

Analysis of Submissions on Consultation: Gas Industry Co FY2021 Work Programme and Levy

Background

In December 2019, Gas Industry Co released its *Consultation on Gas Industry Co FY2021 Work Programme and Levy (Consultation Paper)* in respect of the proposed strategy, work programme and levy for FY2021. This ensures we continue to have a programme that is the product of robust industry consultation. The *Consultation Paper* was prepared after taking into consideration feedback received at the Co-regulatory Forum held at Gas Industry Co's offices on 29 November 2019. Industry submissions were requested by 10 February 2020.

This document summarises submissions received, including providing comments in response from Gas Industry Co where appropriate.

Parties submitting

Nova Energy Limited (Nova)

Mercury NZ Limited (Mercury)

emsTradepoint Limited (emsTradepoint)

Trustpower Limited (Trustpower)

Transpower New Zealand Limited (Transpower)

Contact Energy Limited (Contact)

First Gas Limited (Firstgas)

Vector Limited (Vector)

Major Gas Users Group (MGUG)

Powerco Limited (Powerco)

Q1: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?

Submitter	Comment	Gas Industry Co Response
Nova	<p>In the context of the Government's climate change initiatives, the gas industry faces significant challenges to the public's perception of the value and contribution of gas to the NZ economy. The GIC has an important role in helping develop government policy. Nova would therefore like to see the GIC actively working with government agencies to ensure that New Zealand fully realises the potential of its gas resources.</p> <p>The GIC therefore needs to ensure it has the resources to provide constructive input on energy policy issues and when necessary, challenge government thinking. Nova is happy with the planning process so long as the GIC is confident it has the resources required to meet this expectation.</p>	<p>GIC agrees with Nova's comments that the gas industry is facing significant challenges to the public's perception of the value and contribution of gas to the NZ economy.</p> <p>GIC, as the regulatory body, provides advice/recommendations to inform Government policy, however, we are not responsible for the development of Government policy. GIC does, however, provide constructive input on gas issues where appropriate (eg through the Council of Energy Regulators and regular meetings with both the Minister and MBIE), and provides information such as the biannual Gas Supply and Demand study to inform. GIC also seeks to facilitate communication between industry and Government. However, it is not within GIC's ambit to promote the use of gas. Rather GIC's role (as set out in the Act and GPS) is to ensure that <i>when</i> gas is delivered it is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.</p> <p>GIC is confident we have or can access resources within this budget to deliver on continuing to provide constructive input to energy policy issues.</p>
Mercury	Mercury appreciates the clear process for developing the work programme and levy.	
emsTradeport	emsTradeport (eTp) engaged in the annual Coregulatory Forum in 2019 and supports the overall process for developing the work programme.	
Trustpower	Trustpower appreciates the opportunity to submit on the [GIC's] Consultation Paper. We also appreciate the GIC continuing to hold the Co-regulatory Forum to discuss the matters covered by the Consultation Paper directly with interested parties. This ongoing discussion provides participants a valuable opportunity to develop a reasonable understanding of the GIC's work programme and associated costs. We encourage the GIC to continue organising these forums in future years as part of its broader consultation process.	
Transpower	No comment.	
Contact	We support the GIC's proactive approach to consulting on its advanced work programme.	
Firstgas	We support the GIC's work programme and levy and appreciate the transparent nature that they have set out their plans for the 2021 year.	
Vector	Vector is generally satisfied with the process for developing Gas Industry Co's Work Programme and Levy, which has been tested and refined over the past years.	

Q1: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?

