



RECOMMENDATION

Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Industry Participants) Regulations 2020

Executive Summary

Pursuant to section 43ZZB of the Gas Act 1992 (the Act), Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made under section 43ZZE to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2020 (FY2021), totalling \$3,450,182 on the following basis:

- From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of \$5.16 for each ICP for each retail customer.
- From every industry participant on the first day of each month, a wholesale levy rate of 1.1164c/GJ based on gas purchases made directly from gas producers during the previous month.

Gas Industry Co is pleased to note that for FY2021:

- The levy funding requirement of \$3,450,182 is 8.6% lower than the same figure for FY2020 (\$3,774,336);
- The retail levy of \$5.16 is down from \$6.12 in FY2020 - a 15.69% decrease; and
- The wholesale levy of 1.1164c/GJ is down from 1.1279c/GJ in FY2020 – a 1.02% decrease.

Gas Industry Co remains principally reliant on annual levies to provide the effective governance of the downstream gas sector that Part 4A of the Act requires. Gas Industry Co believes that the recommended levy rates are reasonable, and present good value for gas consumers and the wider industry.

The contents of this Levy Recommendation achieved broad support from industry stakeholders, through a robust annual consultation process.

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

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1. Introduction

The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the industry body as set out in Part 4A of the Act. Gas Industry Co has two main sources of funding to meet the total costs of delivering its work programme and other aspects of its role as the industry body – market fees and the levy.

1.1 Market fees

Established gas governance rules and regulations include provisions to recover costs directly required to meet Gas Industry Co's obligations under those arrangements (referred to as 'market fees'). These cover the contractually agreed costs of any service providers (particularly 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 or excess fees are invoiced/credited to the market fee payers in a year-end 'wash-up'.

1.2 Industry 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 Act provides for the levy to be collected through annual regulations, on recommendation to the Minister by the industry body. Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. This process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated Total Work Programme Costs covering all activities to be undertaken by the industry body.

This paper provides that recommendation for the year commencing 1 July 2020 (FY2021).

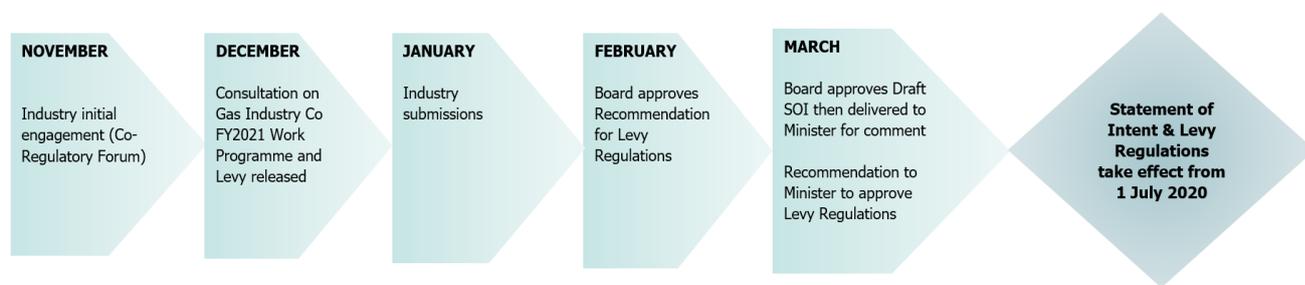
2. Consultation Process and Outcomes

2.1 Levy Consultation Process

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

2.2 Key Steps in FY2021 Consultation Process

The diagram below sets out the key steps in the consultation process:



The consultation process commenced at the annual Co-Regulatory Forum on 29 November 2019. Feedback from this Forum was generally positive, and the paper Consultation on Gas Industry Co FY2021 Work Programme and Levy (Consultation Paper) was published on 17 December 2019.

