



# Statement of Proposal on FY2014 Strategy, Work programme & Levy

**Date issued: 20 December 2012**  
**Submissions close: 8 February 2013**







### **About Gas Industry Co.**

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

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

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

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

**Submissions close:** 8 February 2013

**Submit to:** [www.gasindustry.co.nz](http://www.gasindustry.co.nz)

**Enquiries:** Greig Hinds  
[greig.hinds@gasindustry.co.nz](mailto:greig.hinds@gasindustry.co.nz)  
04 472 1800

# Executive summary

---

For eight years, the gas industry – from processing facilities, through transmission, distribution, and retail – has been governed by a unique co-regulatory model. Gas Industry Co Limited, a specially established ‘industry body’, facilitates the nexus between Government and industry to deliver improved governance arrangements for participants and consumers in gas markets. Gas Industry Co was established in 2004 to perform the role of the ‘industry body’ as set out in Part 4A of the Gas Act 1992 and, in consultation with the industry, sets an annual work programme (published as its ‘Statement of Intent’)<sup>1</sup> and the associated levy funding requirements.

Gas Industry Co is required to have regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (the GPS). The principal statutory objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Accordingly, under the Gas Act and GPS, the industry body pursues objectives and outcomes that seek:

- efficiency and reliability in the delivery of gas to consumers;
- improved competition in the gas industry; and
- reporting on the current state and performance of the gas industry.

The Company’s recommendations for gas governance arrangements must also be ‘consistent with the Government’s gas safety regime’.

This paper proposes the key elements of Gas Industry Co’s Statement of Intent and the associated levy funding required for the year ended 30 June 2014 (FY2014). While Gas Industry Co is a privately held company, it operates as a not-for-profit organisation and undertakes the performance of a public function. As such, the Company’s activities are to a large extent ‘stakeholder driven’ and thus submissions and feedback from stakeholders are sought on this proposal<sup>2</sup>.

In performing its statutory role, the Company’s corporate strategic goal is to *optimise the contribution of gas to New Zealand* and its purpose is to *provide leadership for the Gas Industry and the New Zealand Gas Story*. The following strategic objectives have then been used to frame the proposed FY2014 work programme:

- Build efficient, competitive, and confident gas markets.

---

<sup>1</sup> The Statement of Intent was formerly called the ‘strategic plan’. An amendment to the Gas Act in December 2012 changed the title of this document but not its content, which covers Gas Industry Co’s proposed scope of operations.

<sup>2</sup> Note: the Government is a key stakeholder. In particular, it sets the legislative and policy framework, particularly through Part 4A of the Gas Act and the GPS, but does not formally submit on Gas Industry Co proposals. However, the Company maintains a close working relationship with the Minister and officials to ensure policy is developed in line with Government objectives.

- Facilitate efficient use of, and timely investment in, infrastructure.
- Deliver effectively on Gas Industry Co's accountabilities as the industry body Build and communicate the New Zealand Gas Story (includes review of industry performance)

The detailed work programme proposed in this paper includes meeting statutory requirements, such as the administration of existing gas governance regulations, and also seeks to address Government and industry priorities through the completion of deliverables of key projects. This paper has been prepared after taking into consideration feedback received at the Co-regulatory Forum held at Gas Industry Co's offices on 22 November.

With the competing demands of a finite budget and the Government's desire to reduce costs imposed on levy payers, it is necessary to prioritise the projects that comprise the work programme. Priority is driven by a matrix of legal requirements; maintaining momentum on existing and committed projects; and attending to new work that is seen as a priority by stakeholders. The paper provides a framework for assessing priorities and costs, both between and within project areas. The Company has reviewed its work programme accordingly and considers that all proposed workstreams meet a priority need for the gas industry.

When consulting with industry and Government to develop the current year's work programme and budget (FY2013), we noted that good progress on major initiatives had been made in FY2012 and we expected a 'step up' in activity and therefore in cost for this year. With that increased emphasis in mind, we have forecast the expected end-point of workstreams during this year (FY2013) and we have developed a work programme for FY2014 that continues to meet the above objectives and priorities. However, we expect that the ongoing progression of this work can be achieved at a lower cost than required for this current year.

As a result, the estimated FY2014 Work Programme costs of \$5,955,684 are less than the sum of forecast costs for FY2013 (\$6,357,307). The cost of operations will be met by market fees, raised under specific gas governance regulations, and by the levy proposed in this paper. The proposed levy rates for FY2014 are: a retail levy of \$6.01 per ICP, and a wholesale levy of 1.64 cents per GJ of gas. This is a decrease from the current levy rates of \$6.23/ICP and 1.74c/GJ.

The levy is paid directly to Gas Industry Co by industry participants; however, it is recognised that consumers ultimately bear that impost through delivered gas prices that are set in a competitive market – one that is not only competitive within the gas sector but also against other fuel options – thereby limiting the ability of retailers to 'pass on' the levy. References in this paper to 'levy payers' are to those industry participants that directly pay the levy to Gas Industry Co.

A more detailed breakdown of proposed cost of operations and levy requirements is set out in section 4 of this paper.

## Potential Workshop and Submissions

Gas Industry Co is prepared to hold a workshop to discuss this Statement of Proposal on **Wednesday 30 January from 10am to 12pm** – subject to sufficient expressions of interest from industry participants. If there is insufficient support for a workshop to be held, Gas Industry Co will instead offer to meet separately with any participant(s) that expressed interest in the workshop.

Submissions on the proposals in this discussion paper should be provided by **5.00pm on Friday, 8 February 2013**. Submissions can be made by registering on Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). All submissions will be published on this website after the closing date. Submissions may be amended up to closure date. Full details of the submissions process can be found in Appendix B.