<p>MGUG</p>	<p>The GPS explicitly acknowledges the critical role of gas in achieving the Government's objective of maintaining security of energy supply as the country makes the transition to a sustainable energy future. We think therefore that the GIC has a role and mandate to set out clear strategies for promoting gas at competitive prices as the country makes that transition.</p> <p>The intention and/or reasoning behind some elements of the proposed programme are not immediately clear when set against a wider strategy for gas that would explain their significance. This creates a lack of clarity, which is reinforced by whether an activity is considered Contingent or Forecast. For example Gas Quality refers to GIC participating in a 2020 review of the gas quality standard NZS 5442. Gas quality is relevant for potential new energy technologies entering the transmission system but that is not made explicit in describing the workstream.</p> <p>By setting clear strategies for promoting gas this can then explain the significance of elements that would be combined in a specific work programme. This approach would also allow some contingent work to be made more firm as it dictated. This would be a useful approach to being more pro-active for the future of gas that could include hydrogen, biomethane and potentially LNG import.</p> <p>A similar comment applies to review of the Critical Contingency Management Regulations where it is stated a Review is being undertaken. More specific detail around what is proposed in the context of GIC's process for changes to regulations/rules etc would be useful.</p>	<p>See comments above in relation to GIC's role. We do not believe that it is part of our role to set out clear strategies for promoting gas at competitive prices as the country makes the transition to a sustainable energy future. GIC does however seek to provide balanced information into various government agencies' consideration of climate change policies.</p> <p>The Critical Contingency Management Regulations review document is awaiting confirmation of the final drafting of the proposed Gas Act changes. Once we are able to publish this document detailed information will be available.</p>
<p>Powerco</p>	<p>Two suggestions:</p> <ol style="list-style-type: none"> 1. Consider engagement with consumer stakeholder groups to inform the discussion of the proposed work programme at the November co-regulatory forum 2. Consider including in the consultation paper: <ul style="list-style-type: none"> • A summary of stakeholder comments/questions from the November co-regulatory forum • The GIC's response 	<p>Noted – we will consider these suggestions for the co-regulatory forum to be held in November this year.</p>

Q2: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2021? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

Submitter	Comment	Gas Industry Co Response
Nova	<p>The work on the Long Term Gas Supply and Demand Scenarios provides a useful perspective on gas supply and demand given current government policies. As per the comment above, and as a follow-up to that work, perhaps a piece of work could be commissioned mapping out government policies that could be adopted to maximise the net benefits of gas to New Zealand over the long term; for instance, how more might be done to displace coal usage.</p>	<p>GIC is considering the appropriate focus of further Demand and Supply work and the potential to expand the work in the 2019 Demand and Supply study outlining the emissions benefits, volume and pricing substitution between gas and coal. We will note Nova's suggestions in the context of our co-regulatory role.</p>
Mercury	<p>Mercury supports the GIC's work programme as described. Mercury particularly supports the ongoing work on information disclosure and reiterates the importance of that workstream not only for the gas sector but also the wider New Zealand energy sector.</p> <p>While Mercury would urge the GIC to not divert too many resources into a hydrogen workstream, we agree there is a need to ensure preparedness in New Zealand from a regulatory perspective if it becomes a viable and widespread fuel. As the Government's 2019 Green Paper on hydrogen notes, electrification of transport and process heat will be the most cost-effective and readily implemented ways to reduce New Zealand's domestic carbon emissions. To the extent the hydrogen market develops in New Zealand this could also result in exportation so the GIC could consider whether that would have any Gas Act implications.</p>	<p>Noted, GIC will continue to monitor and address opportunities and issues which arise from integration of hydrogen into the NZ energy framework.</p>
emsTradepoint	<p>eTp does not consider any additional items for inclusion in the intended Work Programme. eTp have submitted on all rounds of the Information Disclosure process to date and restate our position on the importance of a process for Information Disclosure to be expedited with urgency given the thorough analysis GIC has already undertaken around the issues.</p>	
Trustpower	<p>Trustpower is generally supportive of the GIC's proposed work programme for FY2021 and LFR, as presented in the Consultation Paper.</p> <p>We appreciate the level of detailed information on each aspect of the GIC's work programme that has been provided in the Consultation Paper, including the specific resourcing requirements, forecast/contingent activities and a link between the workstream to the strategic objectives of the GIC.</p>	

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This detail will assist interested parties to obtain a good understanding of how the associated costs are to be applied and whether the various components which make up those costs are reasonable, appropriate relative to other choices, or required at all.

Information disclosure in the New Zealand gas market

Trustpower is unchanged in its view that transparency of information has significant benefits in ensuring a competitive and efficient gas market through enabling more efficient decision making and reducing information asymmetries.

Information transparency as it is an integral part of achieving all the Gas Act 1992 (the Act) and Government Policy Statement on Gas Governance 2008 (GPS) objectives. It can also facilitate the monitoring of competition in the gas market, along with identifying any incidents of potential market power abuse.

