Gas Industry Co

# QUARTERLY REPORT

**Quarter ended 31 December 2012**

## FROM THE CHIEF EXECUTIVE

Gas Industry Co finished 2012 with a small but significant burst of publications, as a number of important workstreams reached the stage of needing stakeholder input. The ongoing success of the co-regulatory model we operate continues to rely on this input. As this review of the last quarter of 2012 evidences, we continue to receive and appreciate industry investment in that regard.

In addition, two key pieces of work commissioned by Gas Industry Co reached fruition in the final quarter of the year. The *Consumer Energy Options Report* provides an updated view of gas in the broader highly competitive consumer energy market. The final report on the gas supply and demand position in New Zealand - *Gas Supply and Demand Scenarios 2012 – 2027* - gives us the first and best picture of the supply/demand for the next 15 years. Crucial for Gas Industry Co has been the industry and government/regulator support for both pieces of work, and the resulting value they can deliver.

As we kick off calendar year 2013, we acknowledge the demands that this programme of work places on market participants. At times Gas Industry Co is challenged to move faster on issues, while at other times (including late last year) we get pleas to slow down. We aim to strike the right balance in this regard, and welcome direct discussions on managing workloads.

It's going to be another challenging year, but one that will certainly be productive. Gas Industry Co, working closely with industry participants, will be looking to finalise new critical contingency management arrangements; reach a landing on processes for managing potential retailer insolvency; recommend amendments to the Reconciliation Rules, advise the Minister on whether there is any need for ongoing regulation of gas processing facility access, and implement the Distribution Contracts Oversight Scheme.

The Gas Transmission Investment Programme is progressing positively now that the Panel of Expert Advisers has received stakeholder feedback for a more comprehensive approach to resolving transmission capacity issues and developing a new market design. It is unlikely that we will have completed all of this work in 2013, but I am confident that we are on the best path forward.

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**All reports, submissions and other documents referred to in this Quarterly Report are available on our website at www.gasindustry.co.nz**



GAS INDUSTRY COMPANY LIMITED

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I am also excited about a next milestone in our work providing industry leadership for the 'NZ Gas Story'. We will be publishing our substantive report in the coming weeks on the state and performance of the industry. This is aimed at meeting industry interest in 'someone coordinating and communicating the end-to-end story about gas in New Zealand'. Again, the draft report has benefitted greatly from industry and government input, and the web-based format will allow for frequent updating and development of the story.

We look forward to greater achievements in 2013.

Steve Bielby
Chief Executive

## Industry Performance Highlights

This Quarterly Report includes Gas Industry Co's regular Industry Performance Report (**page 11**) against the Switching Rules, the Reconciliation Rules, and the Critical Contingency Management Regulations in the three months ended 31 December 2012.

In this Performance Report we have introduced new measures around regional switching statistics and the HHI measuring market concentration. We welcome industry feedback on these measures and potential additional ones. Highlights of the report include:

- Secondary balancing gas volumes continue to decline. Balancing gas volumes of 264,400 gigajoules (GJ) in the 2012 calendar year were about 5 percent of the volumes experienced in 2008.
- Customer switches averaged around 3,200 per month during the quarter. The annual rate of switching remains about 15 percent. Regional switching rates are a new measure in this report; in the past two years, switching has been higher than average in Taranaki and Manawatu, and lower than average in Waikato and Bay of Plenty.
- The time required to process switches averages about 5.5 business days, a fraction of time taken prior to the introduction of the Switching Rules in 2008.
- On a rolling annual basis, unaccounted-for gas (UFG) accounts for less than 1 percent of allocated gas volumes.
- Retailers' customer market shares have remained largely unchanged. Genesis Energy, with about 42 percent of ICPs, continues to hold the largest customer market share, followed by Contact Energy (24 percent) and Mercury Energy (16 percent).
- The Herfindahl–Hirschman Index (HHI) is a new measure to this report. HHI is a way of measuring market concentration by using size and number of competing firms. In all regions of the North Island, HHI has decreased in the past four years, reflecting the activities of new retailers entering the market and smaller retailers increasing their market shares.
- Nova and OnGas are the largest retailers in terms of market share by gas volume, with 28 percent and 26 percent respectively of allocated gas volumes over the previous 12 months.
- Consistent with the trend over the past 18 months, more than 96 percent of gas customers are connected to a gate where at least six retailers trade.

## Changes proposed to CCM Regulations

Gas Industry Co has consulted on a Statement of Proposal setting out proposed changes to the Gas Governance (Critical Contingency Management) Regulations 2008 ('CCM Regulations'). The proposed changes stem from a review of the CCM Regulations and related arrangements and are intended to capture lessons from the October 2011 Maui pipeline outage.

The main changes proposed are:

- Clarifying and tightening the criteria used to define eligibility for Essential Service Provider (ESP) designation. Gas Industry Co envisages the types of gas user/gas use qualifying for ESP designation would include:
  - mortuary services, crematoria
  - biohazard incineration
  - water and wastewater
  - police, fire, and other emergency services
- Specifying that the ESP designation would apply only to that part of the consumer's load that is 'essential'
- Introducing a new consumer band for Critical Care Providers (CCP). This band would have the highest priority, and therefore would be the last to be curtailed in a supply emergency.
- Establishing Gas Industry Co as the body responsible for processing and determining ESP, CCP, and Minimal Load Consumer (MLC) designations.
- Requiring retailers to periodically inform their customers about the CCM Regulations and the existence of the ESP/CCP/MLC categories.
- Adjusting and broadening criteria for MLC designations, which are designed to avoid serious damage to plant, or to mitigate serious environmental damage while undertaking an orderly plant shutdown. A broadening of this criteria could apply to:
  - meat processors, who may not meet ESP criteria but may need gas to manage animal welfare issues.
  - electricity generators, by allowing small amounts of gas to be used as a start-up fuel for units that can run on other types of fuel, such as coal, and to allow a gas-fired unit to synchronise with the system when required to run as a synchronous condenser.
- Adding health and safety as criteria for MLC designation. However, it is proposed to tighten existing provisions relating to endangerment to life or safety in recognition that gas consumers are responsible under the Health & Safety in Employment Act to provide a safe workplace.
- Expanding the communications responsibilities of affected asset owner(s) and the Critical Contingency Operator (CCO) to provide publicly available information.

The Statement of Proposal is augmented by two specialist external reports:

- *Value added associated with gas demand*, by the New Zealand Institute of Economic Research (NZIER), provides estimates of value added across gas-using industries in the North Island, to help inform the management of demand curtailment during critical contingency events.
- *Review of Methods for and Impacts of Raw Milk Disposal*, by Lowe Environmental Impact, discusses the environmental consequences of a gas supply disruption affecting dairy processing plants and, in turn, requiring dairy farmers to dispose of the milk they continue to produce.

The Statement of Proposal was issued on 12 November 2012 following wide consultation that included a report by Concept Consulting. Submissions on the Statement of Proposal closed on 24 December 2012, and Gas

Industry Co is currently preparing a submissions analysis. Detailed changes to the Regulations are being prepared and there will be opportunity for the industry to have input into those.

## Substantial improvement in gas retailers' supply arrangements

Gas Industry Co's latest assessment of retail gas contracts under the Retail Contracts Oversight (Retail Scheme) confirms a major improvement in gas retailers' supply arrangements with small consumers in the three years the Retail Scheme has been in operation.

Both a baseline assessment in 2010 and a transitional assessment in 2011 rated overall industry alignment with the benchmarks as 'Moderate', with results published at a consolidated level only. The third assessment – published in November 2012 - showed a marked improvement to an overall industry score of 'Substantial' alignment. The ratings of individual retailers have been published for the first time.

The Retail Scheme assesses gas supply arrangements between retailers and small consumers against a set of outcome-based benchmarks. The assessment, conducted by independent assessor Elwood Law, confirmed that retailers have embraced the voluntary scheme and have used the benchmarks as a reference when updating their contract arrangements with consumers using less than 10 terajoules (TJ) of gas a year.

The contract improvements are the latest in a suite of market enhancements benefitting small consumers in recent years. This has included Gas Industry Co's introduction of a switching regime to enable consumers to efficiently change their retail supplier, and greater consumer choice, where over 96 percent of gas consumers have a choice of six or more retailers.

To view the results and the Press Release click here. Given the substantial improvements achieved, Gas Industry Co has written to the Minister of Energy and Resources signalling a review of the Scheme, aimed at moving to a more streamlined 'as-required' assessment process, to replace the full annual reviews.

## Further details on proposed compliance reporting threshold

Gas Industry Co has issued a further consultation paper explaining in more detail how a proposed threshold regime under the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) will work.

The short paper follows a Statement of Proposal in May 2012 proposing a number of minor and technical changes to the Compliance Regulations. These arose from a review of the Compliance Regulations as part of Gas Industry Co's practice to periodically revisit industry governance arrangements to ensure they remain efficient and effective.

The proposed changes include the introduction of a threshold regime for mandatory reporting by the Gas Registry Operator and Allocation Agent of alleged breaches of, respectively, the Gas (Switching Arrangements) Rules 2008 (Switching Rules) and the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules). The intention is to ameliorate the compliance burden for participants.

Submissions generally supported the proposed changes, but some questions were raised about how exempting the Allocation Agent and Register Operator from the mandatory reporting requirements would work in practice. In response Gas Industry Co released an additional consultation paper setting out the relevant provisions of the Switching Rules and Reconciliation Rules that the threshold regime would apply to and includes a sample draft of the empowering provision.

Submissions closed on 1 February 2013.

The Compliance Regulations set out processes for the efficient determination and settlement of alleged breaches of the Switching Rules, Reconciliation Rules, the CCM Regulations, and the Gas (Processing Facilities Information Disclosure) Rules 2008.

Amendments to the CCM Regulations are also expected to result in changes to the Compliance Regulations. The timing of a recommendation to the Minister on changes to the Compliance Regulations will depend on the completion of consultation for that workstream.

Documents relating to the proposed Compliance Regulations changes can be found here.

## Bridge Commitments update

The Bridge Commitments are a series of commitments made by the majority of shippers aimed at addressing short term concerns about competition on the North Pipeline. They have been in place since August 2011.

The latest Bridge Commitments Progress Report notes one offer – to buy a lease of capacity – was listed on the Gas Transmission Exchange (GTX) during the quarter. The offer was not taken up. Three large gas users switched supplier during the period, but Gas Industry Co understands there was little or no gas tendering activity involving the commitment by incumbent Shippers to ensure transmission capacity is available to the consumer's preferred retailer.

Gas Industry Co understands that Mighty River Power (MRP) and Vector have concluded an agreement that will allow MRP to transfer supplementary transmission capacity reserved for Southdown, MRP's thermal power station on the North Pipeline. This development is consistent with the commitment for relevant parties to negotiate arrangements to enable the transfer of capacity held under Supplementary and Non-Code Shipper transmission services agreements, and follows the earlier conclusion of a similar agreement between Contact Energy and Vector in respect of the Otahuhu power station. Previously, capacity entitlements held under these types of contracts could not be traded and the new arrangements have the potential to achieve more efficient use of existing capacity by enabling its release to other parties.

Gas Industry Co understands, however, that neither Contact nor MRP have yet been approached to trade supplementary capacity.

## GTIP: PEA focus on three issues

The Panel of Expert Advisers (PEA) has identified information transparency, congestion management, and capacity nominations as the three priority issues for near-term action.

These areas of focus have emerged from its consideration of the nature and direction of the next steps in Gas Industry Co's Gas Transmission Investment Programme (GTIP). The discussion followed an analysis of submissions on the PEA's initial advice to Gas Industry Co from its gas transmission access and pricing work.

The PEA's deliberations are directed at options to improve current transmission capacity arrangements and are being undertaken as part of the GTIP. Overall, this programme is aimed at achieving more efficient use of existing gas transmission capacity and laying a pathway for efficient future investment in new capacity.

At its meeting on 4 December 2012, the PEA took a fresh look at problem definition in response to submissions urging a more revolutionary approach to change than envisaged in the PEA's initial report. Submissions included proposals that Vector adopt a common carriage arrangement, similar to that operating on the Maui pipeline, or move towards the Victoria (Australia) market model, where gas transmission and gas trading are integrated. Submitters expressed concerns with the PEA's problem definition and a desire to see more options, including wider market design alternatives, beyond the strawman proposal presented in its initial advice.

The PEA based its problem definition review on an assessment of current arrangements against a set of 'characteristics of an ideal gas transmission market', with cross-reference to submitters' comments. As a result, the definition has been amended to include physical as well as contract capacity constraints. In addition, analysis will be broadened from Vector's pipeline alone, to a closer assessment of capacity on both the Vector and Maui pipelines, their different access regimes and inter-operations, and how - and to what extent - those arrangements should be harmonised.

The PEA's January meeting focussed on short-term deliverables, including measures to improve transparency, demand-side management and nominations, and particularly to address future peak week or congestion issues for the North Pipeline. After more detailed option design work in February, a workshop will be held to obtain wider input from industry participants and end users.

All PEA meeting materials can be accessed here.

## Options Paper on gas retailer insolvency risk management

Following consultation on the Castalia Strategic Advisers' Report on gas retailer insolvency arrangements, Gas Industry Co has issued an Options Paper setting out available measures for managing the market failure risks posed by 'orphaned' customer gas consumption. Submissions close on 11 February 2013.

The options discussed are:

- No intervention
- Gas Industry Co to facilitate a contractual remedy
- Establish parameters for urgent backstop regulations
- Compulsory disconnection of orphaned customers
- Implement a permanent backstop regime

In Gas Industry Co's assessment, there is considerable scope to satisfactorily manage the identified market failure without the need for regulatory intervention, and through contractual remedies.

While non-regulatory solutions are preferred, Gas Industry Co considers that if a regulated solution is deemed necessary, the best option would be to establish parameters for urgent backstop regulations. These regulations could then be tailored to specific circumstances if and when required.

In its report, Castalia finds that insolvencies of gas retailers in New Zealand are rare. It identifies some features of the New Zealand gas industry that may create problems when a gas retailer becomes insolvent and finds that outcomes resulting in 'orphaned customers' represent a market failure because such customers impose third party costs on other gas market participants. Submitters on that paper generally agreed that the prospect of orphaned customers is the 'market failure' that may result from a retailer's insolvency. An 'orphaned customer' is one physically connected to a network and able to draw gas, but with no responsible retailer to pay for the use of that gas.

The Electricity Authority (EA) is also currently considering policies for electricity retailer insolvency, and some companies involved in both the electricity and gas markets have expressed a desire for regulatory responses to retailer insolvencies to be aligned. The Options Paper, however, notes that the two markets, as well as the regulatory powers of Gas Industry Co and the EA, are fundamentally different. Gas Industry Co believes a single solution is unlikely to be feasible, due to differing contractual arrangements.

**Regulatory provision for gas retailer insolvency**

The ability to implement a regulatory response to retailer insolvency is defined by an enabling provision of the Gas Act 1992. Section 43G provides:

> *Transition arrangements for insolvent gas retailers -*
>
> *Providing a system of transition arrangements for consumers <u>in the event of a gas retailer becoming insolvent</u>* (emphasis added)*, and requiring industry participants to comply with that system, with the objective of protecting consumers or managing the liabilities of other gas retailers.*

Gas Industry Co is unable to regulate for a potential or likely insolvency. Regulations may only apply once a retailer is insolvent. Gas Industry Co therefore considers the regulatory objective in relation to retailer insolvency is 'ensuring there are sufficient backstop arrangements in place if and when a gas retailer becomes insolvent'.