The Consultation Paper:

1. Sets out Gas Industry Co's strategic direction and supporting rationale;
2. Describes the work that Gas Industry Co will undertake in FY2021 and the estimated costs to carry out this work;
3. Outlines the amount of the Levy Funding Requirement for FY2021; and
4. Outlines the proposed levy rates for FY2021.

The proposed FY2021 Work Programme includes meeting statutory requirements, such as administration of existing gas governance regulations, and seeks to address Government and industry priorities through the completion of key project deliverables. It continues existing multi-year workstreams and reflects significant progress already made in addressing the objectives and outcome set for Gas Industry Co and the industry in the Act and the GPS.

Submissions were invited by 10 February 2020, and were received from Nova Energy Limited, Mercury NZ Limited, emsTradepoint Limited, Trustpower Limited, Transpower New Zealand Limited, Contact Energy Limited, First Gas Limited, Vector Limited, the Major Gas Users Group (MGUG), and Powerco Limited.

Each submission and an Analysis of Submissions have been published on Gas Industry Co's website. In summary, there was broad support for Gas Industry Co's role, Work Programme, estimated costs, and associated levy rates.

3. FY2021 Levy Funding

3.1 FY2021 Levy funding summary

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

- The levy funding requirement is \$3,450,182. This is 8.6% lower than the same figure for FY2020 (\$3,774,336);
- Total Work Programme costs - based on a combination of the levy funding requirement and market fees are \$4,886,182. These have decreased 6.6% from FY2020 (\$5,232,336);
- The levy methodology is the same as that used in previous years and is based on the principle of beneficiary pays;
- The retail levy rate is \$5.16/ICP. This is down from \$6.12/ICP in FY2020 (a 15.69% decrease); and
- The wholesale levy is 1.1164c/GJ. This is down from 1.1279c/GJ in FY2020 (a 1.02% decrease).

3.2 Levy funding calculation and trends

The following table provides details of the levy funding calculation:

| Strategic Objective | TWPC | Indicative Market Fees | | Levy Funding Requirement | |
|--|------------------|------------------------|---------|--------------------------|---------|
| | | Wholesale | Retail | Wholesale | Retail |
| Strategic Objective 1 Promote efficient, competitive and confident gas markets | 940,977 | | | 490,945 | 450,032 |
| Strategic Objective 2 Facilitate efficient use of, and investment in, gas infrastructure | 501,173 | | | 501,173 | |
| Strategic Objective 3 Deliver effectively on Gas Industry Co's accountabilities as the gas industry body | 2,937,485 | 899,000 | 537,000 | 705,815 | 795,670 |
| Strategic Objective 4 Develop and communicate the role of gas in meeting New Zealand's energy needs | 506,547 | | | 253,274 | 253,273 |
| TOTAL | 4,886,182 | 1,436,000 | | 3,450,182 | |

The following table shows the actual Levy Funding Requirement for FY2016-20, and the recommended Levy Funding Requirement for FY2021, along with published market fees to FY2020 and the indicative estimate for FY2021.