# Contents

---

<b>1</b>	<b>Legislative and Strategic Context</b>	<b>9</b>
1.1	The Role of Gas Industry Co	9
1.2	Gas safety regime	10
1.3	Gas Industry Co Strategic Direction	10
1.4	Statement of Intent (Strategic Plan) and Levy Setting Process	11
1.5	Submissions sought on this Statement of Proposal	11
<hr/>		
<b>2</b>	<b>Developing the Indicative Work Programme</b>	<b>12</b>
2.1	Prioritisation	12
2.2	Cost efficiencies	14
2.3	Delivering value for money	15
<hr/>		
<b>3</b>	<b>FY2014 Indicative Work Programme</b>	<b>16</b>
3.1	Strategic Goal: Build efficient, competitive, and confident gas markets	16
3.2	Strategic Goal: Facilitate efficient use of and timely investment in infrastructure	20
3.3	Strategic Goal: Deliver effectively on Gas Industry Co's accountabilities as industry body	24
3.4	Strategic Goal: Build and communicate the New Zealand Gas Story	28
<hr/>		
<b>4</b>	<b>Funding of Operations</b>	<b>31</b>
4.1	Sources of Funding	31
4.2	FY2014 Levy Evaluation	32
4.3	Levy breakdown	32

4.4	Proposed levy rates	34
<hr/>		
<b>5</b>	<b>Proposed Regulation Amendments</b>	<b>37</b>
5.1	Information clarity	37
5.2	Treatment of Unused Levy Funds	37
<hr/>		
<b>Appendix A</b>	<b>Recommended Format for Submissions</b>	<b>40</b>
<b>Appendix B</b>	<b>Submissions Process</b>	<b>41</b>



# 1

## Legislative and Strategic Context

---

The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' facilitates the nexus between Government and industry to deliver improved governance arrangements for participants and consumers in gas markets. Gas Industry Company Limited was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Gas Act 1992 and, together with industry, sets an annual work programme (published as its Statement of Intent) and consults on the associated levy funding requirements.

This paper presents the Company's strategy, links it to the setting of work priorities in FY2014, and proposes the level of levy required to fund this work.

### 1.1 The Role of Gas Industry Co

The overall purpose of Part 4A of the Gas Act is to 'provide for the governance of the gas industry'. Gas Industry Co seeks to achieve this through developing gas governance arrangements<sup>3</sup> that meet the objectives of the Gas Act and of the Government Policy Statement on Gas Governance (issued April 2008, the 'GPS').

The statutory objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner. Other objectives set down in the Gas Act are:

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

---

<sup>3</sup> The Gas Act provides for the making of regulations or rules; however, Gas Industry Co is required to consider all reasonably practicable options for achieving the objectives of any regulations it might consider. As such, we generally refer to 'gas governance arrangements', which includes rules, regulations, and any voluntary arrangements developed with the industry.

The GPS expands the principal objective to include consideration of fairness and environmental sustainability. It also sets out specific tasks or outcomes that the Government wants achieved for the gas industry. The GPS can be found on the Company's website<sup>4</sup>.

## **1.2 Gas safety regime**

In addition to the statutory objective of any formal gas governance arrangement to ensure that "gas is delivered to existing and new customers in a safe.... manner". When recommending gas governance arrangements, Gas Industry Co must ensure that such arrangements are 'consistent with the Government's gas safety regime'. Where appropriate, we accordingly scrutinise the potential safety implications of all proposed arrangements. There are no particular issues highlighted in this paper, but we welcome any submissions on this aspect.

## **1.3 Gas Industry Co Strategic Direction**

Consistent with the above legislative and policy framework, the Board of Gas Industry Co has set a corporate strategic direction for the Company that recognises its unique function and establishes goals that will enable it to achieve its important role in the co-regulatory model.

### **Strategic Goal: Optimise the Contribution of Gas to New Zealand**

Gas has made a key contribution to New Zealand since the development of the industry from the 1960's. There is an important role for gas going forward, particularly in terms of providing electricity supply security and supporting the New Zealand economy, all consistent with environmental sustainability goals. However, there is a range of scenarios as to future supply and demand. The challenge, in line with Government energy policy, is how New Zealand can make the most of its gas resources, for the benefit of all New Zealanders.

### **Purpose: Provide leadership for the Gas Industry and the New Zealand Gas Story**

Of its nature, the gas industry is complex and ever-changing. It is dependent on a range of players, from upstream explorers and product through to customers, and on competitive markets and ongoing investment of all stages. Gas Industry Co will be a leader, building on its statutory role as industry body, in making the next phase in the New Zealand Gas Story a success.

### **Objectives:**

- Build efficient, competitive, and confident gas markets.
- Facilitate efficient use of and timely investment in gas infrastructure.
- Deliver effectively on Gas Industry Co's accountabilities as the gas industry body.

---

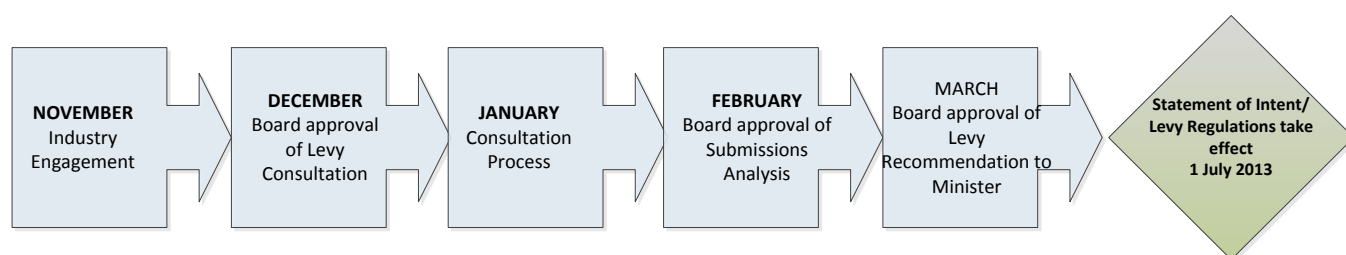
<sup>4</sup> [http://gasindustry.co.nz/sites/default/files/publications/Government\\_Policy\\_Statement\\_on\\_Gas\\_Governance\\_-\\_April\\_2008.pdf](http://gasindustry.co.nz/sites/default/files/publications/Government_Policy_Statement_on_Gas_Governance_-_April_2008.pdf)

- Build and communicate the NZ Gas Story (includes review of industry performance).