## Regulated access to gas processing facilities seen as unnecessary

An analysis of gas processing facility access arrangements and demand has confirmed Gas Industry Co's earlier conclusion that regulated access is currently not required, and that an information disclosure regime introduced in 2008 should be allowed to lapse.

These proposed recommendations to the Minister of Energy and Resources are contained in a Statement of Proposal issued for industry comment on 26 November 2012.

The Gas (Processing Facilities Information Disclosure) Rules 2008 (the Rules) are set to expire on 27 June 2014. Gas Industry Co is required to make a recommendation to the Minister by 27 June 2013 on the need for rules or regulations setting terms and conditions for access to, and use of, gas processing facilities.

The 2004 Government Policy Statement on Gas Governance (2004 GPS) invited Gas Industry Co to develop protocols setting reasonable terms and conditions for gas processing facility access. The 2004 GPS left open the scope, form, and delivery mechanism of the access protocols. A workstream to consider how best to meet the 2004 GPS provision concluded that there was no evidence to suggest regulation was necessary and resulted in the development of the Rules, with the intention of maintaining a watching brief on the sector so as to 'settle the issue' of whether regulated terms and conditions of access were necessary.

The 2004 GPS was subsequently superseded by the (current) 2008 GPS, which requires that gas industry participants and new entrants are able to access third party gas processing facilities, among other key infrastructure assets and services. Gas Industry Co needs to consider whether the provisions of the 2008 GPS are met in deciding whether formal access arrangements for gas processing facilities are necessary,.

To assist its analysis, Gas Industry Co engaged independent experts, Concept Consulting, to analyse information provided under the disclosure regime and to interview relevant parties. That analysis found nothing to suggest the need for a regulated access regime, and a general opposition among the parties interviewed to regulated access.

The few third party access requests received by facility owners all appear to have been satisfactorily resolved. The analysis confirmed an earlier conclusion that there is not a market failure to regulate, and that the 2008 GPS requirement is being met without the need for regulated access. Statements by interviewed parties that they found little use for the information disclosed under the regime are supported by a Gas Industry Co website analysis showing minimal use of the page hosting the published disclosures.

Submissions closed on 14 January 2013, and Gas Industry Co is preparing a submissions analysis.

Gas Industry Co has not ruled out the future possibility of a market failure associated with gas processing facility access, but is satisfied it can introduce any necessary governance arrangements using existing regulatory powers under the Gas Act.

## Gas still a competitive energy choice…

The *Consumer Energy Options Report* commissioned by Gas Industry Co confirms that gas continues to provide a competitive energy choice for home energy and industrial heat applications.

Prepared by Concept Consulting, the Report confirms the relative positioning of gas in the wider, highly competitive consumer energy market and updates a 2009 report on the benefits of the direct use of gas. It was commissioned as part of Gas Industry Co's strategy to take a leadership role in optimising the use of gas in New Zealand and is designed to assist industry participants, as well as energy consumers, in fully understanding and assessing their energy choices.

Gas Industry Co hosted presentations in Wellington and Auckland in November 2012 to share the findings and to engage industry stakeholders in further promoting the economic and lifestyle benefits of gas, especially for small consumers.

The key findings are:

- Instant or continuous gas water heating is the most cost-effective in a majority of cases even if a home does not already have a gas connection. This is due to the lower up-front purchase and installation cost, and cheaper energy price.

- Space heating options can vary significantly between consumers and is dependent on the house size and design, insulation, location, and the occupants' heating preferences. For example, free standing resistance electric heaters may be the best option for smaller heating requirements, while the most cost-effective option for larger heating requirements are log burners, gas heaters, and heat pumps.

- For new industrial boiler requirements, gas units are currently significantly cheaper than coal and biomass options.

A consumer page on the Gas Industry Co website has been expanded as a 'go to' page for consumers wanting to know more about the benefits of using gas.

## … and the supply/demand outlook is positive

The first substantive review of gas supply and demand in New Zealand has been finalised and confirms a positive outlook for gas' continuing contribution to the country's energy supply future.

The final report, *Gas Supply and Demand Scenarios 2012 – 2027*, produced by Concept Consulting was published on 13 December 2012 and incorporates industry stakeholder feedback on an initial draft. The report includes national and regional gas supply/demand scenarios and peak demand projections that can assist the industry and large users to assess the need for, and timing of, investment in pipeline infrastructure. In response to submitters' comments, the final report includes more information on data inputs and modelling results.

For example, the modelling tool now includes a separate tab containing historical and projected data tables and the analysis of industrial and commercial boilers is discussed in greater detail.

Gas Industry Co commissioned the report to fill a void in gas supply/demand knowledge. It is intended to provide industry participants and consumers with robust information – including an online modelling tool which they can manipulate using their own or existing assumptions - to inform their business decision-making. The main findings of the final report include:

On gas supply

- New Zealand's gas supply position is stronger than it has been for many years, driven by the highest level of exploration effort seen for a long time.
- Greater gas availability in recent years has been reflected in softer wholesale gas prices.

On gas demand

- Long-term gas demand in New Zealand is likely to vary significantly between the different price scenarios
- The sectors most sensitive to changes in wholesale gas prices are petrochemical manufacturing (especially methanol production) and power generation.
- Gas demand for other industrial, commercial, and residential users is relatively steady across the scenarios.

On pipeline investment issues

- The existing pipeline system is expected to have sufficient capacity to accommodate the projected scenarios with higher demand, with the exception of Vector's northern pipeline system (from central Waikato northward).
- However, some gas users, such as power generators, appear to have relatively low cost options to reduce their usage during peak demand periods.

## Recommendation to Minister on Reconciliation Rules changes

Minor amendments to improve aspects of the Reconciliation Rules have been submitted to the Minister of Energy and Resources for consideration and approval.

The proposed changes were set out in a Statement of Proposal in July 2012, which in turn followed an Options Paper issued in December 2011. An industry Advisory Group has been assisting Gas Industry Co in its review of the Reconciliation Rules and their expertise and feedback influenced the development of the Statement of Proposal. An analysis of submissions, published by Gas Industry Co on 21 November 2012, showed generally favourable feedback on the changes. Some issues have been raised and considered, but the proposed changes set out in the Statement of Proposal have largely progressed in the recommendation to the Minister. These include:

- codification of some long-standing exemptions, which will remove the compliance burden and uncertainty of rolling-over those exemptions.
- allowing for the explicit correction of erroneous annual unaccounted-for gas (UFG) factors, which will ensure accurate data integrity.
- removing the compliance burden created by certain arrangements, often where the compliance costs in administering technical breaches outweigh the impact of the breach.

The Reconciliation Rules are an important governance arrangement and ensure the accurate reconciliation of downstream gas quantities. They have been particularly effective in reducing UFG volumes.

The recommended changes are designed to tidy-up some unnecessary compliance burdens and inefficiencies identified during their first four years of operation. The underlying intent and purpose of the Reconciliation Rules are not affected by the proposal.

Subject to the granting and timing of the Minister’s approval, it is expected the changes will take effect from 1 June 2013.

## New VTC change appeal

Vector has filed an appeal with Gas Industry Co regarding a Vector Transmission Code (VTC) change request relating to balancing processes, peaking charges, and disputed invoices. The changes, proposed by Vector, arise from balancing-related changes to the Maui Pipeline Operating Code (MPOC), which Maui Development Limited has previously agreed to implement from 1 June 2013.

The proposed VTC changes did not receive the 75 percent support from Shippers necessary to be implemented, and were referred by Vector to Gas Industry Co, as the VTC appeals body, on 27 November 2012 to have them allowed.

Submissions closed on 22 January 2013 and a draft recommendation is expected to be released for consultation in mid-February, prior to a final recommendation in early April.

Gas Industry Co continues to process a separate VTC appeal, lodged by Vector on 31 July 2012, relating to prudential security and disputed invoices. In September 2012, after taking account of submissions and additional information provided by Vector, Gas Industry Co issued a draft recommendation to allow the change request. Further analysis of this request is being carried out ahead of reaching a final recommendation.
Details of the November change request appeal and submissions can be found here

## FY2014 strategy, work programme, and levy open for submissions

Gas Industry Co has issued a Statement of Proposal setting out its proposed strategy, work programme, and levy requirements for the 2014 financial year (FY2014). Submissions close on 8 February 2013.

The work programme includes meeting statutory requirements, such as the administration of existing governance regulations, and seeks to address Government and industry priorities through committed and ongoing projects. These include continued work on the Gas Transmission Investment Programme (GTIP), monitoring and assessing industry-led solutions for gas quality, implementing transition arrangements for amended CCM Regulations, progressing retailer insolvency arrangements as required, and overseeing gas retail and distribution contract arrangements.

Gas Industry Co is seeking specific stakeholder feedback on a possible new workstream – suggested by retailers – to develop standard terms for metering service provider contracts.

The substantive work programme has been developed in consultation with industry participants, Government, and other stakeholders. Discussion and feedback received at the annual Co-regulatory Forum held on 22 November 2012 has also been considered. It reflects a general consensus on work priorities, as well as Gas Industry Co's strategy and objectives, and the Government's policy objectives, to which the Company must have regard.

The Statement of Proposal has been developed with awareness of the need for cost efficiencies, and the expectation on Gas Industry Co to deliver value in its operational workstreams, as well as in the provision of organisational support services to the Company.

Estimated FY2014 work programme costs of $5,955,684 are less than the $6,357,307 total costs forecast for FY2013, with consequently reduced levy rates. Gas Industry Co is proposing a retail levy of $6.01 per ICP in FY2014, compared with $6.23/ICP in FY2013; and a wholesale levy of 1.64 cents per gigajoule (GJ) of gas (1.74 c/GJ in FY2013). The cost of administering existing rules and regulations will continue to be met by market fees raised under those specific gas governance arrangements.

Gas Industry Co had indicated a willingness to hold a further formal workshop for stakeholders to discuss the strategy, work programme, and levy prior to the submissions deadline. However, demand has been insufficient to warrant this. The Company remains open to one-to-one discussions with participants who wish to do so before lodging a submission.

## Coming up….

| **February** | **March** |
|---|---|
| 1st – Submissions deadline for Compliance Regulations consultation document.<br><br>1st - First assessment under the Distribution Contracts Oversight Scheme.<br><br>8th – Submissions deadline for Gas Industry Co Statement of Proposal on FY2014 Strategy, Work Programme & Levy.<br><br>11th – Submissions deadline, Insolvent Retailers Options Paper.<br><br>New Zealand Gas Story released. | 15th Submissions deadline for VTC change request appeal (balancing)<br><br>CCO critical contingency management exercise.<br><br>Submission of FY2014 Strategy, Work Programme, and Levy recommendation to Minister. |

# Performance Measures Quarterly Report for the period ending 31 December 2012

## 1 Summary

This Report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of these measures is to track the performance of the Gas (Switching Arrangements) Rules 2008 (the Switching Rules), the Gas (Downstream Reconciliation) Rules 2009 (the Reconciliation Rules), and the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), both in terms of activity related to these statutes and the competitive outcomes that they foster. The Report also tracks transmission balancing actions, as a means of informing Gas Industry Co's work on this issue. .

Highlights of the Report:

- Secondary balancing gas volumes continue to decline and are a fraction of what they were prior to 2009. Balancing gas volumes were 264,400 GJ in calendar 2012, about 5% of the volumes experienced in 2008.
- There were about 3,200 switches per month in the last quarter, and the annual rate of switching remains about 15%. Regional switching rates are a new measure in this report; in the past two years, switching has been higher than average in Taranaki and Manawatu, and lower than average in Waikato and Bay of Plenty.
- The time required to process switches is about 5.5 days on average, a fraction of the weeks that switching used to take before the inception of the switching rules. The distribution of switching times shows that most move switches are completed within one day, while standard switches generally go through in seven days.
- Unaccounted for gas (UFG) volumes have been negative at the initial allocation in the past three months, consistent with trends in previous years. On a rolling annual basis, UFG accounts for less than 1% of allocated gas volumes.
- There have been no major movements in customer market shares over the past quarter. Genesis Energy continues to hold the largest customer market share: about 42% of customer ICPs. Contact is next, with 24%; followed by Mercury, with 16%.
- The Herfindahl–Hirschman Index (HHI) is a new measure to this report. HHI is a way of measuring market concentration by using size and number of competing firms. In all regions of the North Island, HHI has decreased in the past four years, reflecting the activities of new retailers entering the market and smaller retailers increasing their market share.

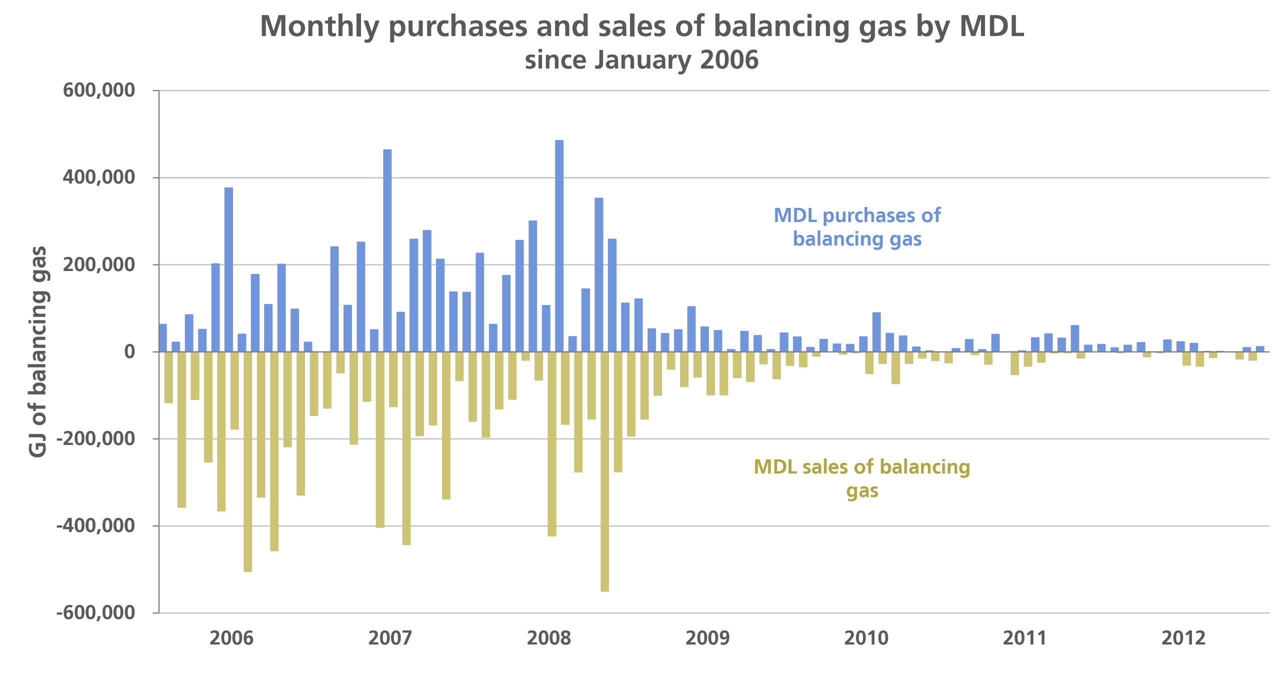
- In terms of market share by gas volumes, Nova and OnGas are the largest retailers, with 28% and 26%, respectively, of allocated gas volumes over the previous 12 months. This reflects their focus on the industrial and commercial sectors of the gas market (although Nova also has a presence in the mass market segment).

