangements rather than an input.
3. Gas Industry Co intends to liaise with the Commerce Commission on key workstreams such as convergence (see also response to Colonial First State above).

	<p>4. Transmission ownership changes - sees the potential transmission systems' ownership change as having both threats and opportunities in progressing transmission access arrangements (GTIP). MGUG seeks budget clarity on the path forward and suggests early identification on the stance of the potential new owner prior to the start of the new levy year.</p>	<p>4. Agreed - Recognising the transmission sales processes, and the potential for common ownership of the two systems to help address the current diverged code arrangements, Gas Industry Co deferred its proposed work on code convergence in the final quarter of 2015. However, as made clear in the draft FY2017 Work Programme and consistent with submissions of other stakeholders, the benefits of converged access and pricing arrangements remain, and Gas Industry Co remains committed to pursuing those. However, the process and associated timing are being further considered, including in discussion with Colonial First Capital. Note comments in its submission on the draft FY2017 Work Programme.</p>
<p>Powerco Limited</p>	<p>With competing demands of a finite budget and projects already committed, Powerco does not believe that there are any other items with a high enough priority to make it into the FY2017 Work Programme. The focus should remain on progressing and completing as many of the identified work areas as possible in a timely manner.</p>	
<p>Methanex New Zealand Ltd</p>	<p>1. Gas Quality – expresses concern that the gas specification standard NZS5442 is allowing gas of uncertain quality to enter the system, and would like to engage with industry and GIC further on this matter.</p>	<p>1. Any non-spec gas incidents entering the system remain a significant concern. While Methanex is right to note that NZS5442 itself is not within Gas Industry Co's responsibility, the proposed FY2017 Work Programme includes an ongoing workstream to address any remaining gas quality issues. That also records that Gas Industry Co published a Gas Quality Requirements and Procedures document in 2015 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.</p>

2. Transmission Access and Pricing – considers implications of pipeline convergence not yet fully explored. Recommends GIC assess design and implementation of this vision and its role as regulator in light of the potential ownership change.
3. Transmission Pipeline Balancing – effective MBB requires buy-in from owner/operator and more transparency. GIC's MBB post-implementation review should give prominence to policies, procedures (including SoPs) and actions of the pipeline owner and the balancing agent as well as Shippers.
4. Code Changes and Appeals – Suggests GIC strengthens its role in MPOC change request process. Considers current 'approve/disapprove' process to be seriously flawed.
5. Transmission Security and Reliability – recommends that GIC has a more prominent role in the Commerce Commission-led default price/quality path reset for 2017 given the implications of the potential change in pipeline ownership and the prospect of future important investment decisions.

2. Agree – the Consultation Paper preceded announcement of conditional sale of the Maui Pipeline to Colonial First State. Gas Industry Co has reviewed resulting opportunities and challenges. Key aspects are discussed in other responses to submissions.
3. Agree
4. Agree current code change processes are not optimal. This will become clearer once the substantive convergence work is advanced. Any new converged arrangements will need clear governance, including an efficient change process.
5. Agree – to be explored in the proposed Transmission Security and Reliability Issues Paper. There is opportunity for the Commerce Commission's planned work on gas transmission to make improvements in this area.

**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.**

Submitter	Comment	GIC Response
Genesis Energy Ltd	None	
Colonial First State	No	
Vector Ltd	<ol style="list-style-type: none"> <li>1. Metering - recommend that GIC consider deferring work on metering until after the Commerce Commission has concluded its preliminary assessment (Feb 16). Would avoid duplication and unnecessary cost. Would also allow GIC to make more informed decisions. Any intended work on gas metering should be co-ordinated with ComCom's work.</li> <li>2. Study on introduction of advanced gas meters – believe it unnecessary for GIC to work on potential issues with introduction of advanced gas meters in NZ. Decisions and timing of any investments should be left to the market. Any policy development should be technology neutral and any GIC work may influence ultimate choices. Believe role of regulators in transition to new technologies is to identify and remove barriers to competition and investment and support environment that would enable commercial solutions to flourish. If GIC pursues this proposed study, suggest this initiative be integrated into D+1 work.</li> </ol>	<ol style="list-style-type: none"> <li>1. Agree – Gas Industry Co should not be duplicating or cutting across the Commerce Commission's work in this area. As a result, we shall co-ordinate with the Commerce Commission.</li> <li>2. Gas Industry Co's FY2016 Work Programme includes development of a seed paper to consider issues associated with introduction of new metering technology. That remains appropriate to address supporting industry submissions in recent years. The FY2017 Programme provides for any follow-up required. Gas Industry Co anticipates that its review should not intrude on timing or investment decisions.</li> </ol>