In our 2019 submission to the GIC on its Information disclosure: problem assessment consultation paper (Information Disclosure Paper), Trustpower affirmed:

“...wholesale gas market information asymmetries can only be satisfactorily achieved through a well-designed information disclosure regulatory regime that covers downstream and upstream information. A voluntary arrangement or industry agreement for information disclosure will not achieve the desired market improvements...”

As outlined in our submission on the Information Disclosure Paper, Trustpower believes that there are additional elements that should be considered when determining the scope of regulated information transparency.

These additional elements include:

- a) major gas user's facility outages;
- b) forecasts of major gas user's consumption; and
- c) the quantity of stored gas and the amount of available storage capacity in the Ahuroa storage facility.

Trustpower maintains the view that, without regulated requirements for notifying the market of gas production and storage outages (and other similarly significant circumstances), there is no guarantee that this information will always be made available to the market in a timely manner.

Electricity Price Review recommendations

GIC notes Trustpower's submission on Information Disclosure which will be considered as part of our review of submission on the problem assessment paper.

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	<p>We wish to commend the GIC on its proactive approach regarding the recommendations of the EPR.</p> <p>Even though the EPR primarily focussed on electricity, Trustpower agrees that there are interconnections and congruences between the gas and electricity industries in New Zealand.</p> <p>It is noted that the GIC recognise this inherent link and have actively taken steps in considering whether the recommendations of the EPR and the Government should result in the introduction of, or changes to, gas governance arrangements.</p> <p>One aspect of the GIC's approach to its EPR workstream that Trustpower fully supports is its intent to liaise with the Electricity Authority (the Authority) and other government agencies regarding their approach to responding to the relevant EPR recommendations.</p> <p>In conjunction with many of its other submissions, Trustpower supports unified thinking between regulators, Government, and other agencies. We commend the GIC on "frontfooting" this initiative.</p> <p>We look forward to seeing the results of the EPR workstream and the GIC's approach to realising the Government's ambition to reduce energy hardship in New Zealand.</p>	
Transpower	<p>As we submitted in December 2019, "in our view the development of the disclosure regime for production and storage outages should now be expedited to support confidence in New Zealand's overall energy security."</p> <p>We urge the GIC to publish a timeline to the outages information disclosure regime taking effect. We remain available to provide any assistance GIC may need during the design phase.</p>	The next step in the Information Disclosure workstream is an assessment of options for disclosure of information. This should be completed by mid-year. The timeline after this work will depend on the options selected.
Contact	No. The work programme is comprehensive. The proposal to increase reporting focus on short term gas supply is timely.	
Firstgas	As noted in the letter above, Firstgas would strongly encourage the GIC to introduce a renewable gas workstream that considers the impact of biogas and hydrogen on gas specifications.	We will consider this further (alongside the work on Hydrogen included in the work programme) but stand ready to allocate resources if required at short notice.
Vector	<p>Gas Downstream Reconciliation Rules</p> <p>As part of any review of the Gas (Downstream Reconciliation) Rules 2008, we suggest that a review of the thresholds between Allocation Group 1 and Allocation Group 2 customers be prioritised to facilitate the introduction of a requirement on all time-of-use</p>	This suggestion has been discussed at both GTAC and DAWG workshops and is being considered along

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meters to be on telemetry. We consider a phased approach to be appropriate with, say, a requirement on all loads >50TJ to be on telemetry within the first year. Based on previous industry discussions, retailers have generally agreed to this threshold change. The above change will contribute to the delivery of more accurate and timely gas consumption information, improving market efficiency and reducing transaction costs for market participants and consumers.

Gas Switching Rules

We suggest that Gas Industry Co consider the implications of the Electricity Authority's proposal to prohibit 'saves and win-backs', following the recent recommendation of the Electricity Price Review Panel, on the Gas (Switching Arrangements) Rules 2008. Alignment of the two regimes would be a desirable outcome, delivering efficiency gains for both the gas and electricity markets, including lowering transaction costs for dual-fuel providers.

Advanced gas metering

In light of the impending deployment of advanced gas meters by Vector Metering to Genesis Energy customers, we suggest that Gas Industry Co consider the following aspects of this new type of technology/service, among others:

- a) development of the appropriate provisions relating to advanced metering in the Gas Downstream Reconciliation Rules (e.g. reporting requirements), the Gas Switching Rules (e.g. any additional information that needs to be captured in the Gas Registry), and other relevant rules for the gas sector; and
- b) discussions with industry participants on any necessary updates to Gas Industry Co's Gas Quality Requirements and Procedures Document and Gas Measurement Requirements and Procedures Document to reflect this new form of metering.