## 1.4 Statement of Intent (Strategic Plan) and Levy Setting Process

The Company must then consider the work programme necessary to achieve the goals set for it. The Company's strategy and work programme for FY2014, and an indication of further activity in FY2015 and FY2016, will be published before the start of the next financial year (1 July 2013) as the Company's Statement of Intent (SOI)<sup>5</sup>. This is a document that the Gas Act requires the Company to produce and submit to the Minister. Prior to the publication of the SOI, the Company must also recommend to the Minister regulations for a levy on industry participants to fund its work in FY2014.

The diagram below outlines the process undertaken to put in place the levy. As noted above, it operates in parallel with the development of the Company's Statement of Intent (formerly, strategic plan).



## 1.5 Submissions sought on this Statement of Proposal

Subject to sufficient expressions of interest, an industry workshop may be held at Gas Industry Co's office in Wellington from 10.00am to 12.00pm on Wednesday 30 January 2013. Formal written submissions on the levy are due by 5.00pm on Friday, 8 February 2013.

Following analysis of these submissions, Gas Industry Co will finalise its draft Statement of Intent, work programme, and recommendation for levy regulations for approval by the Board and Minister. Several statutory steps are then required to ensure the Levy Regulations for FY2014 are in place before 1 July 2013.

<sup>5</sup> The Statement of Intent was formerly called the 'strategic plan'. An amendment to the Gas Act in December 2012 changed the title of this document but not its content, which covers Gas Industry Co's proposed scope of operations.

# 2

## Developing the Indicative Work Programme

---

The indicative work programme set out in section 3 provides an outline of Gas Industry Co's proposed operations for FY2014 within a framework principally determined by statutory accountabilities, committed deliverables in existing workstreams, and continued work on the Gas Transmission Investment Programme (GTIP).

Development of a given financial year's work programme starts early in the preceding year due to the necessity of consulting thoroughly with stakeholders, a process that is impacted by the end-of-year holiday period. Gas Industry Co forecasts the expected or planned end-point of current year activity so as to determine what further work, if any, might be necessary for each workstream into the following year.

Using the current work programme as an example, we would expect that by the end of FY2013 the GTIP will result in a set of near-term improvements and a rough outline of a preferred market design for further consideration. The work in FY2014 would thus be a continuation of this, through implementing the near-term improvements and consulting with stakeholders on the market design outline.

We also reflect here on the Company's approach to prioritising workstreams and our ongoing initiatives to achieve value-for-money delivery of the work programme. Although it is always possible that unplanned, unbudgeted work might need to be undertaken in any one year – for example, recent years have seen us responding to the Maui pipeline outage, or addressing the E-Gas insolvency – the Company prefers not to budget amounts for this sort of contingency in order to keep the levy funding requirement at a reasonable level. However, this means that should unplanned work be required to be performed, the Company will need to reassess its capacity to deliver on planned milestones as set out in the Statement of Intent.

### 2.1 Prioritisation

With the competing demands of a finite budget and the Government's desire to restrain costs imposed on levy payers, it is necessary to prioritise the projects that comprise the work programme. Priority is driven by a matrix of legal requirements; maintaining momentum on existing and committed

projects; and attending to new work that is seen as a priority by stakeholders. Outlined below is a framework for assessing priorities and costs between and within project areas. As with all planning and budgeting processes, this framework and the following indicative programme need to allow for market developments and changing priorities that may see actual expenditure differing from that planned for. A good example is the development of the GTIP from late 2010, arising from industry concerns over the long-term outlook for gas transmission capacity availability in the Auckland region. This required a significant revision of work programmes and expenditure.

Gas Industry Co has reviewed its work programme and considers that each item set down for FY2014 satisfies a priority need for the gas industry. Should unplanned work arise during the year that requires urgent attention, the delivery of milestones in other workstreams may be affected as resources are re-prioritised.

### **Statutory accountability**

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

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

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

- benchmarking of small consumer retail contracts;
- implementing a scheme to compare network use of system agreements (UoSA) against a set of best-practice contract principles; and
- undertaking reviews of existing gas governance arrangements to ensure they continue to be fit for purpose and recommending changes where improvements can be made efficiently.

### **Committed and/or ongoing projects**

There are projects that Gas Industry Co has previously committed to and which are regarded as important by at least a subset of stakeholders or have been requested by the Minister for Energy and Resources. For instance, major end users and other industry stakeholders requested a focused project be led by Gas Industry Co to address the transmission capacity issues, particularly in respect of the North Pipeline owned and operated by Vector. The GTIP kicked off in FY2012 and will be substantially advanced in this current year, but more work is needed through and beyond FY2014. Other examples include:

- implementing system changes and improving operations of the Downstream Reconciliation process, including complementary changes to the Compliance regime;
- pursuing the outcomes of consultation with industry on options for addressing a retailer insolvency; and
- completing work on the review and proposed discontinuation of the gas processing facilities information disclosure regime.

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

### **Stakeholder-identified priority work**

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

Gas Industry Co is currently consulting on proposals to amend the Critical Contingency Management Regulations 2008; this review of the regulations arose out of the October 2011 Maui pipeline break. Assuming these regulations will be amended within the FY2013 period, many of the proposed changes will require active steps by Gas Industry Co in FY2014 (such as review and approval of revised essential service provider designations).

The GTIP remains a priority project for FY2014, with the Panel of Expert Advisers continuing work on both short and long term interventions.

## **2.2 Cost efficiencies**

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of organisational support services to the Company as a whole. There is a specific focus on delivering efficiency and value for money. In particular, the Company has implemented a programme to review organisational support costs, and appropriate mechanisms for ensuring that procurement decisions are managed effectively.