- Consistent with the trend over the past 18 months, the majority of gas customers are connected to a gate where least six retailers trade: over 96%, as of December 2012.

## 2 Balancing gas volumes

The volume of gas in a pipeline relates to the gas pressure in the pipeline and needs to be maintained below the safe operating pressure limit for the pipeline and above the minimum required to maintain the supply of gas to consumers. On the Maui pipeline, pressures will rise or fall as parties who inject gas into the pipeline over- or under-inject and as parties who receive gas from the pipeline under- or over-take relative to their respective scheduled volumes. When a transmission owner, or operator, manages the gas inventory in a pipeline, it is referred to as *secondary* or *residual balancing*. MDL buys and sells balancing gas in order to manage gas volumes and thus maintain gas pressure within safety and operational limits.

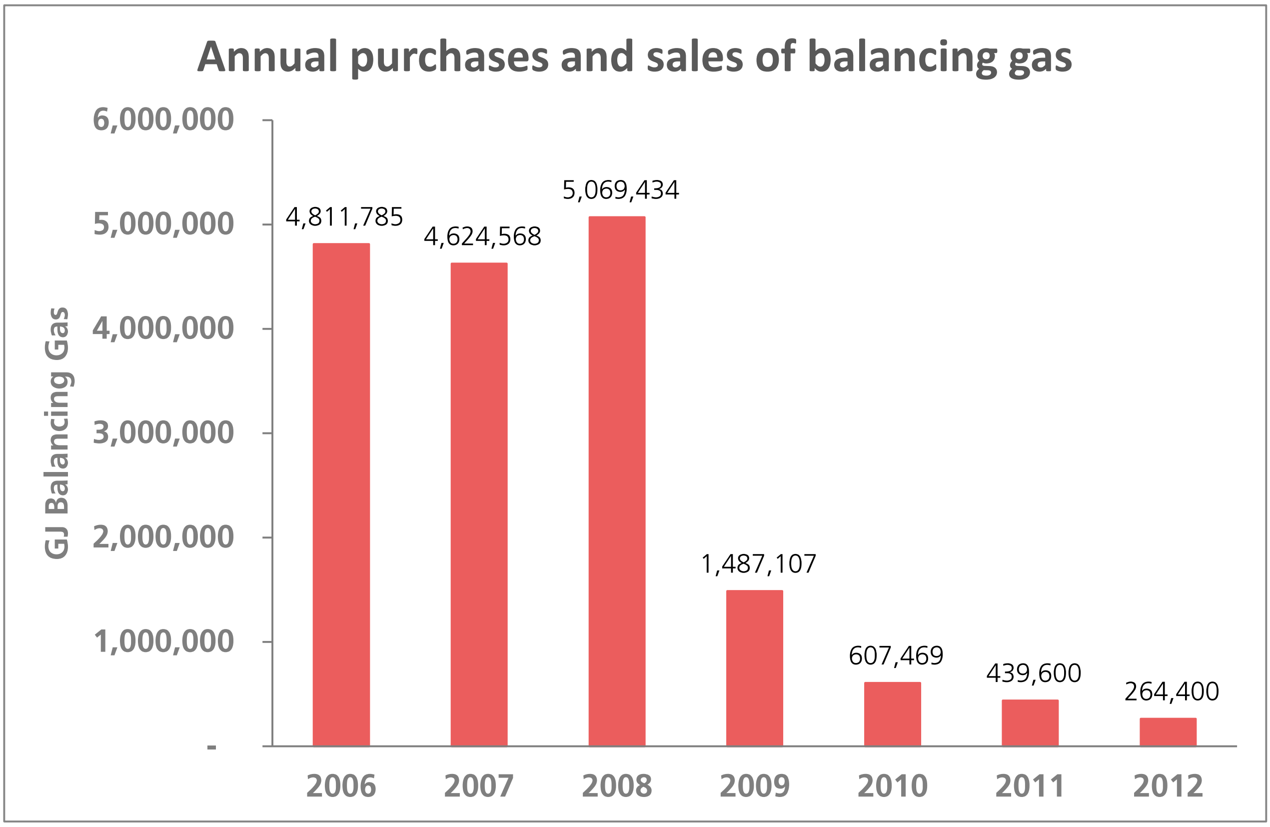
Prior to 2008, secondary balancing services were essentially free to holders of legacy Maui gas contracts, but changes implemented at the end of 2008 to the Maui Pipeline Operating Code, together with the arrangements in the Vector Transmission Code, mean that pipeline users are now responsible for imbalances that they create. In 2009, MDL instituted the Balancing Gas Exchange, an online platform that displays pipeline balance conditions and enables parties physically interconnected to the Maui pipeline to post offers to buy and sell balancing gas. These two changes appear to have provided gas transmission customers with an incentive to self-balance and greater information on which to base their balancing decisions.




*Source: MDL and bgx.co.nz*

The outcome is the significantly reduced volumes of gas needed to be purchased or sold by MDL to balance the Maui pipeline, as can be seen in the chart above.

The chart below summarises balancing gas transactions (both purchases and sales) by calendar year.



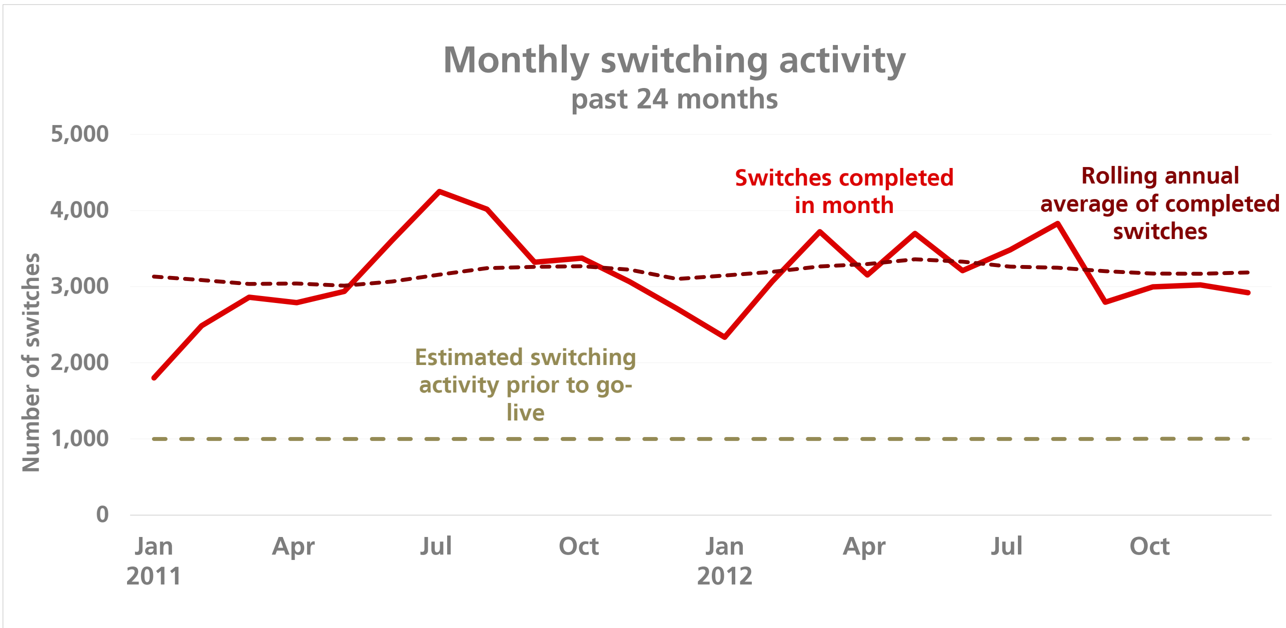

In each of the calendar years 2006, 2007, and 2008, over 4,600,000 GJ of balancing gas were bought and sold by MDL. Since then, balancing gas volumes have decreased each year. In 2012, the balancing gas purchased represents just 5% of the 2008 volumes.

## 3 Switching performance measures

### Monthly switching activity

Consistent with recent trends, there were about 3,200 switches per month in the last quarter, and the annual rate of switching remains about 15%. As a comparison, as of the end of November, the annual electricity switching rate was about 19.2%.

Prior to the gas registry going live in March 2009, approximately 1,000 switches were processed on a monthly basis, and the annual churn rate was approximately 4.8%.

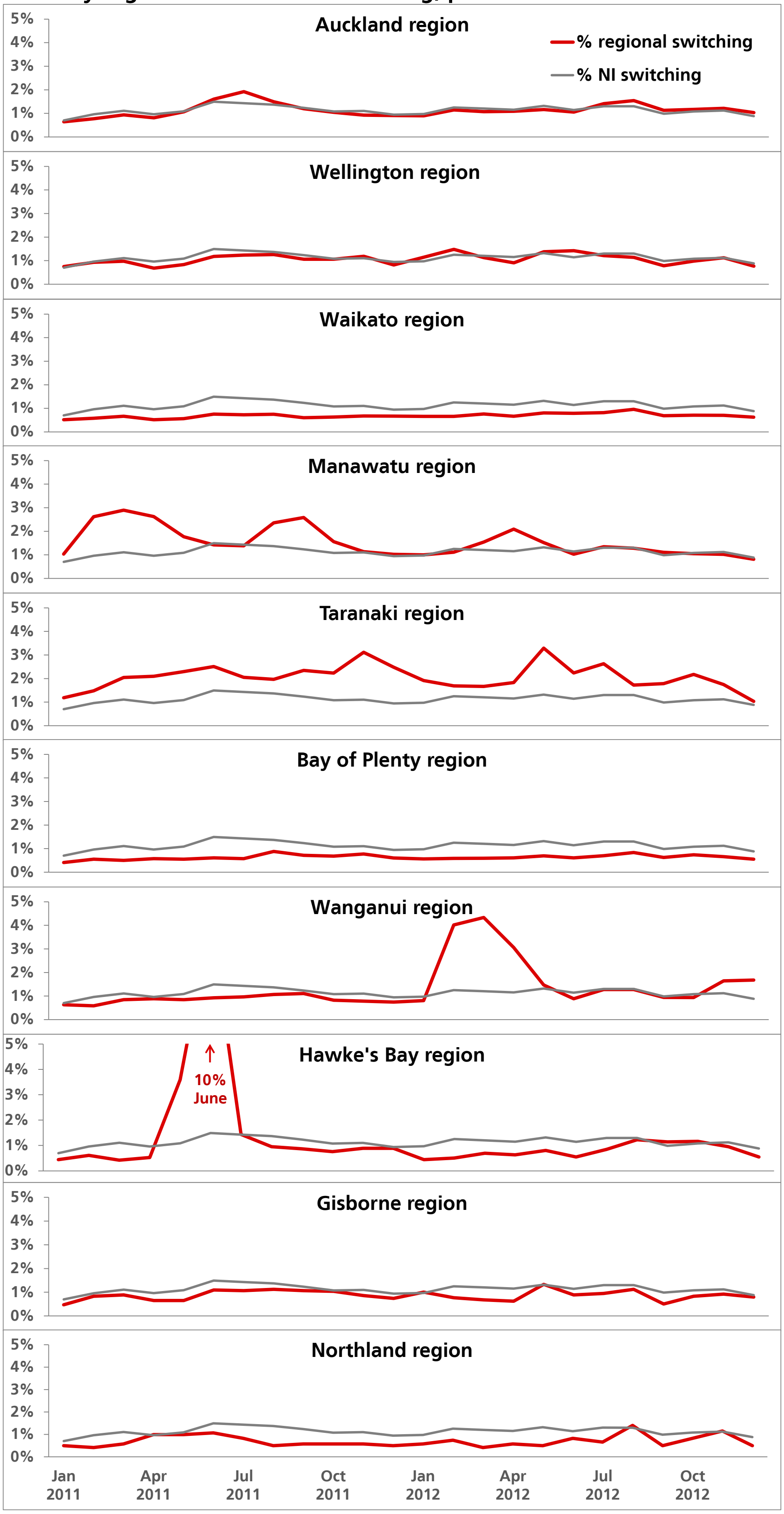



## Regional switching activity

The charts below compare regional switching rates with total switching rates. The grey line is the same in all the charts below and shows number of switches (both move switches and standard switches) in a month as a percentage of active-contracted and active-vacant ICPS across all North Island gas consumers. As that line shows, monthly switching varies between about 0.7% and 1.5% per month.

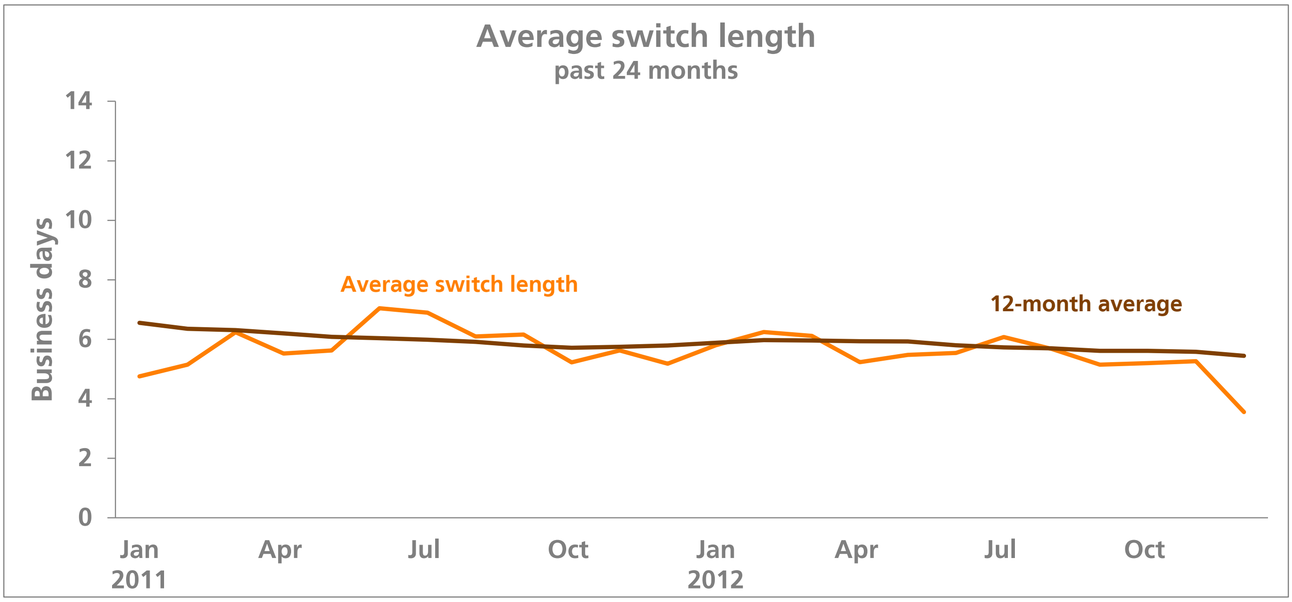
The red line in each chart shows the number of switches in that region as a percentage of ICPs in that region. As might be expected, Auckland and Wellington switching rates tend to be similar to the North Island rates. Differences emerge in the smaller regions, though: in the past 24 months, for example, switching in Taranaki has consistently been higher than the average across all consumers, while switching in Bay of Plenty is lower. There can be short-term fluctuations in switching as well, as evidenced by the spikes in switching rates seen in the Manawatu, Wanganui, and Hawke's Bay regions.