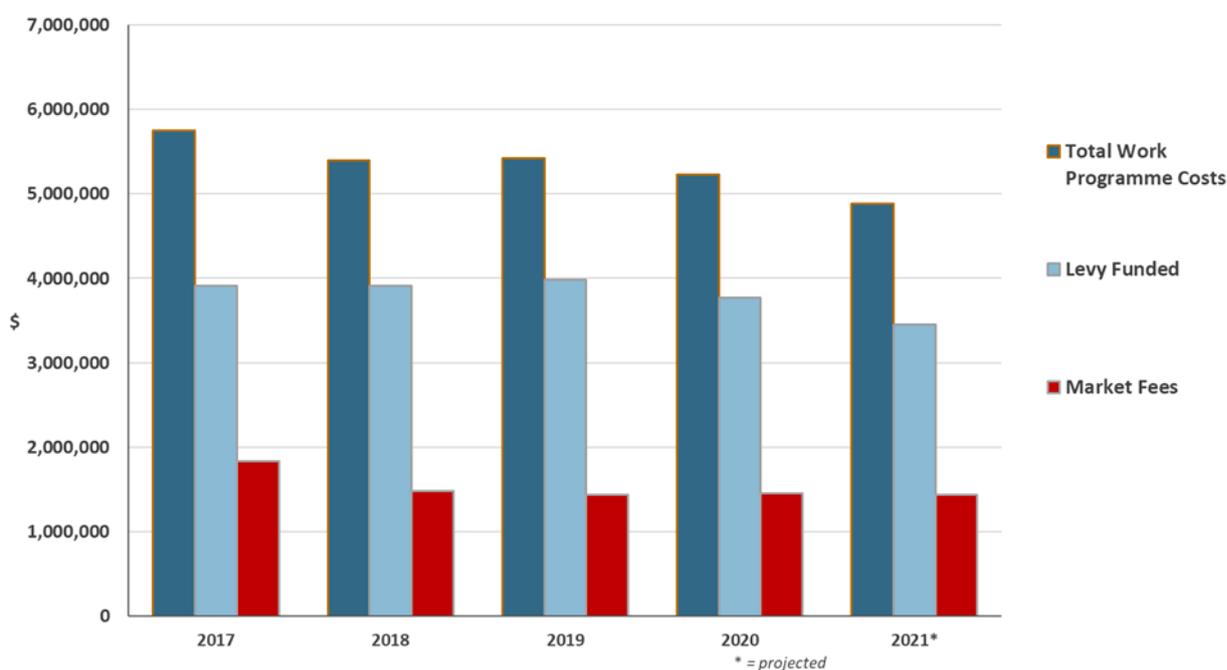
Table 2: Levy Funding Requirement and Market Fees - FY2016-21

| | Levy Funding Requirement | Market Fees |
|--------------|--------------------------|-------------|
| 2016 | 3,916,821 | 1,750,000 |
| 2017 | 3,913,060 | 1,489,000 |
| 2018 | 3,911,481 | 1,482,000 |
| 2019 | 3,982,551 | 1,441,169 |
| 2020 | 3,774,336 | 1,458,000 |
| 2021* | 3,450,182 | 1,436,000 |

1. *recommended levy funding requirement/indicative market fees

Based on the combination of the FY2021 Levy Recommendation and indicative market fees in table 2, Total Work Programme Costs are expected to be \$4,886,182 for FY2021, compared to \$5,232,336 in FY2020.

Chart 1: Total Work Programme Costs



3.3 Proposed levy methodology and rates

Gas Industry Co's existing levy methodology:

1. Is based on a set of Levy Principles. In summary, those Principles are economic efficiency, rationality, simplicity, equity, and revenue sufficiency. The full Principles are available on Gas Industry Co's website.

2. Has two components: a wholesale component and a retail component. These components are apportioned according to the cost allocated to each part of the annual Work Programme and apportioned among levy payers pro rata with either their wholesale levy volumes or ICP market shares. In years when the Work Programme focusses on retail issues, for instance, the retail levy rate will increase while the wholesale levy will decrease.

These arrangements have remained unchanged since 2007.

In summary:

1. The wholesale levy rate has been calculated using an assumption of 175PJ (175,000,000 GJ) of gas consumption during the year (FY2020 180PJ).
2. The retail levy rate is calculated using the current number of ACTIVE-CONTRACTED entries in the gas registry of 290,000 (FY2020 285,000).