As well, we have considered carefully how each line item in the work programme should be budgeted. A review of past years' budgets has shown that some items – such as the Maui Pipeline Operating Code/ Vector Transmission Code (MPOC/VTC) change request reviews – are allocated funding on the prospect of work needing to be undertaken, but that work may not always arise. We have determined that it is more efficient to group certain line items and allocate an amount of funding

that is less than the sum of what has previously been allocated separately, thus achieving a modest saving in these areas<sup>6</sup>.

Cost-effectiveness is a key element in planning our work programme. For example, regarding the scope of the Gas Transmission Investment Programme, we have planned and resourced to address specific issues within the next financial year that will ultimately move the market forward, rather than jumping directly to design and development of a new market system.

While satisfied that each workstream is justifiably included in the work programme, Gas Industry Co will continue to assess the value of each workstream within the financial year. Should the need or priority for a given workstream decrease, resources originally earmarked for that work can be re-allocated or the funding saved and included in the return of any surplus at year-end.

## 2.3 Delivering value for money

The Government has indicated to Gas Industry Co that, as an entity funded by a levy on industry, the Company is expected to provide 'value for money' and 'reduc[e] business and household costs'<sup>7</sup>. The message delivered to the Company set out three objectives:

- **Clear priorities** – focusing on things that matter, including providing high quality, cost effective and customer-focused frontline services.
- **High quality services** – ensuring that services are modern, responsive, business like, and provide good value for money.
- **Reducing waste** – ensuring that administration is as efficient, streamlined, and as well organised as it can be.

Gas Industry Co's work programme has been designed to address those issues of most pressing concern to the industry, and the principal Gas Act objective for the Company is focused on the safe, efficient, and reliable delivery of gas to end-users. The Gas Industry Co team comprises experienced and professional people who are committed to operating a fit-for-purpose, best-practice organisation. Furthermore, the Company receives guidance from a Board with lengthy public and private sector experience, and includes industry representatives to cement the link between industry and Government.

The Company's operations are supported by an administrative team that consistently seeks to provide high quality support in the most cost-effective way possible. The Company's overhead costs have reduced significantly in the last three years.

---

<sup>6</sup> Of course, there is now a risk that each line item may be fully active in a given year, leading to a budget deficit, but we expect to be able to manage this risk through re-prioritisation of other work.

<sup>7</sup> Letter to Gas Industry Co from Minister Parata dated 21 November 2011.

# 3

## FY2014 Indicative Work Programme

---

### 3.1 Strategic Goal: Build efficient, competitive, and confident gas markets

#### Gas Quality

This workstream has developed in response to industry and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. In FY2014, we will assess any issues that remain on gas quality. By that time we expect to have greater clarity on what will be addressed by the retailers' Information Exchange Protocol (IEP) and to be in a position to identify any gaps.

#### Activities FY2013

- Address immediate concerns by facilitating industry-led solutions, particularly the IEP.
- Consider what further work may be required to ensure gas quality arrangements allow for the safe, efficient, and reliable delivery of gas.

#### Forecast Activities FY2014

- Continue to monitor/assess industry-led solutions for gas quality.

Work with other agencies as required to better align regulatory obligations with parties able to control outcomes.

- Consult on any substantive issues that arise and, if necessary and where feasible, implement further measures to address the Gas Act and GPS objectives.

#### Resources

A modest amount has been provided in the budget to engage external advisers to assist with any remaining gas quality issues. For budgeting purposes, this workstream is assumed to require 0.2 full time employees (FTE).



## **Rule Changes**

### **Activities FY2013**

FY2013 will see recommendations to the Minister to amend the:

- Gas (Downstream Reconciliation) Rules 2008 (Downstream Reconciliation Rules) first stage of the amendments from the 2011 Options Paper;
- Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) encapsulating what was learned from reviewing the 2011 Maui outage; and
- Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) incorporating efficiency improvements as well as consequential changes arising from the critical contingency management review.

Gas Industry Co is also progressing work on possible amendments to the Gas (Switching Arrangements) Rules 2008 (Switching Rules) and plans to address any remaining issues in FY2014.

As a consequence of the changes to the Downstream Reconciliation Rules, we will also need to convene and work with an implementation group to address transition issues and system changes.

### **Forecast Activities FY2014**

- Ongoing monitor/review of existing gas governance arrangements; implement improvements where identified.
- Address the second stage of amendments to the Downstream Reconciliation Rules.
- Implement transition arrangements for amended CCM Regulations.

### **Resources**

This workstream will require a significant amount of internal resource of 0.75 FTE in FY2014 to work with industry implementation groups; to liaise with the Allocation Agent and Registry operator; to finalise the necessary rules changes, and to address implementation and transition issues.

## **Retailer Insolvency**

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent and to determine whether permanent regulations are required to manage any future instances of insolvency. Significant interest was expressed in this area through the submissions to the retrospective consultation on the regulations made under urgency in calendar 2010. Gas Industry Co plans to release an issues and options paper in the second half of FY2013. Work in FY2014 will concentrate on the development of a Statement of Proposal, if the earlier work determines that a regulatory solution is needed. The Electricity Authority (EA) is also

undertaking work relating to retailer insolvency and Gas Industry Co will keep abreast of those developments. Nevertheless, given the structural differences in the two markets it cannot be assumed that the same solution will apply to both gas and electricity.

#### **Activities FY2013**

- Consider options available – from regulated to market-based solutions.
- Provide advice to the Minister in FY2013.

#### **Forecast activities FY2014**

- High-level design of possible governance framework and associated consultation process.
- Liaise with the EA.

#### **Resources**

At this stage it is not clear what the requirements will be in FY2014 given that we have yet to consult on the options for addressing retailer insolvency. There is a modest allowance for external advice and the budget assumes a modest internal resource of 0.2 FTE dedicated to this workstream.