## Monthly regional and overall switching, past 24 months



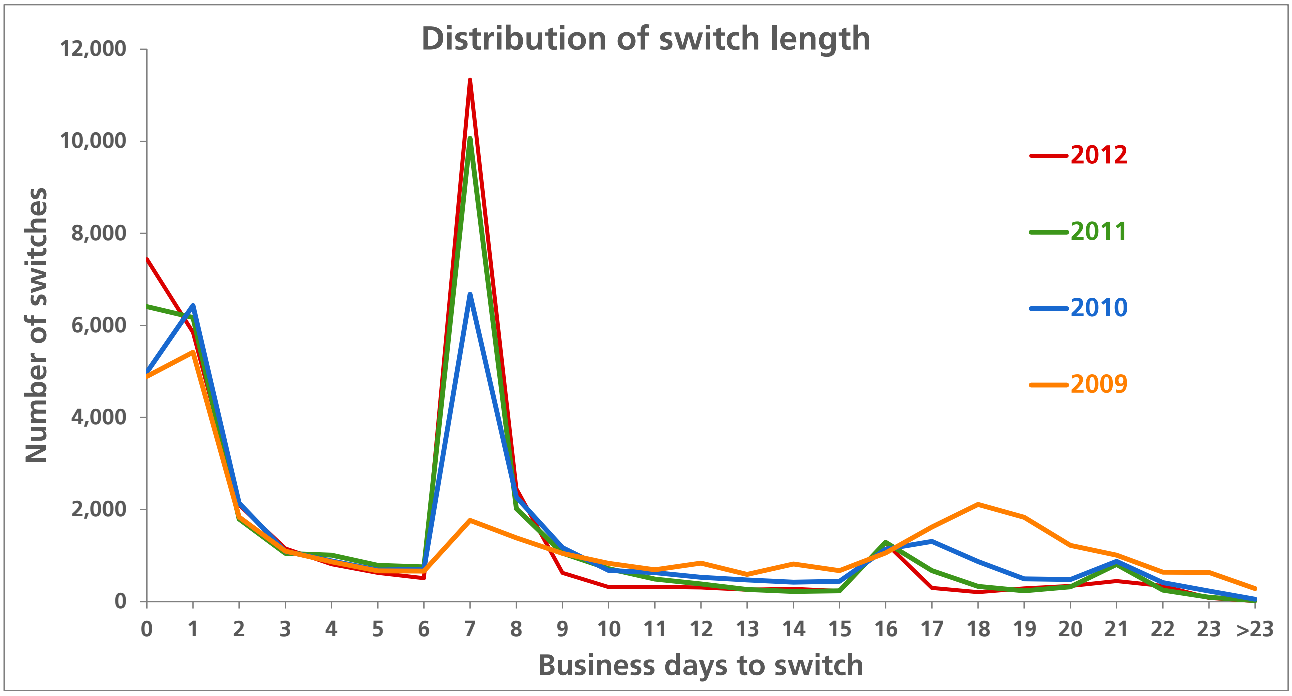
## Time to process switches

The chart below shows the average length of time it has taken to process the switch requests that have been received in a month. The average time to process a switch has consistently fallen in the past two years. The twelve-month rolling average switching time now stands at about 5.5 business days. In comparison, switches could take weeks or even months to process prior to the inception of the switching registry.




## Distribution of switching length

The chart below shows the distribution of switching length since the start of the gas registry by calendar year. Switches taking zero to two business days generally are move switches (where a property is switched at the request of an incoming tenant or homeowner), while the majority of switches taking seven business days are standard switches (where a gas customer simply decides to switch the retailer that supplies their existing location). The Switching Rules stipulate that, for a standard switch, the new retailer can request a switch date that is not less than seven business days after the inception of the switch, and in most cases this request must be honoured by the existing retailer. These provisions seem to be the cause of the large proportion of switches being completed in seven business days.

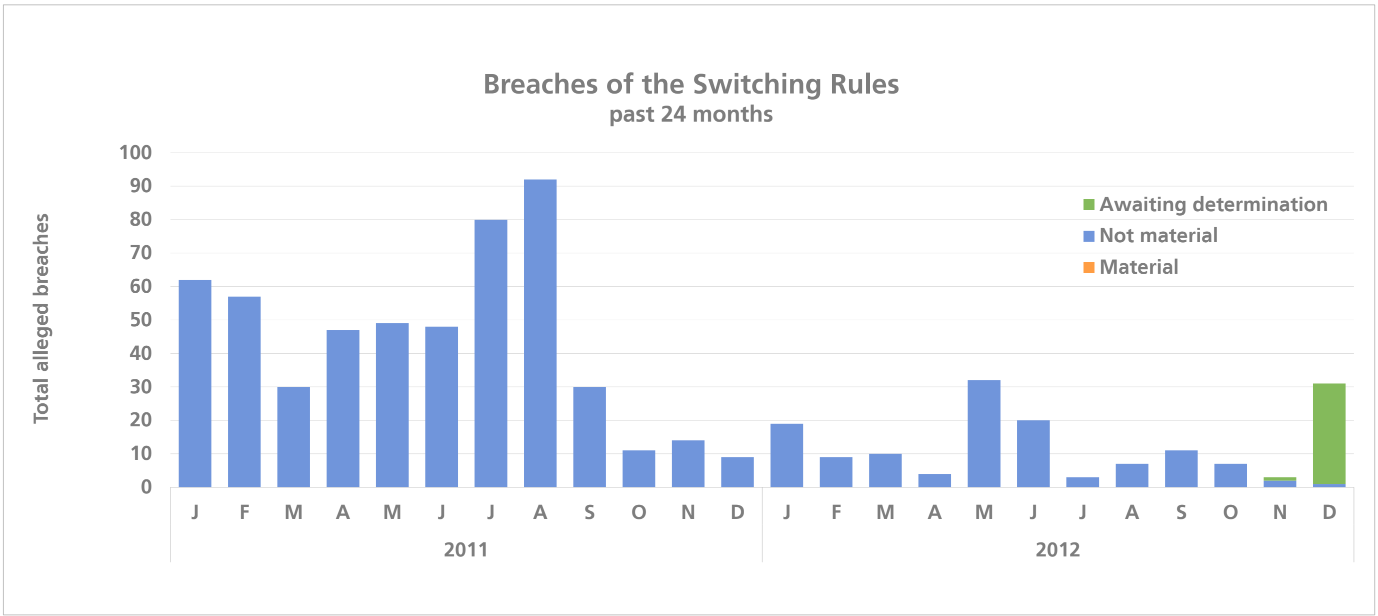



Note that the chart above excludes the transfers from E-Gas to Nova and from Auckland Gas to Nova, all of which went through in less than a day.

Further, note that all of the switching charts in this section include only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the Gas Registry.

### Number and severity of breaches of the Switching Rules

In the first year after the inception of the Switching Rules, nearly 5,500 switching breaches were alleged. Many of these breaches can be attributed to unfamiliarity with the Rules. Since that first year, the numbers of switching breaches have fallen significantly. The average number of alleged breaches per month has fallen from 450 in the first 12 months to less than 15 in the past 12 months.



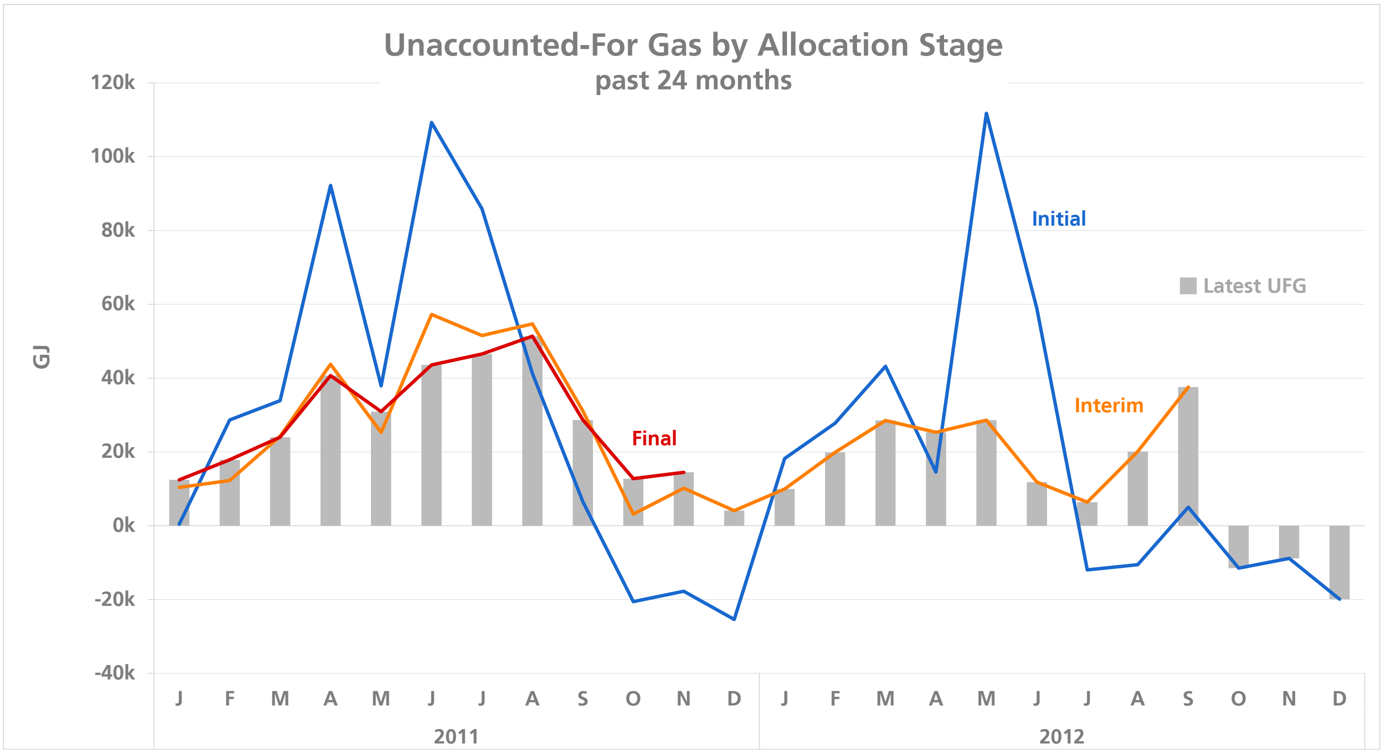
# 4 Allocation and reconciliation performance measures

## Volumes of Unaccounted-for Gas

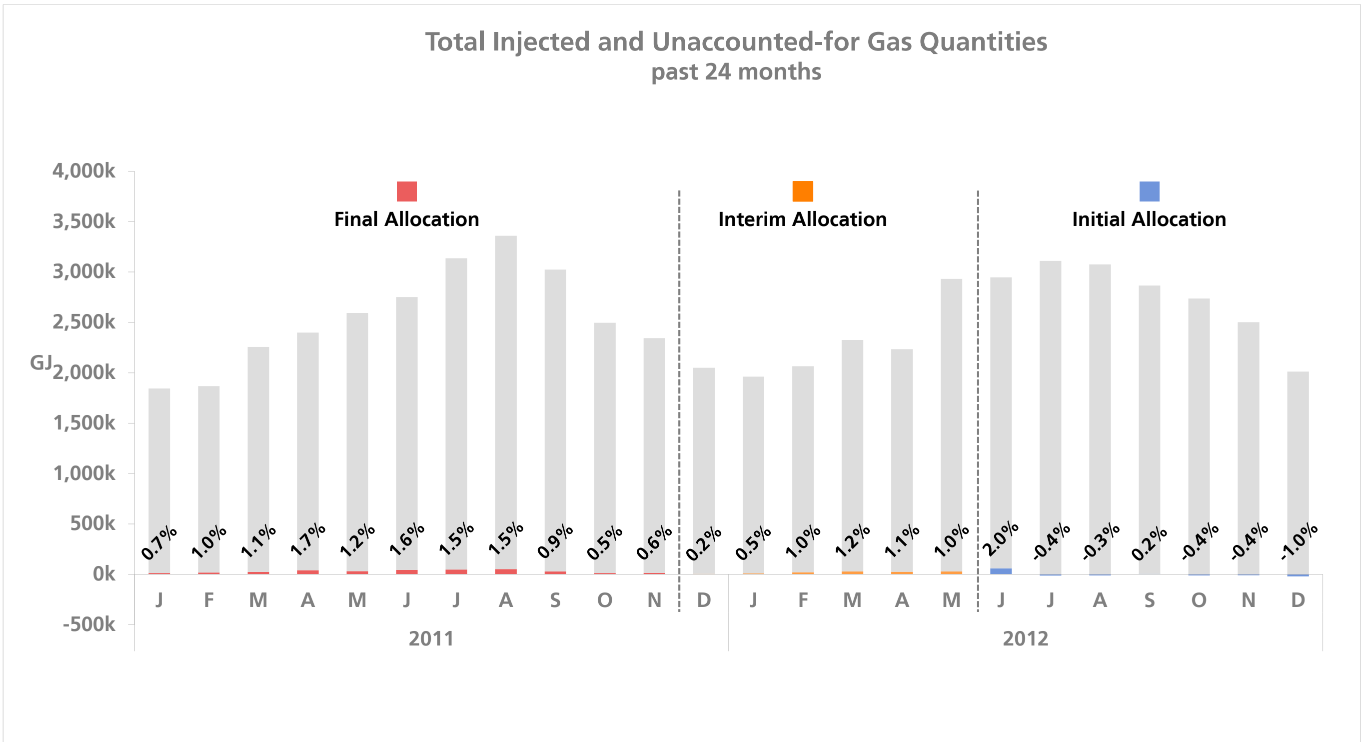
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. UFG imposes a cost on the market: it is gas that retailers are allocated and must pay for, but cannot sell. Tracking UFG is a way of monitoring these costs and the efficiency of the retail market. This transparency should assist the industry to take steps to reduce UFG where it is efficient to do so.

The chart below compares total UFG quantities by consumption month and allocation stage (initial, interim or final). The grey bars show UFG based on the most recent data available.

Changes in UFG from one allocation stage to another are largely due to mass market retailers' consumption submissions becoming more accurate at later allocation stages. UFG tends to be most extreme at the initial allocation stage: in summer, UFG tends to be negative due to retailers' overestimations of customer consumption; and in winter, UFG tends to be positive due to retailers underestimating consumption. Generally, UFG volumes diminish considerably from the initial to the interim allocation stages. The final allocation stage reflects further minor adjustments to retailers' data, which can result in slightly more or less UFG, as shown by the orange and red lines in the chart below. This effect can be seen in October and November 2011 in the chart below for negative UFG and April through July 2011 for positive UFG.