This results in the following levy rates:

Table 3: FY2021 Levy rates

| FY2021 Levy rates | | | |
|---------------------------------------|------------------|------------------|------------------|
| | Retail | Wholesale | Total |
| Direct costs | 868,231 | 1,130,169 | 1,998,400 |
| Indirect costs | 630,745 | 821,037 | 1,451,782 |
| Total Levy Funding Requirement | 1,498,976 | 1,951,206 | 3,450,182 |
| Basis of apportionment: | Per ICP | Per GJ | |
| Number | 290,000 | 175,000,000 | |
| Levy rate | \$5.16/ICP | 1.1164c/GJ | |

The impact of the levy on gas consumers is relatively small. Assuming the levy is passed through to end users, residential gas consumers would each pay approximately \$5.45 per annum, or around 0.55% of their annual gas bill. For larger consumers, the amount of levy paid is proportionate to wholesale gas purchases and adds about 0.2% or less to the unit cost of gas. The largest consumers, who together consume much of the gas supply, are active participants in consultation and have raised no objections to the levy rate.

Gas Industry Co has determined that it should refund unutilised levies as soon as the annual accounts have been received by shareholders at the Annual Meeting. This also has some similarity with the wash-up arrangements collected under Market Fees. This policy encourages a predictable and stable levy by removing from the levy calculations any variability resulting from a fluctuating level of reserves.

4. Recommendation

Pursuant to section 43ZZB of the Gas Act 1992, Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2020, totalling \$3,450,182, on the following basis:

1. From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of \$5.16 for each ICP for each retail customer.
2. From every industry participant on the first day of each month, a wholesale levy rate of 1.1164c /GJ based on gas purchases made directly from gas producers during the previous month.

Appendix A Work Programme

4.1 Strategic objective: provide efficient, competitive and confident gas markets

Retail contracts oversight scheme (Retail 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 last full review in 2018 having shown 'substantial' compliance.

Contingent Activities FY2021

1. Review new-entrant retail contracts and/or amended existing contracts as required.
2. Provide additional information to assist new entrant retailers to understand their obligations and governance processes.

Gas distribution contracts oversight scheme (Distribution Scheme)

In 2012, Gas Industry Co established the Distribution Scheme under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. 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 distributors in FY2015 and FY2016 indicated that there had been no material changes to standard terms. Gas Industry Co will undertake a further check with retailers and distributors in FY2020.

Forecast Activities FY2021

1. Consider the findings of checks with retailers and distributors undertaken in FY2020.
2. If required, review the Distribution Scheme, consider any changes or other actions needed, and report.

Retailer insolvency

Following a request from the Minister in 2010, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted Gas Industry Co'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.

As discussed later, Gas Industry Co anticipates that new transmission access arrangements will be implemented during FY2021 and expects that these changes will require minor amendments to the drafting instructions. Beyond this, Gas Industry Co expects no routine activity will be

required in FY2021 other than what is 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).

Forecast activities FY2021

1. Implement the retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency.
2. Make any necessary amendments to the drafting instructions in anticipation of the new transmission access arrangements.

Gas quality

This workstream was originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believed that responsibilities were unclear or not well aligned with liabilities. In FY2015, Gas Industry Co published a *Gas Quality Requirements and Procedures* document aimed at clarifying the legal obligations and industry practices in relation to gas quality. An update of this document was published by Gas Industry Co in October 2019 to reflect the consolidated and improved arrangements the industry has forged into the new Gas Transmission Access Code (GTAC).

For the future, Gas Industry Co understands that First Gas wishes to improve the arrangements in relation to managing gas quality excursions.

Contingent activities FY2021

With a view to achieving better outcomes in relation to the Gas Act objectives, Gas Industry Co will:

1. Stand ready to review operation of the GTAC in relation to gas quality.
2. Continue to encourage further improvements in the notification and management of gas quality excursions.
3. Participate in 2020 review of the gas quality standard, NZS 5442.
4. Update the Gas Quality Requirements and Procedures document as required.

Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

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

Forecast activities FY2021

Downstream Reconciliation

1. Keep the D+1 Pilot Scheme running and continue to implement worthwhile refinements before the introduction of GTAC.
2. After GTAC is implemented continue to run the D+1 Pilot Scheme and work with industry to consider whether the scheme will continue to be required under the new arrangements. If D+1 is still considered to be required begin the process of amending the Downstream Reconciliation Rules (DRRs):
 - (a) develop any required changes to the DRRs and consult;

- (b) after considering submissions and making any further amendments, make a recommendation to the Minister to amend the Downstream Reconciliation Rules; and
- (c) subject to Ministerial approval, develop, test and implement the supporting systems.