Hydrogen

Vector is on record as supporting the enactment of the Climate Change Response (Zero Carbon) Amendment Act 2019 as a way of providing businesses and consumers certainty around New Zealand's pathway to a low emissions future. As a leading technology solutions company with a vision of creating a new energy future, Vector is well placed to promote and enable solutions that use renewable energy.

We therefore welcome Gas Industry Co's intention to:

with the regulatory changes that will be required if D+1 continues. There appears to be widespread support from the industry for this.

Noted. We will consider this when looking at the impact of the introduction of gas smart meters on the Switching Rules.

Noted. This work is underway. GIC thanks Vector for their openness in sharing their planned roll out with Genesis in the workshop in late December.

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	<ul style="list-style-type: none"> a) monitor any work undertaken in relation to hydrogen being used in gas pipelines; b) review arrangements in other international jurisdictions in preparation for updating any rules and regulations (which we assume would cover health and safety, among other aspects); and c) update any rules and regulations needed to support hydrogen (which we suggest Gas Industry Co undertake in conjunction with other relevant regulators). <p>Timing of public consultation</p> <p>In the interest of transparency, we suggest that Gas Industry Co ensure that all interested parties have sufficient, and the same amount of, time to respond to public consultations (e.g. at least four to six weeks for major issues).</p> <p>We do not have any issues with the use of targeted consultations, particularly where these facilitate free and frank discussions with the relevant participants, e.g. consulting with selected industry participants on Concept Consulting’s draft Long Term Gas Supply and Demand Scenarios – 2019 Update.</p> <p>However, once a document is released for public consultation, it should be made on the assumption that other prospective submitters may be as interested as the parties already consulted, and therefore should have a similar opportunity (i.e. the same amount of time) to provide comments. This is becoming more relevant with the entry of new (non-traditional) service providers that are contributing to the expansion of, and creation of new, energy markets.</p>	<p>Noted – we will ensure that going forward all prospective submitters have the same amount of time to provide comments on matters being consulted on.</p>
<p>MGUG</p>	<p>We support the elements in the work programme regarding updating the Gas Supply/Demand scenarios. In particular we think given the current uncertainties around supply (including deliverability), more frequent and focussed review would be helpful. GIC developing reports that have a shorter-term focus is a good initiative (page 8). Now that GIC has a gas outage notification process GIC could usefully create a way to show, six monthly for example, a view of gas supply deliverability based on the outage noticed.</p> <p>More frequent focus would be for the benefit of the wider gas market as well, not just for the impact of gas supply on electricity security. At a time where supply looks to be seriously constrained MGUG would support GIC taking a more active role in monitoring the wholesale market to ensure that it is working efficiently, and that outcomes in a</p>	<p>GIC already actively monitors the emsTradeport market and attends their regular operational working group meetings. We are also working towards publishing gas supply and major user demand information (collated from public sources). Consistent with our Gas Act objectives, GIC engages with current and emerging market participants to ensure that we are well across issues associated with market efficiencies.</p>

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	<p>constrained market do not lead to any distortion in pricing that undermines confidence in the market.</p> <p>We also believe that GIC's work stream for Information Disclosure should consider the impact of other legislation, specifically the Crown Mineral Act (CMA), in providing greater information symmetry between producers and consumers on future gas supply. As the workstream has developed GIC has assured that this issue would be dealt with by MBIE, with GIC acting as a further advocate on behalf of the gas industry to ensure the concerns around asymmetry are made clear in the context of the gas market and the Gas Policy statement. We consider the role of other legislation (specifically the impact of review of the CMA on information disclosure) should be pursued by GIC with MBIE. This could be considered as part of the Information Disclosure workstream although we think it would be more effective for GIC to adopt an approach similar to what it has proposed for responding to the Electricity Price Review, where it would liaise with MBIE as the responsible agency for the CMA.</p>	<p>We will consider this further, however the CMA (and the review of the CMA) is not within GIC's ambit, and our strong preference is for this to be dealt with by MBIE. Our current understanding is that the parts of the CMA that relate to information disclosure are not affected by the review.</p>
Powerco	<p>Rather the 'what' (questions 2 and 3) we have some comments about the 'how'.</p> <p>There are several projects which will benefit from input from gas industry participants eg Electricity Price Review response and short-term security of supply. More clarity about the GIC's intended approach for progressing projects (including formal/informal engagement with consumers and stakeholders) would be helpful.</p> <p>More generally, a high level calendar containing priority projects and indicative timing (eg the quarter) would assist stakeholders to plan if they want to contribute.</p>	<p>Noted – we will consider these suggestions when developing the FY2022 work programme, including the consultation process.</p>

Q3: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2021? Please provide reasons for your response.