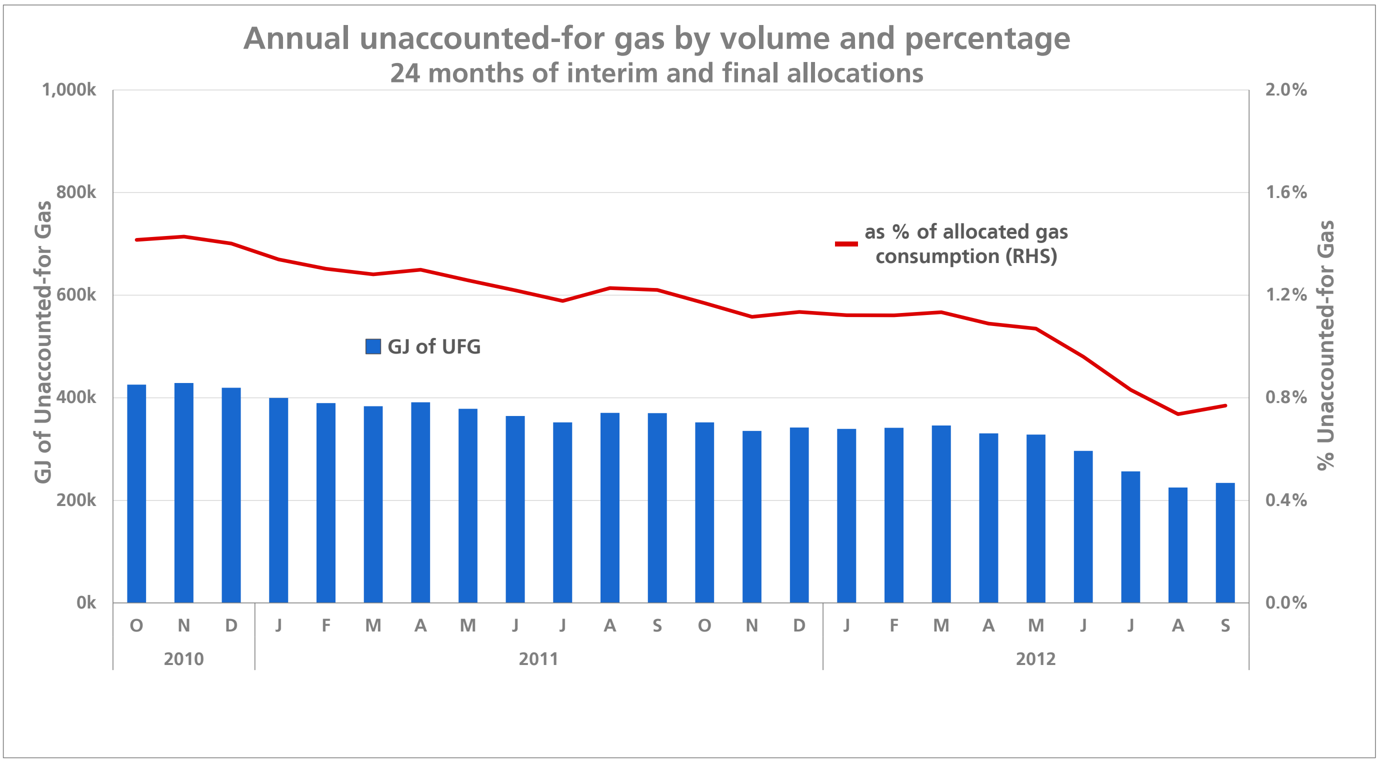



The chart below shows the amount of unaccounted-for gas in comparison to the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, which follows a seasonal pattern: higher in winter and lower in summer. UFG as a percentage of volume follows a similar seasonal pattern.



Another way to think about UFG is the amount recorded over a 12-month period. The chart below shows rolling 12-month UFG figures, both as a GJ total and as a percentage of gas consumed. As initial data are often inaccurate, the chart includes only consumption months for which interim or final data are available. The figures in the chart are based on the best data available at the time of publication, so, for example, the September 2012 total is based on nine interim results and three final results, while the December 2011 total is based on twelve final allocation runs.

For the first year after the Reconciliation Rules came into effect, annual UFG was about 2%. The proportion of UFG has been falling steadily over the past two years, and now stands at less than 1%.

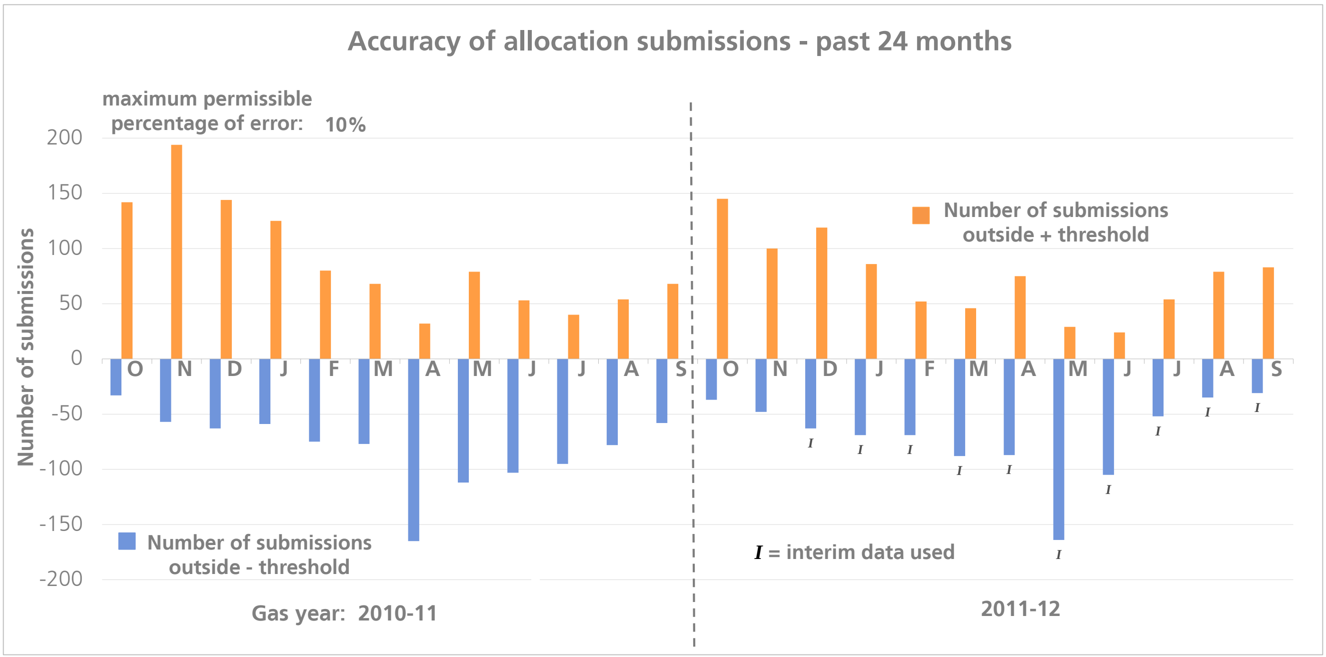



## Accuracy of submission data

The accuracy of initial submissions is important, as balancing and peaking charges on the Vector transmission system are levied on the basis of initial allocation results and are not subsequently washed up. This means that the UFG created through inaccurate initial consumption submissions falls onto all retailers at the affected gate and affects their exposure to balancing costs. To limit the impact of this effect, the Reconciliation Rules require that initial consumption submissions are within a specified percentage of the final (and most accurate) consumption submissions.

The chart below shows the number of retailer submissions that were outside the maximum permissible error threshold in the last 24 months for which data are available. For this analysis, final submissions were compared to initial allocation submissions for the months they were available (October 2010 – November 2011). Other months use interim submissions (in place of final) for the comparison data and are marked with '*I*'. The percentage of error used to measure accuracy for both gas years 2010-11 and 2011-12 is 10%.

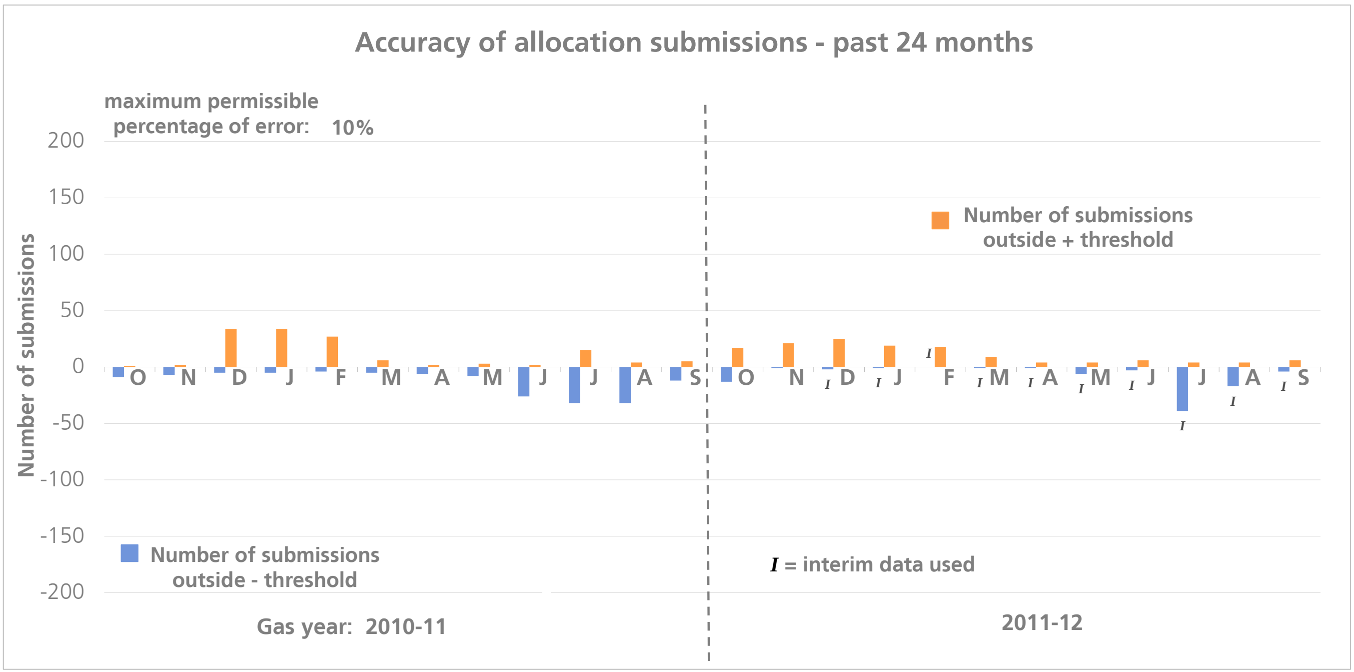
There is a pattern of retailers oversubmitting in October through January (shown by the orange bars), which corresponds with the negative UFG seen at the initial allocation stage in the preceding charts. Retailers also tend to undersubmit in the months of April through June (as seen in the blue bars), which corresponds with the high levels of UFG experienced in those months.






GAS INDUSTRY COMPANY LIMITED

The market administrator uses a volume threshold of 200 GJ as a means of differentiating those breaches that are likely to have had a materially adverse effect on other market participants. The chart below shows the number of accuracy breaches that involve gas quantities larger than 200 GJ. As a comparison of the two charts illustrates, there is a significant proportion of accuracy breaches that have involved less than 200 GJ. Deeming these breaches not material allows industry participants to focus on addressing the harm caused by larger volume estimation errors.

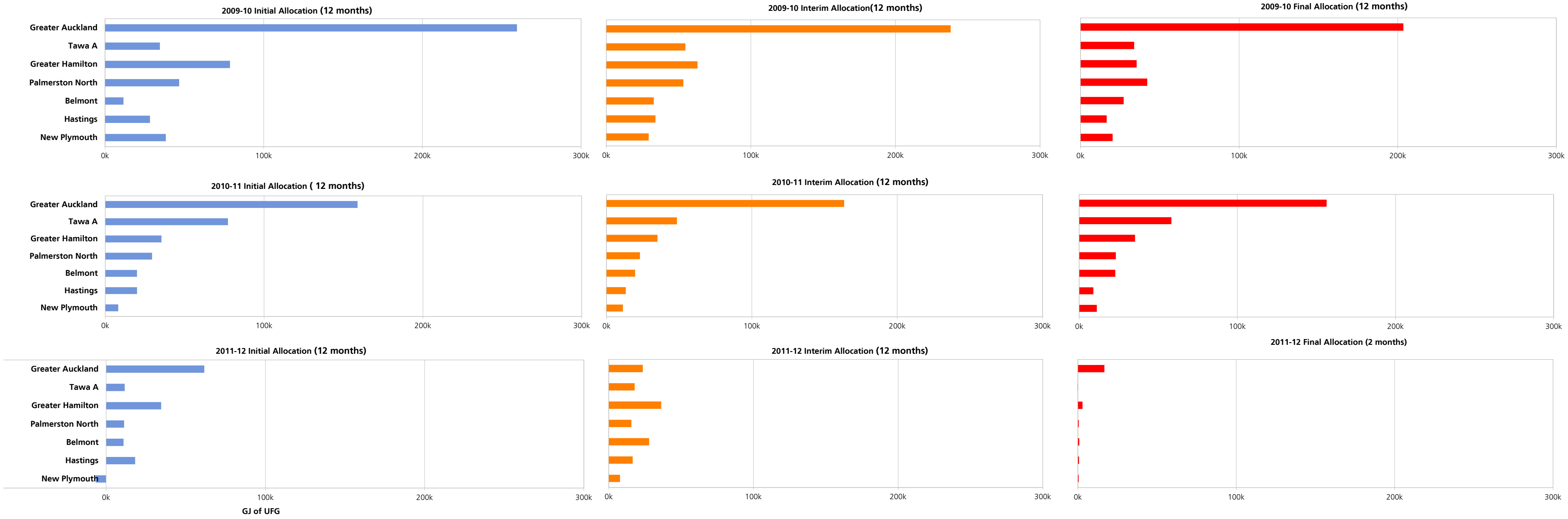



## Gas gates where UFG is the highest

Greater Auckland gas gate is consistently the largest contributor of all the gas gates to UFG volumes, followed by Tawa A, Greater Hamilton, Palmerston North, Belmont, and Hastings. These gates are also the largest gates in terms of consumption volumes, so it is not surprising that they are relatively large contributors to UFG. The pattern is roughly consistent over all three allocation cycles and across gas years.

The charts below compare UFG across time and across allocation stages. All allocations have now been performed for the 2009-10 and 2010-11 gas years and are shown in the top two rows. For the 2011-12 gas year, shown in the third row, all twelve initial and interim allocations have been performed. As can be seen from the charts, there is a general trend of decreasing UFG both from year to year and across allocation stages. An exception to the trend can be seen with the final allocations for 2010-2011: as shown in the Unaccounted-for Gas by Allocation Stage chart above, in a number of months during the year, the final allocation resulted in slightly greater volumes of UFG.

Gas year 2012-13 has not been included in the charts below, as only three initial allocations have been performed for that year.


2009-10 Initial Allocation (12 months)
2009-10 Interim Allocation(12 months)
2009-10 Final Allocation (12 months)
2010-11 Initial Allocation ( 12 months)
2010-11 Interim Allocation (12 months)
2010-11 Final Allocation
2011-12 Initial Allocation (12 months)
2011-12 Interim Allocation (12 months)
2011-12 Final Allocation (2 months)
Greater Auckland
Tawa A
Greater Hamilton
Palmerston North
Belmont
Hastings
New Plymouth
0k
100k
200k
300k
GJ of UFG

1

## Audits commissioned

### Event audits

There have been no event audits commissioned in the past quarter.