Critical Contingency Management (CCM)

1. It is expected that during FY2020 Gas Industry Co will make a recommendation to the Minister to amend the Critical Contingency Management Regulations as a result of the Critical Contingency Management Review being undertaken this financial year.
2. Subject to Ministerial approval, during FY2021 Gas industry Co will be working to implement the recommended changes.

Switching and Registry (SW)

1. It is expected that during FY2020 Gas Industry Co will be working with industry to assess the effectiveness of the SW Rules to support an anticipated gas advanced meter roll-out (discussed further below under 'Advanced gas metering'). This assessment may resolve that changes to the SW Rules are required and the work for this would begin to take place during FY2021.

Electricity price review

The Electricity Price Review (EPR) identified 32 recommendations for the electricity industry. The Government has accepted the majority of those recommendations. Some of the recommendations relate to electricity industry arrangements and practices that also exist in the gas industry. Therefore, Gas Industry Co considers that it is appropriate for it consider whether those recommendations should result in changes to existing gas governance arrangements, or the introduction of new arrangements.

This workstream will involve:

1. Reviewing the recommendations for the electricity sector in the Electricity Price Review to identify recommendations that are relevant for the gas industry.
2. Liaising with the Electricity Authority and other government agencies to understand their approach/response to the recommendations in the Electricity Price Review.
3. Considering whether any existing gas governance arrangements should be amended or whether new gas governance arrangements should be introduced, including an assessment of the extent to which changes can be made under the empowering provisions in the Gas Act.
4. Consulting on any proposed changes to gas governance arrangements and making recommendations to the Minister of Energy and Resources where appropriate.

Advanced gas metering

A technical advisory group was established in FY2018 with the objective of developing a minimum voluntary standard for advanced gas metering. The group's work was paused as further information on the capabilities of devices likely to be deployed by meter owners was uncertain. However, recently it has been announced that there is going to be an advanced meter roll out to Genesis's gas customers, starting FY2021. Work is commencing now to consider what changes might be required to the industry systems and rules to support this roll-out. Gas Industry Co will also be assessing whether there is still merit in producing a standard. The work required for FY2021 will be to build on the work taking place during FY2020 and

working closely with industry during the roll-out to ensure industry systems and rules are appropriate for advanced metering.

Forecast activities FY2021

1. Produce an advanced metering standards document if required.
2. Work with industry to ensure industry systems and rules are appropriate for gas advanced metering.

Gas supply/demand

Gas Industry Co first published a study on long-term gas supply and demand scenarios in 2012. It is clear that the contribution of the report is significant, and it has been updated biennially since then. Activities for FY2021 will include publishing the next update and working with industry to communicate its findings.

In addition to this long-term report, Gas Industry Co intends to begin developing reports that have a shorter-term focus to reflect the increased interest on the short-term supply of gas to meet energy needs. During FY2020 Gas Industry Co intends to begin producing a report that investigates the relationship between short-term gas supply and electricity security of supply. This work will continue into FY2021.

Forecast activities FY2021

1. Review and update the long-term supply and demand study and communicate its findings.
2. Continue work on a short-term gas supply and electricity security of supply report.

Wholesale market

The emsTradepoint Wholesale Market (eTp) has now been in operation for over four years and has increased in both membership and volume over that time. Gas Industry Co notes that the GPS seeks an outcome of "Efficient arrangements for the short-term trading of gas" and eTp makes a transparent contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date.

Gas Industry Co intends to continue to monitor activity and developments in the Wholesale Market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

Forecast activities FY2021

1. Monitor Wholesale Market activity and developments.
2. Ensure that market information is provided to Gas Industry Co in a timely fashion to support this monitoring.