#### **Distribution Principles**

The Minister endorsed Gas Industry Co's recommendation that gas distributors' contracts be assessed against a common set of distribution principles. The assessment will measure progress made by distributors in reflecting the distribution principles in their own contracts with retailers. In FY2013, Gas Industry Co will develop and implement a methodology by which adherence to the distribution principles can be evaluated.

#### **Activities FY2013**

- Design evaluation process and consult with key stakeholders.
- Evaluate UoSAs against principles and report.

#### **Forecast Activities FY2014**

- Undertake 2<sup>nd</sup> assessment as per distribution scheme requirements.
- Review and report to Minister by May 2014.

#### **Resources**

Given the previous work on designing the evaluation process for model contracts, sufficient expertise resides in-house to undertake that work, estimated at 0.25 FTE. The evaluations themselves will be contracted out using the same model as for retail contracts.

## **Retail Contracts Oversight Scheme**

In 2010, Gas Industry Co established a series of benchmarks consistent with satisfactory customer expectations and outcomes. Expected position as at end of FY2013: review of Benchmarks following transitional assessment; consult with retailers on any amendments; meet with the retailers to discuss next annual assessment

### **Activities FY2013**

- Undertake annual assessments of retailer contracts in July 2012.
- Publication of individual assessments.
- Work with retailers to promote compliance with the benchmarks.

### **Forecast activities FY2014**

- Review scheme design to consider assessing contracts by exception.
- Review of benchmarks in light of proposed consumer law reforms.

### **Resources**

This work will require 0.2 FTE to oversee the assessment work and to liaise with retailers on possible amendments and future assessments. A modest external budget is provided for the external assessors.

## **Information Gathering Project**

The objective of this workstream is to establish a framework by which Gas Industry Co can access the information it needs to settle particular issues that arise in the gas industry. By the end of FY2013, we expect that a voluntary information gathering protocol will be in place. Work in FY2014 will focus on monitoring the voluntary information gathering process and assessing the need for any further arrangements to enable the gathering of information.

### **Activities FY2013**

- Develop and implement voluntary information request protocol.
- Implement voluntary information gathering process.

### **Forecast activities FY2014**

- Monitor voluntary information gathering process.
- Consider design of further arrangements if substantive issues arise; implement further arrangements as necessary,

## **Resources**

Given that the bulk of the work is expected to be done during FY2013 it is anticipated that there should be minimal need for external advice in the latter stages of this workstream. As the information gathering process should be in place by FY2014, internal resource needed for this project will reduce. We have allowed for 0.1 FTE in the budget for FY2014 activities.

## **Gas Metering Project - New**

This is a possible new workstream that was suggested by retailers in an industry forum. The proposal is that, in line with the retail contract benchmarks and the distribution principles, Gas Industry Co should develop a set of standard terms for metering service provider contracts. Gas Industry Co seeks feedback from stakeholders on whether a standard set of terms would be viewed as valuable for meter owners and their customers.

### **Forecast activities FY2014**

- Review current state of contracting arrangements between meter owners and their customers.
- Survey other jurisdictions to identify common features.
- Develop standard terms and consult with stakeholders.

## **Resources**

As a workstream that is contingent upon receiving support from stakeholders there is a small budget for expert advice (that will be eliminated if there is insufficient support for the workstream). Gas Industry Co has not made a specific allowance for internal resources, on the assumption that this would require a low level of activity and is likely to be able to be fitted around other work.

## **3.2 Strategic Goal: Facilitate efficient use of and timely investment in infrastructure**

### **Gas Transmission Investment Programme**

The GTIP arose from industry concerns over the long-term outlook for gas transmission capacity availability in the Auckland region. The GTIP encompasses a number of interlinked projects relating to the efficient use of and timely investment in infrastructure.

### **Bridge Commitments**

The Bridge Commitments are a package of seven measures that Vector and gas shippers have agreed to undertake to address the short-term issues large end users on the constrained North Pipeline are facing. In FY2014, Gas Industry Co will continue to monitor the effectiveness of these commitments in enhancing retail competition on the North Pipeline.

**Activities FY2013**

- Monitor tenders
- Monitor capacity trading activity
- Operate the capacity trading bulletin board (Gas Transmission Exchange, GTX)

**Forecast activities FY2014**

- Monitor tenders
- Monitor capacity trading activity
- Operate the capacity trading bulletin board (Gas Transmission Exchange, GTX)

**Resources**

Experience has shown that a significant amount of resource is required to monitor and report on the Bridge Commitments. Provision has been made for 0.2 FTE.

**Gas Demand Outlook**

As part of the GTIP work, Gas Industry Co commissioned the first dedicated study on gas supply and demand. The model and accompanying report were completed in FY2013 and will be used to assess the likely need for, and timing of, additional investment in transmission capacity or its alternatives.

**Activities FY2013**

- Develop gas/supply/demand scenarios and test these with stakeholders

**Forecast activities FY2014**

- Run scenarios as required by other GTIP projects (this requires a decision on who is best to 'own' the model going forward; the budget assumption is that Gas Industry Co will be the custodian and will have the model and accompanying report updated every two years).
- Use model to assist with testing investment options for transmission or non-transmission alternatives.

**Resources**

Assuming the model is not updated in FY2014, it is likely that this workstream will require 0.25 FTE for scenario testing/analysis and moderate external resource.

## **Testing Investment Options**

At the core of the GTIP is ensuring that there is a clear pathway to investment in gas transmission infrastructure. This is important not only to a North Pipeline investment, but also for any potential future investment by a gas transmission owner. If the pathway is unclear, or obstructs investment, there is a risk that necessary investments are delayed or do not occur.

### **Activities FY2013**

- Investigate options for implementing new transmission capacity where that is required.
- Work closely with the Commerce Commission and other stakeholders to understand how prospective new investments will be developed.

### **Forecast activities FY2014**

- Identify and analyse any obstructions to efficient investment options that may exist within the current industry structure and regulatory context.

### **Resources**

This project will tackle issues that are fundamental to the future health and development of the industry. Initially a seed paper will be required to describe the investment landscape and identify the features that require attention. A budget for specialist advice and internal resource 0.5FTE is provided for.