Nova Gas Ltd	Many changes have taken place including common ownership of pipelines. Therefore it would seem that it would be appropriate to defer work on developing vision for converged transmission arrangements until it becomes clearer how new owner proposes to manage the two pipelines. If owner seeks GIC's views, then GIC should provide guidance as appropriate.	See comments above on MGUG submission (4) - There are widespread expectations among stakeholders that a single owner will be positively disposed to converged transmission arrangements. Gas Industry Co intends to work with stakeholders, including the new transmission owner, to ensure that a focus is maintained
Major Gas Users Group (MGUG)	MGUG supports a direct move by GIC to regulation in order to obtain information from the industry, rather than continuing efforts on the information gathering protocol.	Gas Industry Co has preferred to use voluntary arrangements as these have worked quite well over the years. However, such arrangements are only effective if participants are supportive and willing to provide information (or authorisation) in a timely manner. Recent examples of lack of co-operation have caused us to look at this area more closely and, as indicated in the draft FY2017 Work Programme, we will revert to considering regulatory options if necessary in relation to issues such as monitoring market-based balancing and associated emsTradeport activity.
Powerco Limited	No	
Methanex New Zealand Ltd	See submissions on Question 3 above.	See responses on Question 3 above.

**Q5: We are particularly interest 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?**

Submitter	Comment	GIC Response
Genesis Energy Ltd	None	Comments appreciated. We will consider further.
Colonial First State	None	
Vector Ltd	Consider forecast gas volumes to be reasonable	
Nova Gas Ltd	Nova believes GIC’s wholesale volumes estimate are too low at 170PJ. Nova’s view is that distributed gas demand and co-generation volumes will be maintained; there is no significant new renewable electricity generation being built to displaced gas-fired generation; and petro-chemical plants can be expected to operate at near capacity. Therefore, they expect wholesale demand to be around 200PJ in FY2017. Nova happy to elaborate further.	
Major Gas Users Group (MGUG)	MGUG considers the 170PJ estimate to align with its own assumptions for forecast gas volumes but in the light of gas demand sensitivities, particularly for petrochemical production and electricity generation, considers a more conservative estimate of 160PJ to be a more prudent budget estimate in order to prevent a wholesale levy shortfall.	
Powerco Limited	Powerco considers this to be a reasonable forecast given the current available information and does not foresee any significant fluctuation from the gas volume assumption in the next 12-18 months.	

Methanex New Zealand Ltd

Commend GIC for maintaining flat costs. Slight concern that wholesale levy has been increased on the back of downward revision in forecast gas volumes. Accept that Methanex has played a part in this but thinks they will only be 10PJ lower than estimated in FY16 and fully operational for FY17. Do not therefore see a need to reduce volumes as much as GIC has proposed. Methanex believe a revised estimate of 180PJ is more justifiable and recommend GIC adjust the wholesale levy accordingly.

Comments on wholesale gas volumes appreciated. However, the total wholesale levy does not increase in the way Methanex suggests – Gas Industry annually seeks to recover an amount of revenue required to cover work related to wholesale issues; if the total wholesale volumes estimate varies then the wholesale levy rate is adjusted accordingly. As explained in more detail in section 4.3 of the Consultation Paper, the levy 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. The wholesale levy rate is accordingly set at the start of each year based on the predicted wholesale volumes to achieve the targeted revenue required. If actual wholesale volumes and revenues at year end are more than those targeted, Gas Industry Co's Board's policy is to refund any surplus unless specific circumstances dictate otherwise.

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

<b>Submitter</b>	<b>Comment</b>	<b>GIC Response</b>
Genesis Energy Ltd	None	Comments appreciated.
Colonial First State	None	
Vector Ltd	Welcome GIC's restraint in its proposed budget for FY2017	
Nova Gas Ltd	Nova comfortable with proposed levy.	
Major Gas Users Group (MGUG)	Appreciates GIC's focus on cost control and maintaining levy as low as possible without under-investing in value-added activities. Suggests that GIC conducts and publishes post-implementation analyses of selected projects/activities (citing GTIP in particular) in order to inform participants about the achievement of expectations as well as learning experiences that would improve GIC's effectiveness and efficiency.	
Powerco Limited	Powerco supports the proposed levy and congratulates GIC for developing a work programme that is prioritised to meet the sector's needs at a maintained cost.	
Methanex New Zealand Ltd	See submissions on Question 5 above.	