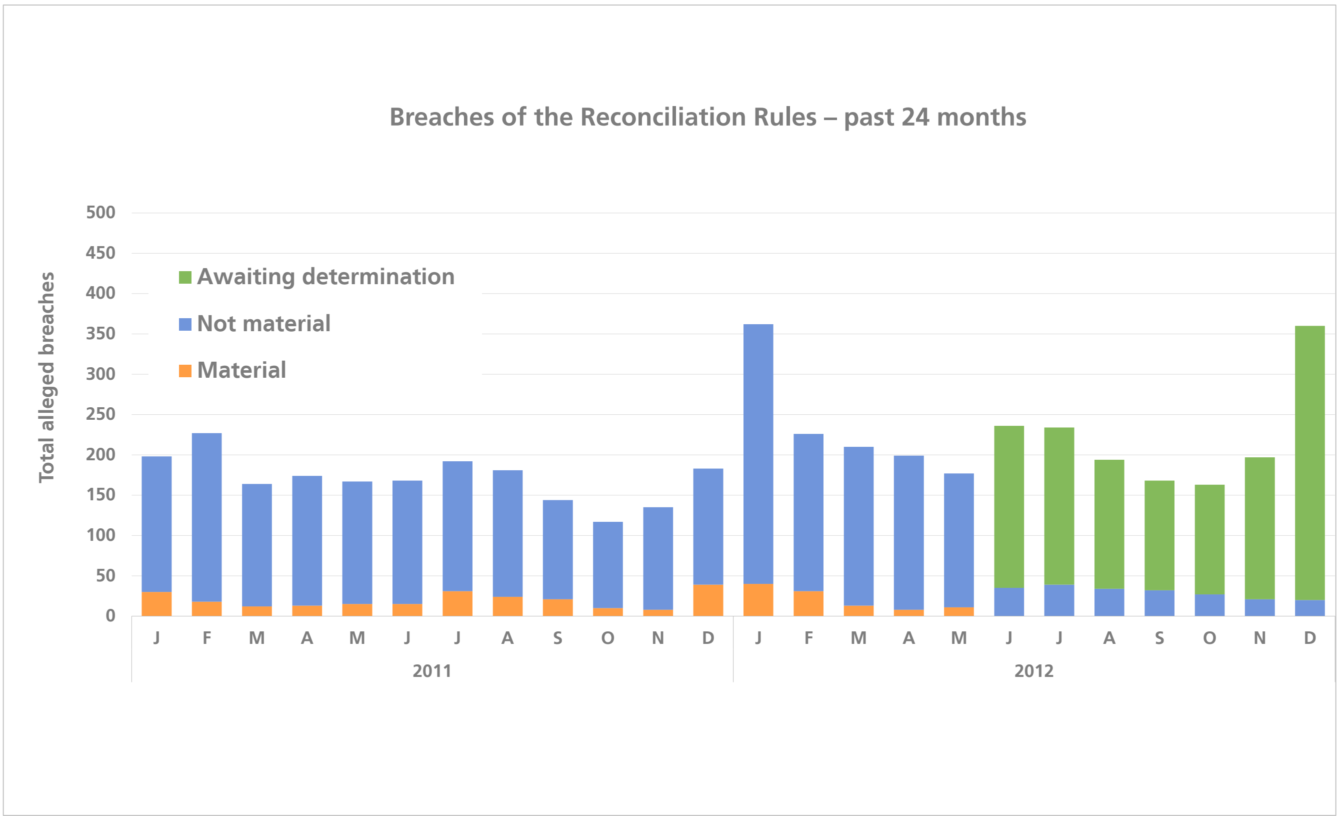
### Performance audits

There have been no performance audits commissioned this quarter.

## Number and severity of breaches of the Reconciliation Rules

On average, about 85% of breaches alleged under the Reconciliation Rules relate to rule 37, the rule that requires the accuracy of consumption information provided at the initial allocation stage to be within a specified tolerance level of the information provided at the final allocation stage.

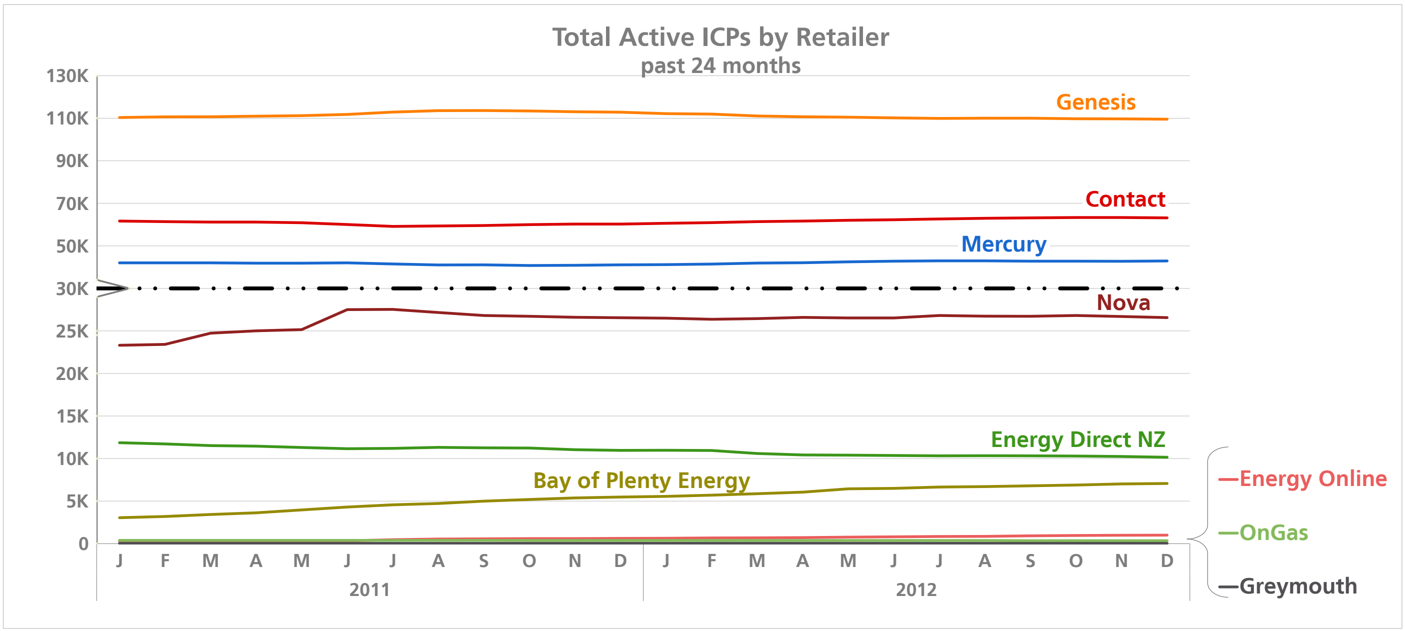
It has proven efficient for the Market Investigator to attempt to reach a settlement on batches of rule 37 breaches. In September, the Rulings Panel approved a settlement of a batch of rule 37 breaches relating to consumption months December 2009 to March 2011 (and alleged February 2011 to May 2012).



# 5 Market competition performance measures

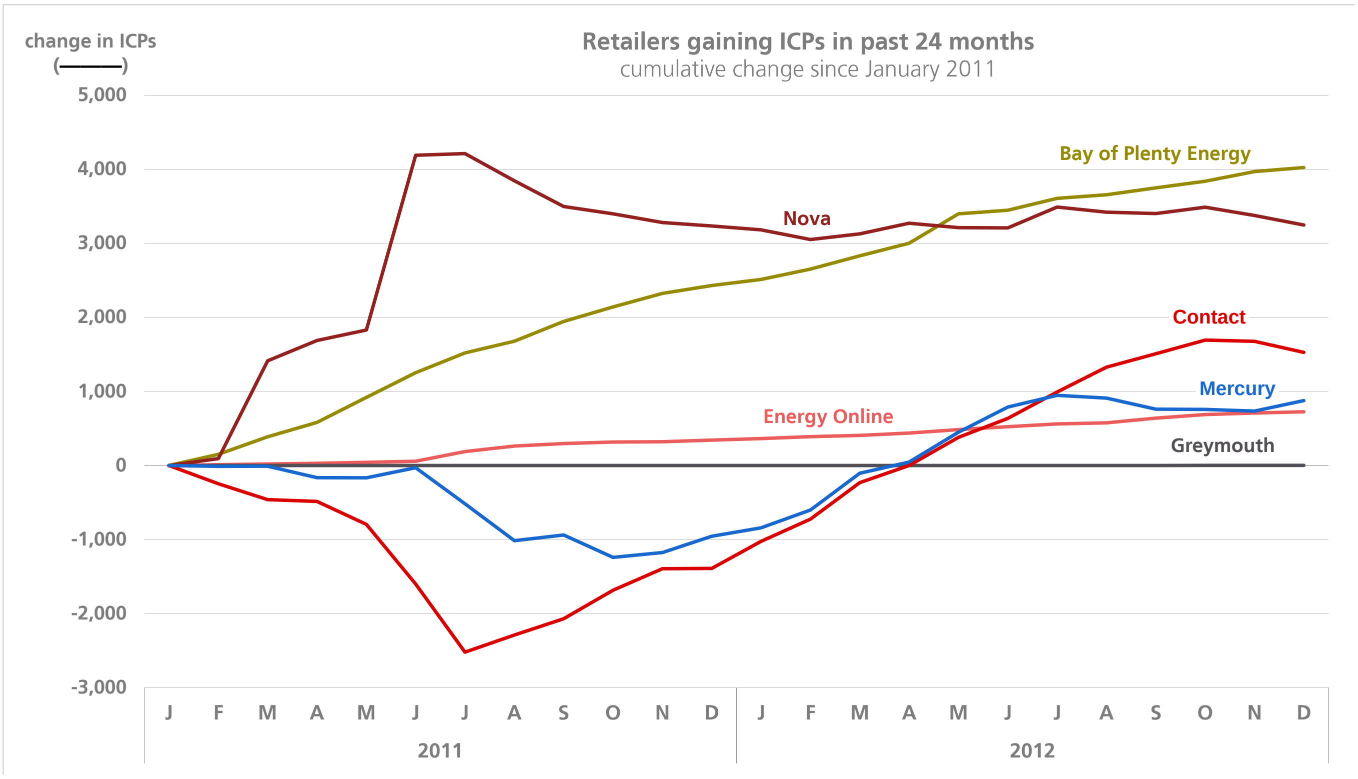
## Market share of ICPs by retailer

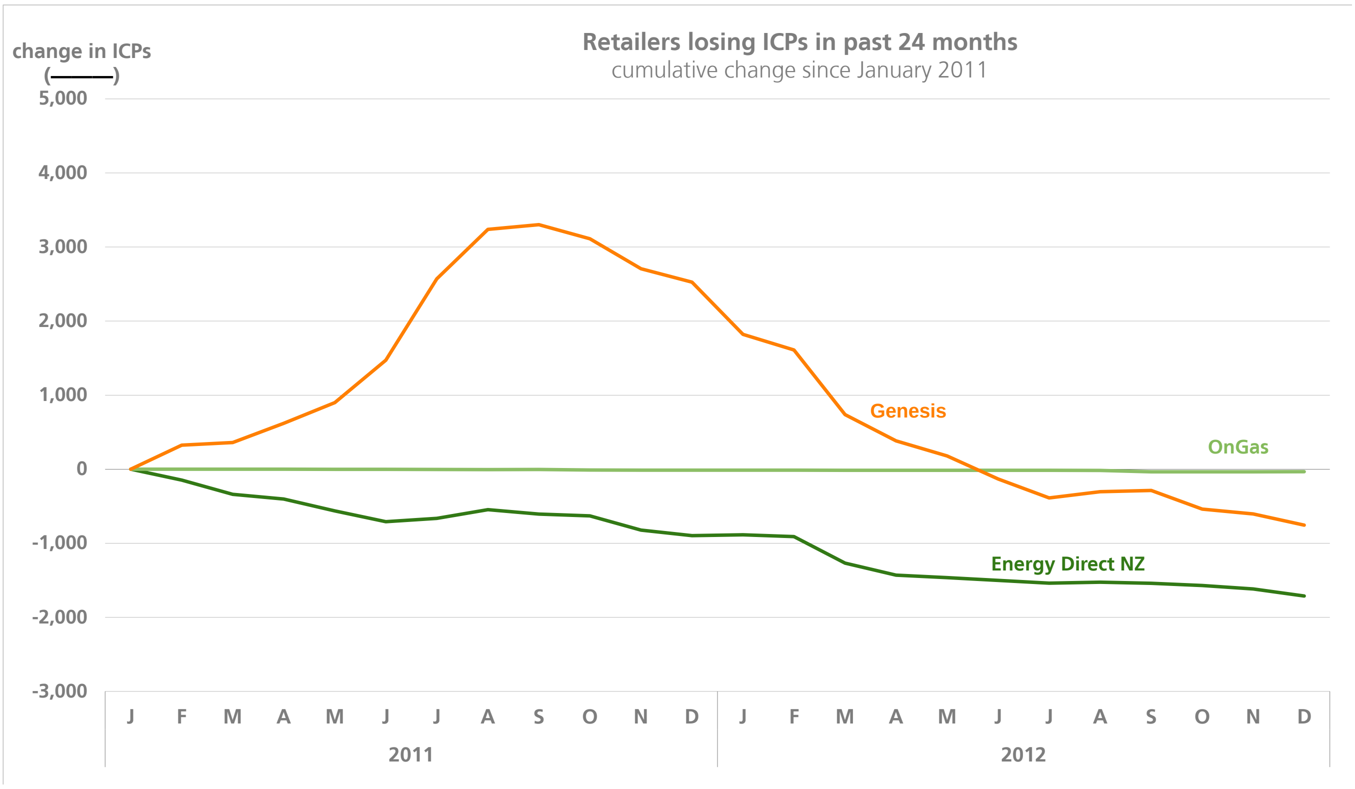
Market share of ICPs has been relatively constant over the past year, as illustrated by the chart below. The increase in Nova customers reflects the acquisition of E-Gas customers in October 2010 and the amalgamation of the Nova and Auckland Gas brands in November 2010 and June 2011.




The two charts below are drawn from the same data set. The first chart shows the change in numbers of ICPs, and the second chart shows the percentage change in ICPs, relative to October 2010.

Six retailers have experienced a net gain of customers over the past two years, as shown in the first chart below. The three retailers who have a net loss of customers over the past two years are shown in the second chart.