Information disclosure

Concerns have been expressed by some market participants regarding asymmetric access to information, particularly information regarding upstream outages (both planned and unplanned). This issue was given a great deal of consideration during the work on developing the GTAC, but no resolution was reached among stakeholders. In parallel, the Minister of Energy and Resources wrote to Gas Industry Co in 2018 expressing concern with the lack of transparency regarding upstream activities and asking whether the Gas Act provides the necessary tools to address this issue.

In response to these concerns Gas Industry Co commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found. By the end of FY2020 Gas Industry Co will have analysed submissions on its most recent problem assessment paper and will begin consultation on a statement of proposal. It is Gas Industry Co's intention that this statement of proposal will put forward options for dealing with any issues highlighted during the problem assessment consultation. Work required during FY2021 will be to continue the statement of proposal process and on its completion begin the work required to deliver its proposed solutions. This work will likely require continuing to work with industry to deliver industry-led solutions or recommending regulation to the Minister (or a combination of both).

Forecast activities FY2021

1. Continue the statement of proposal process begun in FY2020.
2. If the statement of proposal work indicates a non-regulated solution is feasible, continue work to implement that solution.
3. Alternatively, or as well as, if the statement of proposal work indicates that a non-regulated solution is not feasible, make a recommendation to the Minister and subject to Ministerial approval implement a regulated solution.

Hydrogen

In September 2019, the New Zealand Government published a green paper that lays out their vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed via the gas network. In addition to this paper, First Gas have received a grant to support a trial that will investigate how hydrogen could be distributed through their gas pipelines. Gas Industry Co intends to monitor the progress of any work undertaken by industry that investigates the potential use of hydrogen in both transmission and distribution pipelines. Gas Industry Co also intends to review arrangements in other international jurisdictions to ensure, if required, that the rules and regulations are able to support the inclusion of hydrogen.

Forecast activities FY2021

1. Monitor any work undertaken in relation to hydrogen being used in gas pipelines.
2. Review arrangements in other international jurisdictions in preparation for the updating of any rules and regulations, if required.
3. If required, update any rules and regulations needed to support hydrogen.

4.2 Strategic objective: facilitate efficient use of, and investment in, gas infrastructure

Gas transmission access

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

The past few years have seen intense activity from First Gas and industry stakeholders towards developing a single gas transmission access code, the GTAC. Gas Industry Co completed its assessment of the GTAC in February 2019 (assessing it as materially better than existing arrangements). Since then, Gas Industry Co's activity on this workstream has reduced

considerably. However, once the code is implemented, work will be required to monitor these new arrangements to ensure they are performing as expected. It is expected that the new arrangements will be implemented during FY2021.

Forecast Activities FY2021

1. Provide support for the effective implementation of the GTAC.
2. Monitor transmission arrangements to ensure they are performing as expected.

Transmission pipeline balancing

Gas Industry Co expected the new GTAC balancing arrangements to be in place in FY2021. Once there is sufficient experience of those GTAC balancing arrangements it may be necessary to re-assess the effectiveness of the balancing arrangements.

Forecast activities FY2021

1. Monitor new balancing arrangements.
2. Work with stakeholders on balancing-related matters.

Transmission code changes

Gas Industry Co has a role in approving GTAC change requests on an 'as required' basis. Gas Industry Co has published a document outlining how it would perform its GTAC change role. There has been early indication that Gas Industry Co should expect a code change request under GTAC soon after its implementation in FY2021 to address minor issues that have been discovered during the implementation phase.

Forecast activities FY2021

1. Perform agreed role(s) in relation to proposed code changes.

Transmission pipeline interconnection

First Gas has reviewed and unified and transmission pipeline interconnection arrangements as part of the GTAC development. This includes developing an Interconnection Policy explaining how First Gas will facilitate new interconnections and setting out key terms of interconnection.