## **Transmission Access and Pricing**

The transmission access and pricing project aims to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of the open access transmission pipelines. It is being advanced with assistance and advice from a Panel of Expert Advisers (PEA) and a Panel of Strategic Advisers (PSA). In general terms the thrust is to evolve the existing transmission arrangements so as to improve productive, allocative and dynamic efficiency. The longer term question then becomes whether more fundamental changes would bring about further efficiency improvements that would justify the additional investment of industry time and resources.

### **Activities FY2013**

- Identify near-term improvements that will move transmission arrangements closer to the characteristics of the ideal transmission market.
- Facilitate implementation of those improvements by industry arrangements and/or regulation as appropriate.
- Continued engagement and communication/consultation with the wider gas community.

### **Forecast activities FY2014**

- Largely a continuation of the FY2013 activities.
- The focus will move from design to detailed implementation plans and processes.
- Secretariat support for PEA and PSA as required.

### **Resources**

This project will continue to be a key focus for Gas Industry Co with a significant external budget for specialist advice and internal resource of 2FTE.

### **Transmission Pipeline Balancing**

Expected position as at end of FY2013: MPOC change implemented as is associated VTC change; review status of balancing issues; report progress to Minister.

### **Activities FY2013**

- Facilitate industry-led initiatives; participate in appeals in relation to required VTC changes to accommodate MPOC balancing change.

### **Forecast Activities FY2014**

- Consider need for any regulated solutions if industry-led initiatives inadequate. If such action is needed, it is likely to be subsumed by, or at least delayed until, outcomes of GTIP access and pricing work are known.

### **Resources**

This workstream has connections with GTIP, code changes, downstream reconciliation and the wholesale market. Accordingly, although no specific allocation of external resources has been made for the workstream, any requirement for external advice will need to come from a pool that has been set aside for balancing, interconnection, and code changes.

### **Interconnection**

Gas Industry Co has an established set of guidelines that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. As agreed with the Minister, as interconnections occur, we assess new transmission interconnection processes against these guidelines, with a view to determining whether interconnection policies present undue barriers to entry.

#### **Activities FY2013**

- New interconnections reviewed following commissioning – monitor two new interconnection arrangements on each transmission pipeline and advise Minister of any new interconnection issues by 2013

#### **Forecast activities FY2014**

- Dependent on interconnection activity.

#### **Resources**

There is no specific provision for this work as there is no forward information on the rate of new connections. However, given the sporadic nature of interconnections and the low level nature of the work required to review them it is considered that this can be fitted within the available resources. External advice will be provisioned from a pool shared with balancing and code changes.

#### **Code Changes and Appeals**

Under memoranda of understanding with MDL and Vector, Gas Industry Co processes MPOC change requests and VTC change request appeals.

#### **Activities FY2013**

- Process MPOC change requests and VTC appeals as required.

#### **Forecast activities FY2014**

- Process MPOC change requests and VTC appeals as required.

#### **Resources**

Although somewhat variable, experience shows that the rate of code changes and/or appeals requires approximately 0.25 FTE per annum. In addition, there are sometimes legal issues to consider and this will be provided from a shared pool.

### **3.3 Strategic Goal: Deliver effectively on Gas Industry Co's accountabilities as industry body**

#### **Access to Gas Processing Facilities**

The Gas (Processing Facilities Information Disclosure) Rules 2008 gather information on gas processing facilities with a view to settling the issue of whether access to such facilities should be regulated.



Under these Rules, Gas Industry Co receives and publishes information on the capability of, and availability of capacity at, gas processing facilities; it also monitors responses to requests for third party access to gas processing facilities.

Prior to the expiry of the Rules in 2014, Gas Industry Co will need to consult with gas processing facility owners and the wider industry on experience with the Rules and whether further regulation or other action is required.

#### **Activities FY2013**

- Receive and publish returns from processing facility owners.
- Receive reports from access-seekers (if any).
- Survey facility owners and consult on expiration of Rules.
- Consult.
- Provide recommendation to Minister in FY2013.

#### **Forecast activities for FY2014**

- Receive and publish returns from processing facility owners.
- Receive reports from access-seekers (if any).
- Develop any ongoing regulatory processes (depending on advice to the Minister)

#### **Resources**

The resource requirements for this work are modest at <0.1 FTE and this work is funded entirely from the levy. Internal resources are engaged in reminding facility owners that returns are due, receiving and publishing those returns, and following up with any overdue returns should that happen. This will be the last year in which this activity is required.

#### **Downstream Reconciliation**

The purpose of the Downstream Reconciliation Rules is to establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities. Under these Rules, Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and other Rule provisions. Gas Industry Co also monitors allocation results so as to identify, at an early stage, any issues so that they may be addressed in a timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, identify issues to Gas Industry Co or the Allocation Agent.

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

#### **Forecast activities FY2014**

- Monitor Allocation Agent.
- Assess ongoing performance of the Rules.
- Monitor allocation results.
- Commission performance and event audits as required.
- Make determinations under the Rules as required.

#### **Resources**

Significant resources are required for this workstream. These take the form of approximately 0.5 FTE within Gas Industry Co, plus the service provider arrangements with the Allocation Agent. The first of these is funded from the levy while the second is funded by way of market fees.

#### **Compliance**

The Compliance Regulations are an overarching set of regulations that provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as a low-cost means of settling rules breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

As new rules have been introduced these have typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's quarterly performance reports<sup>8</sup> demonstrate that 'teething troubles' with new rules/regulations are short-lived and compliance activity typically sits at a fairly low level.

#### **Forecast activities FY2014**

- Perform the Market Administrator role.
- Assist the Investigator and Rulings Panel as required.

---

<sup>8</sup> These reports can be found on the Gas Industry Co website: <http://gasindustry.co.nz/work-programme/performance-measures/performance-measures-quarterly-reports>

- Monitor regulations for effectiveness.