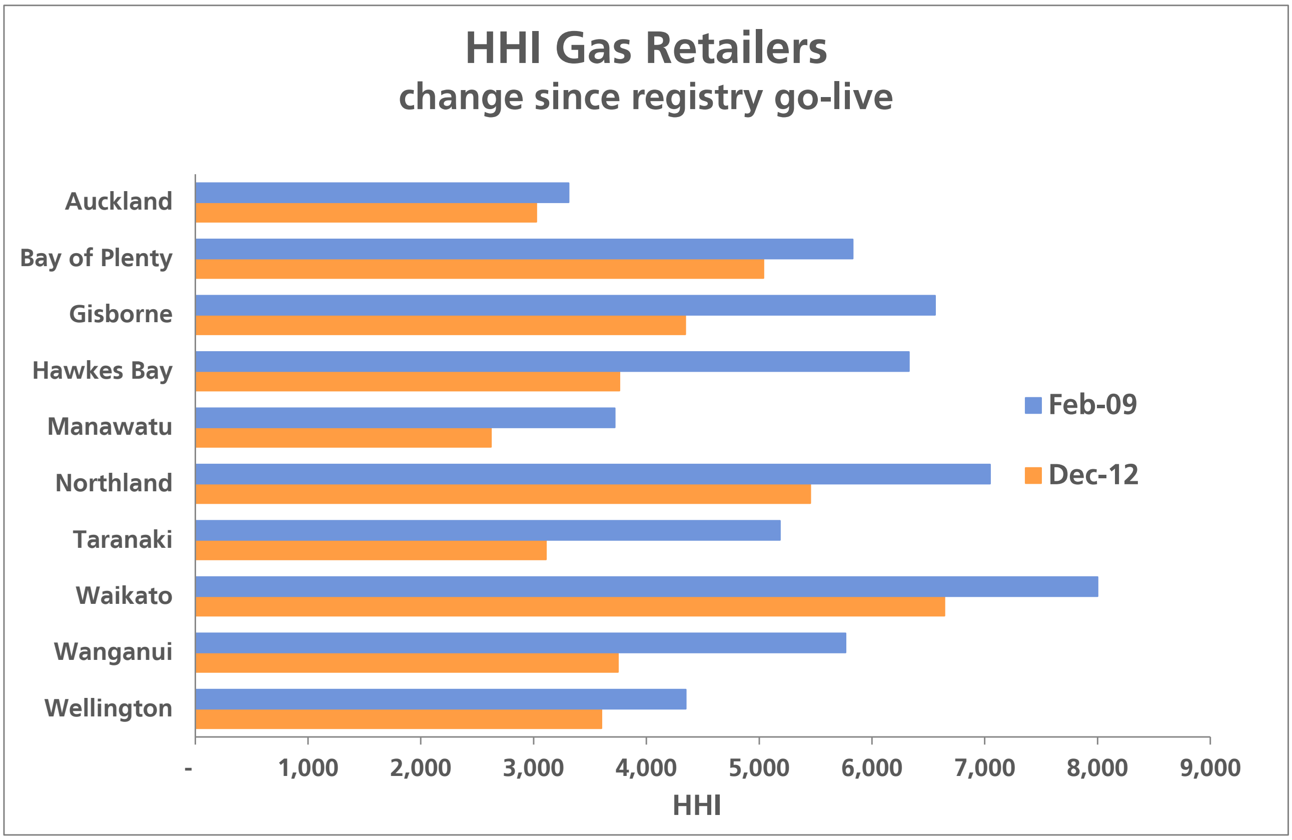

Note that all three of the ICP share charts above include data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

### Herfindahl–Hirschman Index

The Herfindahl–Hirschman Index (HHI) is one way of measuring market concentration by using size and number of competing firms. Generally, the lower the level of market concentration, the more competitive the market is thought to be. The index ranges from 0 to 10,000; a low score indicates a low level of market concentration and large number of small firms in the market, each with a small proportion of market share, while an HHI score of 10,000 would represent a market with one single firm (with 100% market share).

The chart below shows the HHI of the retail gas market as at the time the registry went live, in February 2009, and as at the end of December 2012. In all regions, the HHI has decreased from 2009 to 2012, indicating that the retail gas markets in these regions have become less concentrated.

Until 1992, when the new Gas Act disestablished local exclusive franchise areas, gas retailing occurred through local vertically-integrated monopolies. With the consequent onset of retail competition, and as in the electricity sector, these former monopoly providers became 'incumbents', subject to competing retailers vying for customers in their areas. In most regions, there is still a dominant retailer, but the decrease in HHI shows that they have become less dominant in the past four years, as new retailers have entered the market and smaller retailers have increased their market share.

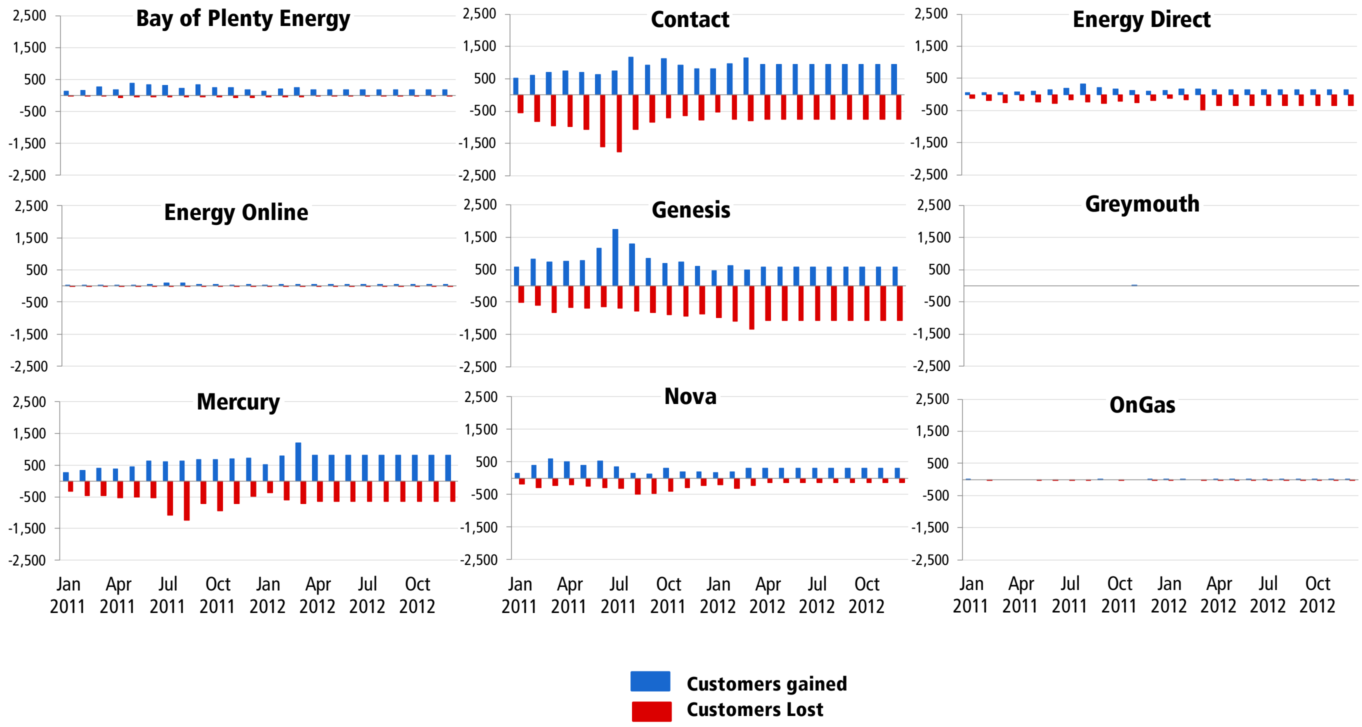


## Switching activity by retailer

This chart shows the numbers of ICPs gained and lost by retailers over the past two years. The blue bars show the number of customers gained by the retailer each month, and the red bars show the numbers of customers lost.

As shown by these charts, although the net changes in number of customer ICPs may not change significantly from month to month for some retailers, there is a lot of underlying switching activity, particularly for the mass market retailers Contact, Genesis, and Mercury.

### Switching activity by retailer



## Total gas volumes

The chart below shows the total amount of gas consumed over the past two years by all gas users. The top grey line shows total consumption; the coloured lines provide a breakdown by type of use.

The red line shows the seasonal peaks and troughs in gas used for thermal electricity generation.

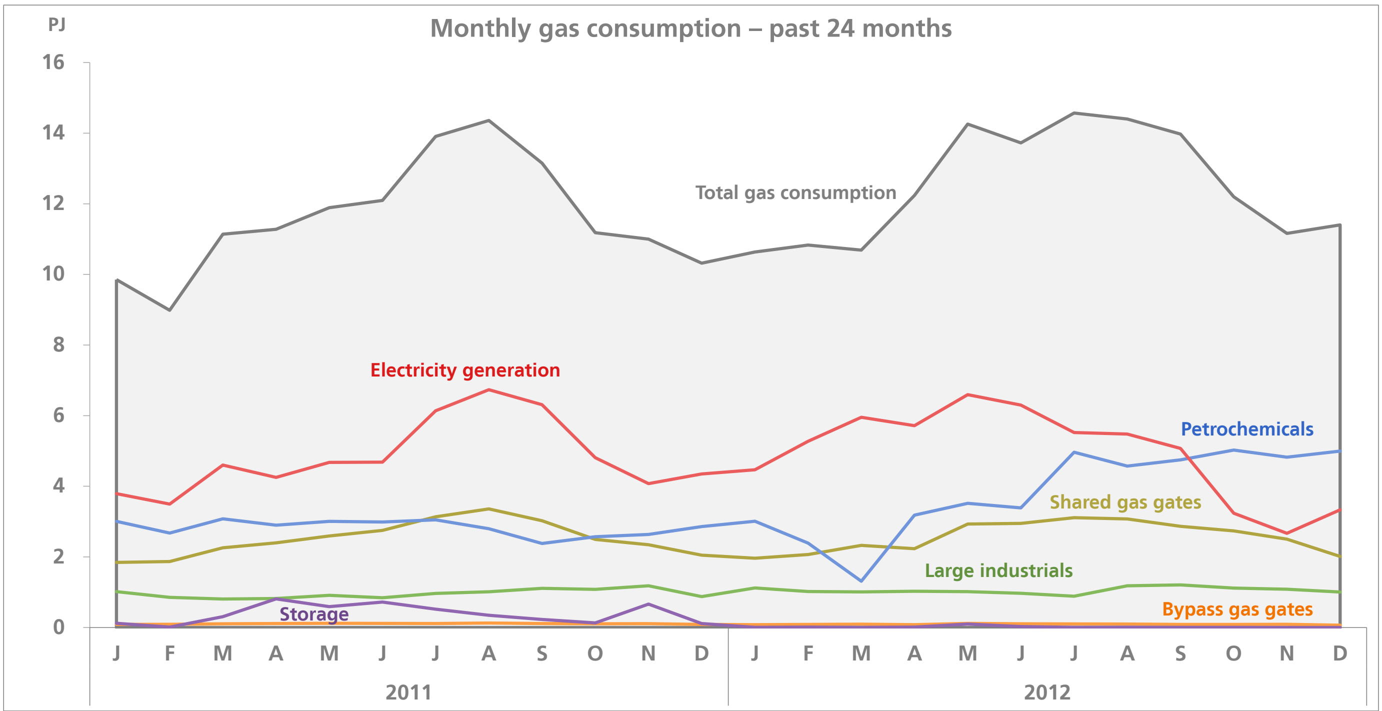
Consumption for petrochemicals, in blue, was relatively flat until March 2011. The dip in petrochemical gas consumption in March was caused by scheduled and unscheduled outages of the Pohokura production station during the month. Since July, consumption has increased under the widely reported gas sale agreement between Methanex and Todd Energy.

The green line represents volumes of gas used by large industrials, including steel, wood products, dairy processing, and oil refining.

The purple line shows the volumes of gas going to storage.

The orange line represents gas used by consumers connected to the private pipelines owned by Nova.

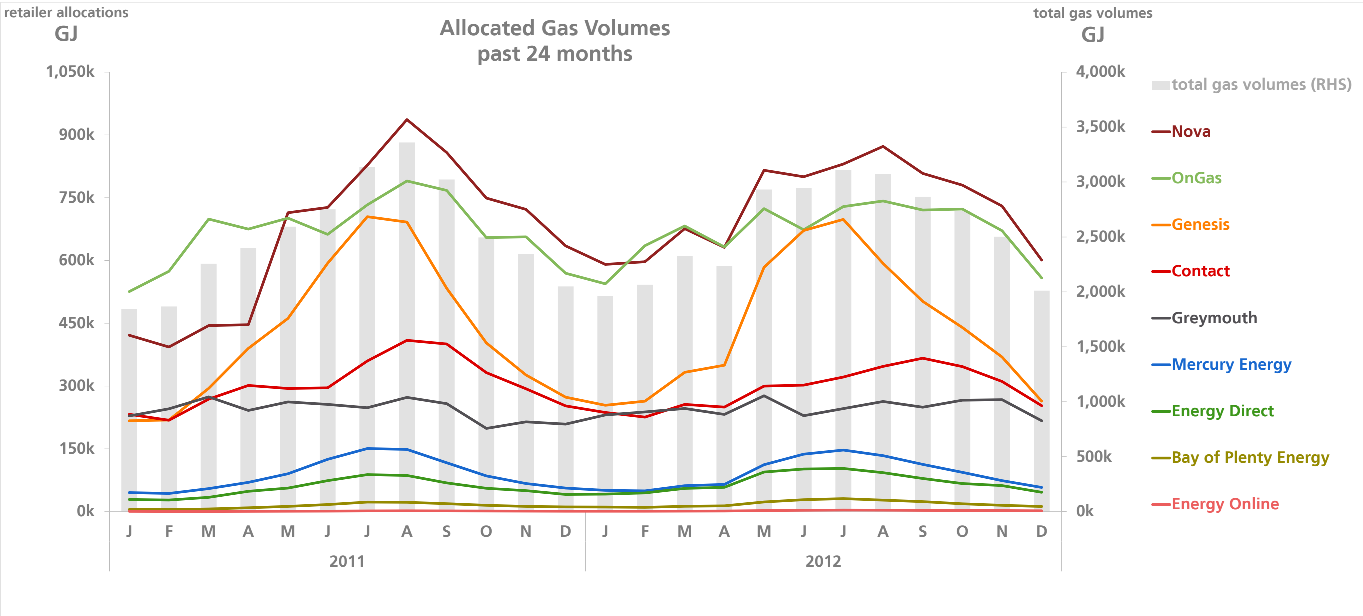
The tan line shows the amount of gas used by customers connected to shared gas gates. This represents the majority of commercial and residential customers. There is a seasonality trend to the consumption, higher in winter and lower in summer. These allocated gas volumes are broken down by retailer in the next section.



## Allocated gas volumes

This chart shows the gas volumes allocated to retailers at shared gas gates over the past two years. This is gas consumed by industrial, commercial, and residential customers, but it excludes gas volumes from direct connect gas gates; that is, from gas gates that supply a single customer directly from the transmission system. For this reason, gas volumes supplied through direct connect gas gates to such industrial sites as thermal power stations, oil refinery, and paper and chemical factories are not included in the chart below.

Nova Energy is the largest retailer by allocated volumes, followed by OnGas. Genesis, the third largest retailer by volume, has a load profile that peaks in winter and troughs during the summer. Contact, Mercury, and Energy Direct all show similar – but less pronounced – winter peaking patterns. Greymouth's share of allocated gas, in contrast, is relatively steady throughout the year, reflecting its position as largely a supplier to industrial loads.