Gas Industry Co is reviewing how these new arrangements compare to the Interconnection Guidelines that set out its view of good practice in relation to policies and procedures for connecting to transmission pipelines, and expects to complete this review by the end of FY2020. Subject to its conclusions, it should be sufficient for Gas Industry Co to monitor future interconnections at a high level and expect that any issues will be brought to its attention.

Contingent activities FY2021

1. Review interconnections as required.
2. Address any concerns regarding reasonable access.
3. Amend the *Guidelines* as required.

Gas transmission security and reliability

The introduction of information disclosure requirements in 2012, as an element of a price-quality regime administered by the Commerce Commission under the Commerce Act, greatly improved the transparency of pipeline security and reliability (S&R). In particular, the owners of open

access transmission pipelines were required to publish their Asset Management Plans (AMPs). However, stakeholders found the disclosed information difficult to understand, and concerns about transmission pipeline S&R remained. This prompted Gas Industry Co to review the factors influencing S&R and assess their adequacy. Gas Industry Co's findings were published in the 2016 Security and Reliability Issues Paper and followed in 2017 by a Security and Reliability Update Paper.

First Gas has since worked with stakeholders to develop the GTAC and revitalise associated business practices, systems and documentation of the previous pipeline owners. This has included adopting many of the recommendations in Gas Industry Co's S&R reports. Two recent reviews by AECOM¹, commissioned by the Commerce Commission, give added confidence in the S&R improvements First Gas has introduced.

Nonetheless, given the safety, financial and reputational importance of S&R Gas Industry Co will maintain a watching brief on S&R matters.

Contingent activity FY2021

1. Monitor asset management plans for gas transmission and report on any significant matters as required.

Gas supply efficiency review

A question has been raised by industry as to whether there is a benefit in understanding if any efficiency gains could be made, in the end-to-end process of supplying gas, that would result in a reduction of emissions. Gas Industry Co intends to work with industry during FY2020 to gain an understanding as to whether this review would be beneficial. If it is found that it would be useful, then work will be undertaken in FY2021 to commission such a review.

Forecast activity FY2021

1. If work during FY2020 finds that a gas supply efficiency review would be useful then it is intended that Gas Industry Co would commission a report.

4.3 Strategic objective: deliver effectively on Gas Industry Co's accountabilities as the gas industry body

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

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'. Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and fulfil its duties under the Reconciliation Rules. Gas Industry Co monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This

¹ AECOM's 17 September 2019 report, *Geotechnical Risk Management Review – First Gas Transmission Pipelines*, concluded that First Gas has good, well documented processes in place to identify geohazards and evaluate/manage the risks associated with them. AECOM's 4 October 2019 report, *Risk Management Review of Gas Pipeline Businesses*, looked at the four distribution pipeline businesses as well as the gas transmission business. In relation to the transmission business the report suggests that First Gas is approaching the best level of risk management.

work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and the Allocation Agent.

The Reconciliation Rules have been instrumental in reducing the level of unaccounted for gas (UFG) at the final allocation stage. This is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date.

Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of \$5 million per annum.

Forecast activities FY2021

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

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to continue the pilot scheme for D+1 allocations throughout the duration of FY2021. The D+1 project is discussed above under the 'Regulation and rule changes' section.

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.

The introduction of the Switching Rules tripled the rate of switching. In recent years, switching has stabilised to between 3,500 and 4,000 per month (in comparison to the 1,000 or so switches prior to the Switching Rules). Over the past few years Gas Industry Co, in conjunction with the Electricity Authority, has provided modest support to Powerswitch to ensure the continued existence of an independent, credible source of information for consumers.

Amendments made to the Switching Rules in September 2015 introduced the requirement for the industry body to arrange performance audits of registry participants. Baseline audits of retailers and distributors have now been completed.

Forecast activities FY2021

1. Monitor Gas Registry Operator.
2. Assess the ongoing performance of the Switching Rules.
3. Monitor and report on switching statistics.
4. Make determinations under the Switching Rules as required.
5. Commission performance and event audits as required.
6. Continue to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining.