### **Resources**

Each of the Investigator and Rulings Panel is engaged as prescribed by the Compliance Regulations. Those costs, and any associated expenses, are funded by market fees as provided for in the Compliance Regulations. The Market Administrator role is undertaken by Gas Industry Co and accounts for 0.75 FTE. Once matters are referred for investigation or referred to the Rulings Panel, the input from Gas Industry Co will increase, potentially substantially, in significant and complex cases. Accordingly, the resources required in this area are almost entirely demand-driven.

### **Switching**

The Switching Rules have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised database, the gas registry, that stores key parameters about every customer installation and monitors each switch from initiation through to completion.

### **Forecast activities FY2014**

- Monitor gas registry service provider.
- Assess ongoing performance of the Rules.
- Monitor switching statistics.
- Make determinations under the Rules as required.

### **Resources**

Although this was previously resource-intensive, particularly in the first year of operation, administering the Switching Rules is now a relatively low-level activity. Gas Industry Co has allowed for 0.25 FTE internally, thus the levy-funded resources are minimal. The service provider is funded from market fees.

### **Critical Contingency Management**

The purpose of the CCM Regulations is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. These regulations provide for the appointment of a Critical Contingency Operator (CCO,) and that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as training and running exercises.

### **Activities for FY2013**

- Monitor the CCO under the Service Provider Agreement.

- Appoint/monitor service providers as required.
- Monitor exercises and events as required,
- Administer contingency pool as required.

#### **Forecast activities for FY2014**

- Monitor the CCO under the Service Provider Agreement.
- Appoint/monitor service providers as required.
- Monitor exercises and events as required.
- Administer contingency pool as required.
- Process ESP/MLC applications and manage the transition for the amended CCM Regulations

#### **Resources**

The transition arrangements in the recommendation to the Minister mean that activity for this workstream will increase in FY2014 and this is likely to require 0.5 FTE.

### **3.4 Strategic Goal: Build and communicate the New Zealand Gas Story**

#### **New Zealand Gas Story**

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. As reflected in the Company's corporate strategy, there is a role for Gas Industry Co to take a wider look at the industry and to stitch together – through analysis and debate – the wider New Zealand Gas Story.

Work is accordingly progressing on our State and Performance of the Gas Industry Review (which we also refer to as the 'New Zealand Gas Story'). Apart from fulfilling the statutory reporting requirement, this work is intended to help the industry shape its own future in a more strategic sense. In addition to a Review document, the New Zealand Gas Story is communicated through such channels as Gas Industry Co's website, the Company's annual and quarterly reports, and presentations to various stakeholder groups by the Chief Executive.

#### **Activities FY2013**

The Review will be released early in the second half of FY2013 and will reference the current status of other highly relevant developments and workstreams, including the GTIP and the completed Consumer Energy Options Report and Supply/Demand Study.

### **Forecast activities FY2014**

The New Zealand Gas Story will be a living document, with regular updates to capture new statistics as they are published, as well as changes occurring in the industry. The initial Review is focused on natural gas and consideration is being given to extend its coverage to include LPG.

### **Resources**

This work is predominantly carried out internally utilising staff mainly within the Chief Executive's team and the Corporate Services Group. Other staff resources from across the Company may be called upon from time to time. A small degree of specialist external input has been engaged for particular aspects of the Review, such as gas pricing, and external printing costs and some design work is required.

### **Statement of Intent (Strategic Plan) and Annual Report**

The Gas Act requires that the industry body to provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, the Statement of Intent is required to be submitted to the Minister for comment prior to being finalised and published. As evidenced by this paper, both documents are developed in close consultation with industry participants and other stakeholders.

### **Forecast activities FY2014**

- Prepare/publish Statement of Intent (Strategic Plan) to meet statutory timeframes. Requires Ministerial approval.
- Prepare/publish Annual Report, provide to the Minister, provide copies for tabling in the House.
- Prepare/publish quarterly reports to the Minister.

### **Resources**

This work is predominantly carried out internally utilising staff resources from across the Company. External printing costs and some design work is required, although these are increasingly reduced by using email and website communication.

### **Quarterly and Monthly Reporting**

#### **Forecast activities FY2014**

- Quarterly Report
- Compliance reporting
- Performance measures reporting

- Switching statistics reporting

*Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2014? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.*

*Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2014? Please provide reasons for your response.*

*Q3: In particular, do you consider that work should be undertaken with respect to metering arrangements? Please provide reasons for your response.*

# 4

## Funding of Operations

---

The preceding chapter described the indicative work programme and how that work seeks to achieve the Company's strategic objectives within the ambit of the Gas Act and the GPS.

Broadly speaking, the activities of the Company fall into two categories: 1) monitoring and administering gas governance arrangements, and 2) policy development and industry facilitation. These activities are carried out predominantly by Gas Industry Co staff, but some projects also require the engagement of external consultants to provide specialist input. Variable support costs are subject to ongoing review to ensure value-for-money and to reduce waste (as per the Government's request noted in section 2.3 above).

### 4.1 Sources of Funding

The Company has two main sources of funding to meet the total cost of operations as described above.

#### Market Fees

The Gas Act provides that money directly required to administer the various gas governance arrangements currently in place may be recovered through separate levies (called 'market fees') imposed pursuant to each set of rules or regulations. The fees cover the contractually-agreed costs of any service providers (such as the Allocation Agent, or the Registry Operator) and any other expected direct costs related to the monitoring and improvement of those arrangements.

It must be noted that the figure used in this paper with respect to anticipated market fees is a 'placeholder' based on best-available information at the time of writing. A formal estimate of market fees for each set of rules or regulations is published later in the year<sup>9</sup>. As well, market fees collected are only applied to actual expenses incurred for each set of rules or regulations; any shortfall is collected in the following year's market fee, or any excess fees are returned to the market fee payers in a year-end 'wash-up'.