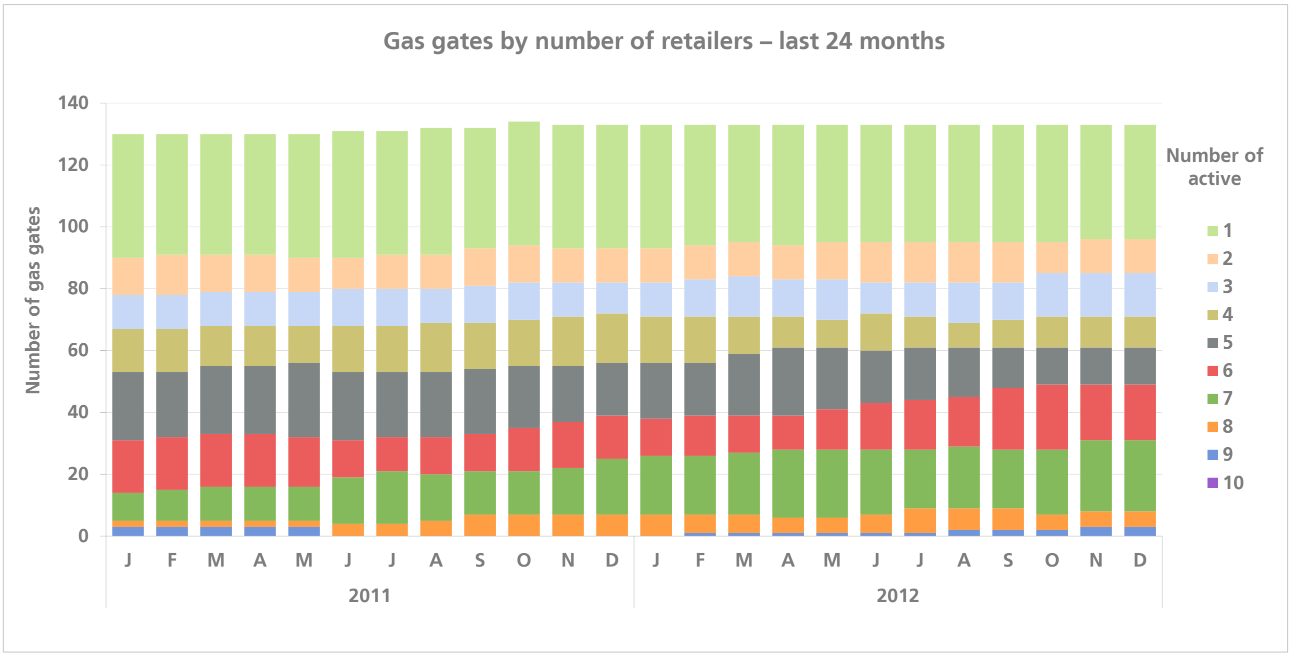



The data are from a mix of allocation stages: Final through November 2011; Interim for December 2011 through September 2012; and Initial for October through December 2012.

## Gas gates by number of retailers

This chart shows, by month, numbers of gas gates by the number of active retailers. The greater the number of retailers that trade at a gas gate, the greater is the potential competition for customers.

The chart shows that there has been a slight increase in retailers' activity at gas gates in the past year and a half. The number of gas gates with six or more retailers (the red band and below in the chart) has increased from 31 in June 2011 to 49 in December 2012.

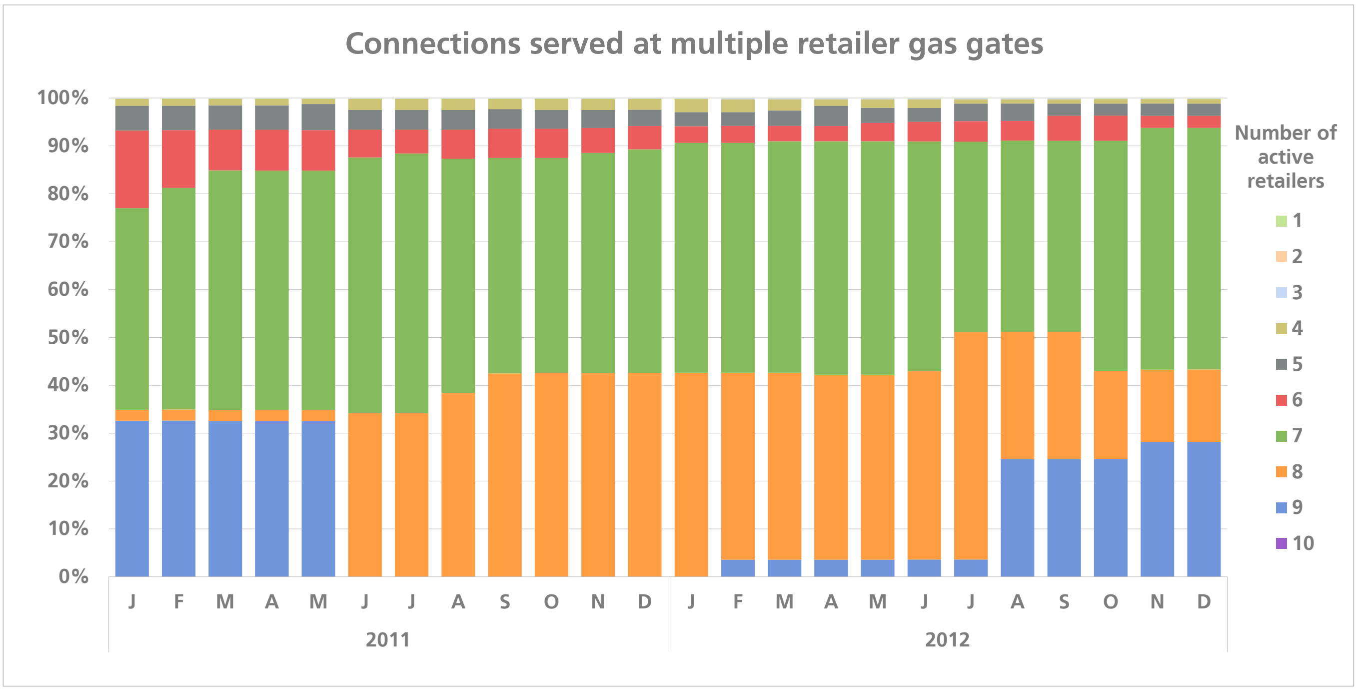


### Connections served by multiple retailers

This chart plots the proportion of gas customers who are served from the gas gates in the chart above; that is, customers served at gas gates where multiple retailers trade.

In June 2011, Nova Energy amalgamated with its Auckland Energy subsidiary, producing the step change shown in the chart below. Since then, existing retailers have slowly started moving into gas gates where they did not previously trade. There are now three gas gates at which nine retailers trade, two in the Auckland region and one in Wanganui.

Most gas customers are connected to a gate where least six retailers trade: over 96%, as of December 2012.




Note that the above chart includes data from ICPs on open-access distribution networks only; information about ICPs on bypass networks is not available in the Gas Registry.

## 6 Critical Contingency Management performance measures

There were no critical contingencies in the previous quarter. The Critical Contingency Operator is planning a test exercise of the critical contingency management arrangements in March, consistent with the requirements of the CCM Regulations.

# Strategic Progress: Quarterly Report September – December 2012

This report provides an update of progress towards Gas Industry Co's strategic goals. These reflect the Government's objectives and outcomes for the gas industry, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, as implemented through the Company's FY2012-2014 Strategic Plan.

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Strategic Goal: Efficient Use of, and timely investment in infrastructure** | | | |
| **Transmission Pipeline Balancing** | • Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. | • Assess balancing market developments.<br>• Provide advice to Minister on balancing market developments by February 2012. | • Advice to Minister on 2 March 2012 reports significant industry initiatives to improve balancing arrangements, including through a Maui Pipeline Operating Code (MPOC) change request relating to transmission balancing to take effect on 1 June 2013. Assisting industry to implement complementary balancing improvements also by 1 June 2013. |
| **Interconnection** | • Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. | • Monitor two new interconnection arrangements on each open access transmission pipeline (Vector, MDL).<br>• Review transmission pipeline interconnections and consult on any issues by the end of 2013.<br>• Investigate the extent, if any, of issues relating to access to private pipelines. | • Only one new pipeline connection (Sidewinder field) has occurred since Ministerial request. This has been reviewed and no issues have been identified. |
| **Access to Processing Facilities** | • Statutory Role under Gas (Processing Facilities Information Disclosure) Rules 2008. | • Collect, monitor, and publish disclosed information.<br>• Recommend to Minister by 27 June 2013 as to continuance, amendment, or expiry of these Rules. | • All disclosures for current year received and published on Gas Industry Co website.<br>• Statement of Proposal on proposed recommendation to Minister issued on 26 November 2012. Submissions closed 14 January 2013. |

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Strategic Goal: Build efficient, competitive, and confident gas markets** | | | |
| **Rule Changes** | • Improved industry governance through regular review of existing arrangements and recommending changes where appropriate. | • Maintain rule change registers.<br>• Review industry feedback on options paper on Reconciliation Rules review.<br>• Consult on Statement(s) of Proposal for changes to Reconciliation Rules.<br>• Review effectiveness of the Gas Governance (Critical Contingency Management) Regulations 2008 following any events/exercises.<br>• Consult on proposed changes to the Compliance Regulations. | • Statement of Proposal on Reconciliation Rules review issued July 2012; Submissions analysis published 21 November 2012; Recommendation submitted to Minister on 21 December 2012.<br>• Statement of Proposal for amendments to the CCM Regulations issued on 12 November 2012. Submissions closed on 24 December 2012.<br>• Revised Essential Services and Minimal Load Guidelines published in November 2012.<br>• Statement of Proposal issued 31 May 2012 on proposed changes to the Compliance Regulations and submissions received. A further consultation paper providing more detail of the proposed threshold regime published 21 December 2012, with submissions due by 1 February 2013.<br>• |
| **Gas Quality** | • Maintain an acceptable standard of gas quality.<br>• Ensure costs of gas quality incident are met efficiently.<br>• Achieve improved transparency on gas quality incidents. | • Ongoing review of industry arrangements for managing gas quality.<br>• Consider options for improving gas quality arrangements.<br>• Report review findings to Minister by June 2012. | • Survey of gas quality monitoring completed.<br>• Retailers establishing information exchange protocol to demonstrate compliance with gas quality requirements. |

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Insolvent Retailer Arrangements** | • Following recommendation to revoke 2010 temporary Insolvent Retailer Regulations, consider whether generic regulatory solution is required to address retailer insolvency. | • Prepare Issues and options paper for industry consultation. | • Options Paper to address possible market failure issued on 17 December 2012; submissions due by 11 February 2013. |
| **Gas Distribution Principles** | • Improved industry outcomes. Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.<br>• Ensure consistency in distribution services arrangements. | • Monitor and report annually to Minister on status of distribution arrangements.<br>• Develop and publish distribution contract Principles.<br>• Encourage publication of network services agreements. | • Minister has endorsed the Oversight Scheme and preparations underway for first assessment in February 2013. |
| **Transmission Change Requests** | • Contractual role pursuant to MoUs with MDL and Vector.<br>• Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines. | • Process MPOC change requests and VTC change request appeals in accordance with respective Memorandum of Understanding (MoU). | • Change requests and appeals processed as received.<br>• VTC change request appeal (dated 31 July 2012) draft recommendation in support of the appeal. Submissions received and are being analysed prior to formulation of final recommendation.<br>• VTC change request appeal (dated 27 November 2012) on balancing processes, peaking charges and disputed invoices issued for industry comment. Submissions due 22 January 2013. |

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Compliance** | • Statutory role under the Compliance Regulations.<br>• Improved industry operations through provision of a compliance and dispute resolution process for industry participants. | • Oversight of Gas Governance (Compliance) Regulations 2008. | • Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations.<br>• Market Administrator has made determinations on each of the 45 breach notices received from the CCO relating to apparent non-compliance by consumers with retailer curtailment directions in October 2011 Maui outage. Parties advised of the determinations. |
| **Customer Issues** | • Enhanced consumer benefits through complaints process for small gas customers. | • Liaise with the Electricity & Gas Complaints Commission (the approved complaints scheme), and other relevant regulators to remain aware of consumer complaint issues. | • Regular liaison with Electricity & Gas Complaints Commission, and bi-monthly meetings with Electricity & Gas Complaints Commission and other relevant regulators. Gas-related inquiries and complaints statistics included in Gas Industry Co Annual Report. |
| **Retail Contracts** | • Enhanced consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small users. | • Administer the Retail Gas Contracts Oversight Scheme.<br>• Annual assessment of alignment of retail contracts with contract Benchmarks.<br>• Report to Minister on the results of the 2012 assessment. | • Third assessment completed and results published on 9 November 2012. |

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Transmission Pipeline Capacity** | • Improved consumer outcomes by addressing short and long-term competition issues arising from the North Pipeline capacity constraint.<br>• Enhanced industry/consumer outcomes by improved level, and quality, of information on which to base business/energy use decisions. | • Address by regulatory and/or non-regulatory options any lessening of competition due to transmission constraints.<br>• Implement the Gas Transmission Investment Programme (GTIP).<br>• Improve the quality and availability of pipeline security standards and supply/demand information.<br>• Promote changes to commercial and regulatory arrangements so the GTIP objectives can be met. | • Continued monitoring of information provided by signatories to the 'Bridge Commitments', designed to address short-term issues.<br>• Gas Transmission Exchange (GTX) - one of the 7 Bridge Commitments - live and capacity offers have been posted and accepted.<br>• New work programme, Gas Transmission Investment Programme (GTIP), initiated to address long-term solutions to capacity issues on North Pipeline.<br>• Panel of Expert Advisers issues first advice report to Gas Industry Co (July 2012). Report issued for industry comment.<br>• PEA considering submissions and determining next steps and revised work programme. |

| Project | Rationale | Activity | Status |
|---|---|---|---|
| **Strategic Goal: Deliver effectively on accountabilities** | | | |
| **Downstream Reconciliation** | • Statutory role under Reconciliation Rules.<br>• Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs. | • Oversight of Gas (Downstream Reconciliation) Rules 2008. | • Gas reconciliations being performed each month<br>• Long-term UFG has flattened out at ~1%. |
| **Switching and Registry** | • Statutory Role under Switching Rules 2008.<br>• Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers. | • Oversight of Gas (Switching Arrangements) Rules 2008. | • Customer switching at steady-state level of ~3200 switches per month. |
| **Performance Measures** | • Improved industry and consumer outcomes through the provision of public information on industry performance.<br>• Monitor the effectiveness of governance arrangements. | • Determine and publish information on each gas governance arrangement that has been implemented. | • Performance measures computed and reported quarterly. |

| | | | |
|---|---|---|---|
| **Policy Development and Information Gathering** | • Ensure Gas Industry Co has all information required to properly analyse issues in arriving at conclusions.<br>• Industry and consumer benefits from improved level, and quality, of information on which to make business and/or energy use decisions. | • Proposal initiated following the publication in June 2011 of the FY2012-2014 Strategic Plan - to develop a process enabling Gas Industry Co to request and, if necessary, require the supply of specific information from participants to assist the timely development of market solutions. | • Developing information requests protocol and continuing to develop regulatory framework. |
| **Industry Facilitation** | • Facilitate nexus between industry and Government.<br>• Maintain informed industry participants and other stakeholders. | • Facilitate, influence and communicate with the industry and Government.<br>• Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry. | • CEO presentations to industry conferences (Downstream, 'Wind Energy, LPG). |
| **Critical Contingency Management** | • Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008.<br>• Improved industry outcomes through increased market confidence in industry's ability to manage critical events. | • Manage Critical Contingency Operator (CCO) via service provider agreement.<br>• Review effectiveness of the Regulations following any events/exercises.<br>• Operate critical contingency pool following an event. | • CCO activities monitored and reviewed quarterly.<br>• Reviewed CCO Incident and Performance Reports on the Maui Pipeline outage on 25-30 October 2011<br>• Reviewed CCO Incident and Performance reports on critical contingency event arising from a Pohokura production station outage on 3 March 2012.<br>• CCO preparing CC exercise in March 2013. |