7. Follow up on any issues identified in the switching audits.

As discussed above under 'Regulation and rule changes' there is also a planned gas advanced meter roll-out for FY2021 that may trigger changes to the Switching Rules.

Critical contingency management

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

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

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

Forecast activities for FY2021

1. Monitor CCO.
2. Assess ongoing performance of the CCM Regulations.
3. Appoint/monitor experts as required.
4. Monitor exercises and events as required.
5. Administer contingency pool as required.
6. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing and electricity supply as required.

As outlined above in the 'Regulation and rule changes' section, Gas Industry Co also intends to implement the outcomes of the FY2020 review of the CCM Regulations.

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 Reports 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 FY2021

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

Statement of intent and annual report

The Gas Act requires that the industry body provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent are required to be submitted to the Minister for comment prior to being finalised and published.

[Annual Reports](#) and [Statements of Intent](#) can be found on Gas Industry Co's website.

Forecast activities FY2021

1. Prepare and publish the SOI to meet statutory timeframes. Provide the draft SOI to the Minister for comment prior to publication.
2. Prepare and publish the Annual Report and meet requirements for tabling in Parliament.

4.4 Strategic objective: develop and communicate the role of gas in meeting NZ's energy needs

New Zealand gas story

During FY2013, Gas Industry Co published the first *New Zealand Gas Story*. The most recent edition was published in December 2017. A new edition, with a refreshed format, is expected to be published in FY2021. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the role of gas on its website, in its annual and quarterly reports, and presentations to various stakeholder groups.

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

Other reporting

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through a number of publications, including Quarterly Reports, Switching Statistics and Industry Performance Measures.

Gas Industry Co has previously commissioned reports focussing on particular aspects of the industry, and further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

Forecast activities FY2021

1. Continue to prepare and publish Quarterly Reports, Switching Statistics and Industry Performance Measures.
2. Maintain the New Zealand Gas Story online as new information comes to hand.

3. Continue seminars and other communications for interested stakeholders.
4. Commission occasional reports and update existing reports as required.

Appendix B Key Industry Background

Key industry background is:

1. Gas is a key contributor to New Zealand, at around 19.5% of primary energy supply. In the past decade, the gas industry in New Zealand has undergone substantial change, transitioning from reliance on the large Maui field, to drawing supplies from multiple smaller fields.
2. Gas is an important fuel for industrial, commercial, and residential consumers. In 2009, there were about 250,000 gas consumers; today, there are over 290,000.
3. Gas Industry Co has developed a mix of formal rules and regulations (e.g. critical contingency management, reconciliation, switching) and non-regulated arrangements (e.g. retail contracts, distribution contracts) that are well-advanced in meeting the legislative and policy objectives and outcomes that the Government expects the industry to achieve.
4. These arrangements have contributed to the development of a healthy downstream gas market. Key indicators include:
 - (a) With three new retailers in 2019, there are now 14 distinct retail gas brands.
 - (b) Over 99% of gas customers are connected to a network where seven or more retailers trade, suggesting that the retail gas sector is generally competitive throughout the North Island.
 - (c) Market concentration, as measured by the Herfindahl-Herschman Index, has decreased significantly in all regions since the commencement of the formal switching regime in 2009, as new retailers have increased market share and incumbent retailers' share has declined.
 - (d) About 3,700 gas consumers switch gas supplier each month, which translates to an annual churn of about 15.5% of gas consumers. In 2019, over 70% of consumer switches are completed within three business days; 97% are completed within 7 business days.
 - (e) 68% of residential consumers have switched retailer at least once in the past ten years; 69% of small commercial, 77% of large commercial sites, and 59% of large industrial sites have switched at least once.
 - (f) Average annual unaccounted-for gas (UFG) over the past year stands at about 0.8% (compared with about 2% in 2009).

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

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