Submitter	Comment	Gas Industry Co Response
Nova	No.	
Mercury	See comment at Q2 above.	
emsTradepoint	eTp believes the intended work programme is thorough and includes the full breadth of the GIC's obligations including BAU, ongoing reporting and new workstreams. eTp	

	supports GIC's prioritisation of ongoing projects and their importance to stakeholders, specifically Information Disclosure.	Noted.	
Trustpower	No comment.		
Transpower	No comment.		
Contact	No. However, the GIC should continually assess its work programme to ensure all activity is necessary, delivers clear benefit, and is consistent with outcomes sought under the Gas Act and Government Policy Statement on Gas Governance.		
Firstgas	No.		
Vector	We do not propose the removal of any items from Gas Industry Co's proposed Work Programme for FY2021. We would like to see Gas Industry Co prioritise initiatives that would ensure the smooth transition to the new Gas Transmission Access Code arrangements, and the necessary changes to the Gas Downstream Reconciliation Rules to cater for advanced gas metering.		Noted.
MGUG	No.		
Powerco	See comments under question 2 above.		

Q4: Gas Industry Co is 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?

Submitter	Comment	Gas Industry Co Response
Nova	Nova believes that the GIC's estimate of gas volumes for FY2020 is reasonable.	
Mercury	We have no information to suggest the gas volumes ought to be materially different from those forecast in the paper.	
emsTradepoint	No comment.	
Trustpower	No comment.	
Transpower	No comment.	
Contact	No comment.	

Firstgas	We consider the estimate to be reasonable.	
Vector	We consider the forecast gas volumes to be reasonable for levy-setting purposes for FY2021.	
MGUG	These seem reasonable and are consistent with MBIE projections.	
Powerco	No comment.	

Q5: Do you have any comment on the proposed levy rates for FY2021?

Submitter	Comment	Gas Industry Co Response
Nova	Nova is okay with the proposed levy.	
Mercury	Mercury welcomes a levy reduction for the upcoming year.	
emsTradePoint	No.	
Trustpower	<p>Energy hardship has become, and will continue to be, a strong focus of the New Zealand Government. Given the continued pressure on the entire industry to reduce costs to end customers, we maintain that the GIC should continue to seek cost reductions wherever possible.</p> <p>Trustpower believes that, to assist retailers in keeping costs for consumers to a minimum and aligning with the Government's intended direction in the energy industry, the GIC should maintain its specific focus on delivering efficiency and value for money.</p> <p>Trustpower supports the GIC in not budgeting for general contingency amounts in order to keep the levy at a reasonable level. Accordingly, it is pleased to see that the LFR for the 2021 financial year is almost \$680,000 less than the prior year.</p>	
Transpower	No.	
Contact	Proposed levy rates appear reasonable.	
Firstgas	Firstgas considers the levy to be fair and appropriate for the work programme set out.	
Vector	We welcome Gas Industry Co's proposed wholesale and retail levy rates for FY2021 which represent reductions of 1.02% and 15.69%, respectively, over the FY2020 levy rates.	
MGUG	A key part of the levy setting process over recent years has been maintaining downwards pressure on cost. This is appropriate but should be subjected to review.	

Q5: Do you have any comment on the proposed levy rates for FY2021?

	<p>We believe GIC should take a more proactive approach in promoting gas when it develops its work programme and levy. We recognise that to be an effective champion may require increased resources to develop the programme. We note that GIC has lost a significant element of experience in staff changes over the last 12 months. We'd argue that the GIC should be mindful that its resource capability as regulator is not compromised, and that it has an appropriate level of experience within the organisation to ensure that its capability remains adequate for its role.</p>	<p>GIC is confident that we have sufficient resources/expertise to deliver our work programme.</p>
Powerco	<p>We support the GIC's approach.</p>	