As such, the level of market fees does not affect the levy funding requirement. However, Gas Industry Co consults on the total work programme cost to ensure full transparency around its costs of

---

<sup>9</sup> Most market fee estimates are published two months before the financial year starting 1 July. Market fees for the Downstream Reconciliation Rules are published two months before the gas year (starting 1 October).

operation. Also, staff resources and other business costs that contribute to the operation of governance arrangements are not met from market fees, but are levy-funded expenses.

### **Levy**

The levy covers all the other costs of the industry body's operations, including the direct costs of workstreams and organisational support costs for the business.

## **4.2 FY2014 Levy Evaluation**

The Company is committed in this current year to continuing with the GTIP and the CCM Regulations review. This demanding work will continue into FY2014.

A description of this work programme and the corresponding indicative levy funding required was presented to stakeholders at the Co-regulatory Forum on 22 November 2012. Gas Industry Co considers it to be a cost-effective plan to tackle a substantive redesign of transmission arrangements; there was no opposition voiced at the forum with respect to the proposed work items or indicated costs.

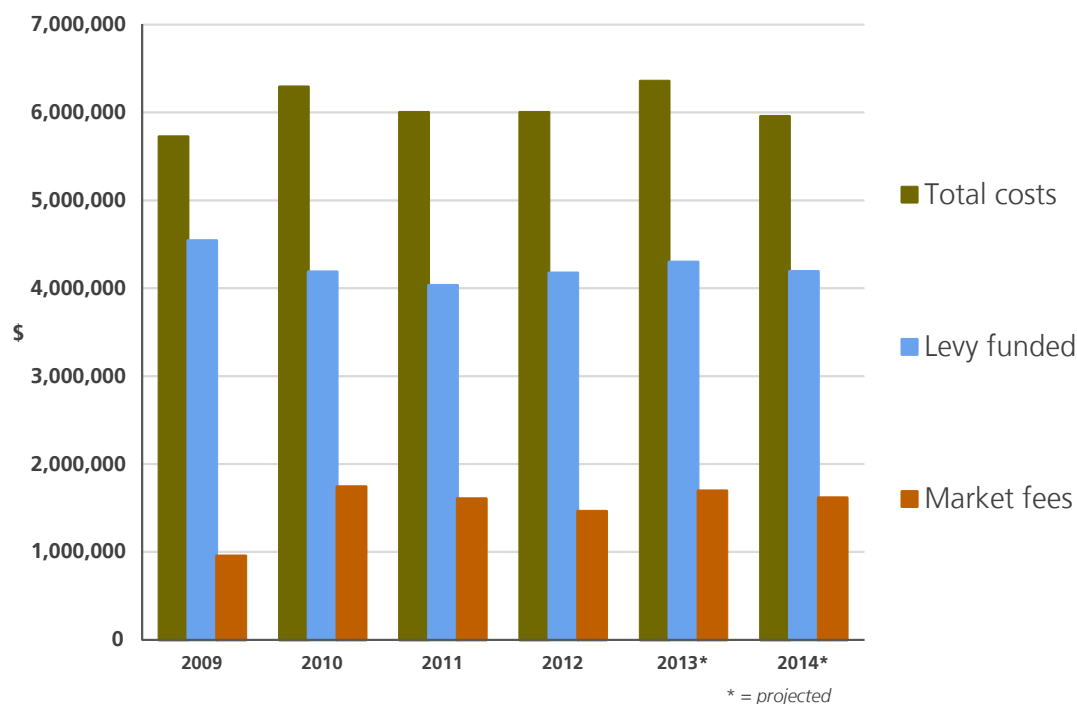
Considering the expected end-point of workstreams during FY2013, we have developed a work programme for FY2014 that continues to meet the stated objectives and priorities. However, the estimated Work Programme Costs for continuing the current scope of activity are expected to be lower in FY2014 - \$5,955,684 as compared with \$6,357,307.

## **4.3 Levy breakdown**

As described earlier, the work programme for FY2014 is aimed at achieving the Company's strategic goals. The following chart shows total historic work programme costs for FY2009-12, and projected costs for FY2013 and 14. The blue and grey bars show the proportion of costs met by the levy (blue) and market fees (grey).



**Chart 1: Historical and projected work programme costs**



Costs are further broken down in the following table in terms of the Indicative FY2014 Work Programme set out in this paper.

**Table 1 FY2014 Work Programme Costs**

Description	\$
<b>Strategic Objective 1: Build efficient, competitive, and competent markets</b>	
Comprising: <i>Gas quality; Rule Changes; Retailer Insolvency; Distribution Agreement Principles Oversight Scheme; Retail Contract Benchmarks Oversight Scheme; Information Gathering; Gas Metering</i>	915,637
<b>Strategic Objective 2: Facilitate efficient use of and timely investment in infrastructure</b>	
Comprising: <i>Gas Transmission Investment Programme (Bridge Commitments, Supply/Demand Outlook, Testing investment options, Market Projects, Panel of Expert Advisers, Panel of Strategic Advisers); Transmission Pipeline Balancing; Interconnection; Code changes and appeals</i>	1,918,131
<b>Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as industry body</b>	
Comprising: <i>Gas Processing Facilities; Downstream Reconciliation; Switching &amp; Gas Registry; Critical Contingency Management; Statement of Intent (strategic plan) and Annual Report</i>	2,942,142

Description	\$
<b>Strategic Objective 4: Build and Communicate the New Zealand Gas Story</b>	
Comprising: <i>Gas Story Project; Stakeholder Communications (Quarterly Reporting, etc)</i>	179,774
<b>Total work programme costs</b>	<b>5,955,684</b>
<b>Estimated to be met by Market Fees</b>	<b>1,615,025</b>
<b>Levy funding Requirement (excludes system asset amortisation)</b>	<b>4,190,624</b>

#### 4.4 Proposed levy rates

The levy funding requirement of \$4,190,624 will be collected monthly based on rates per active-contracted ICPs and the volume of wholesale gas purchases (per gigajoule of gas).

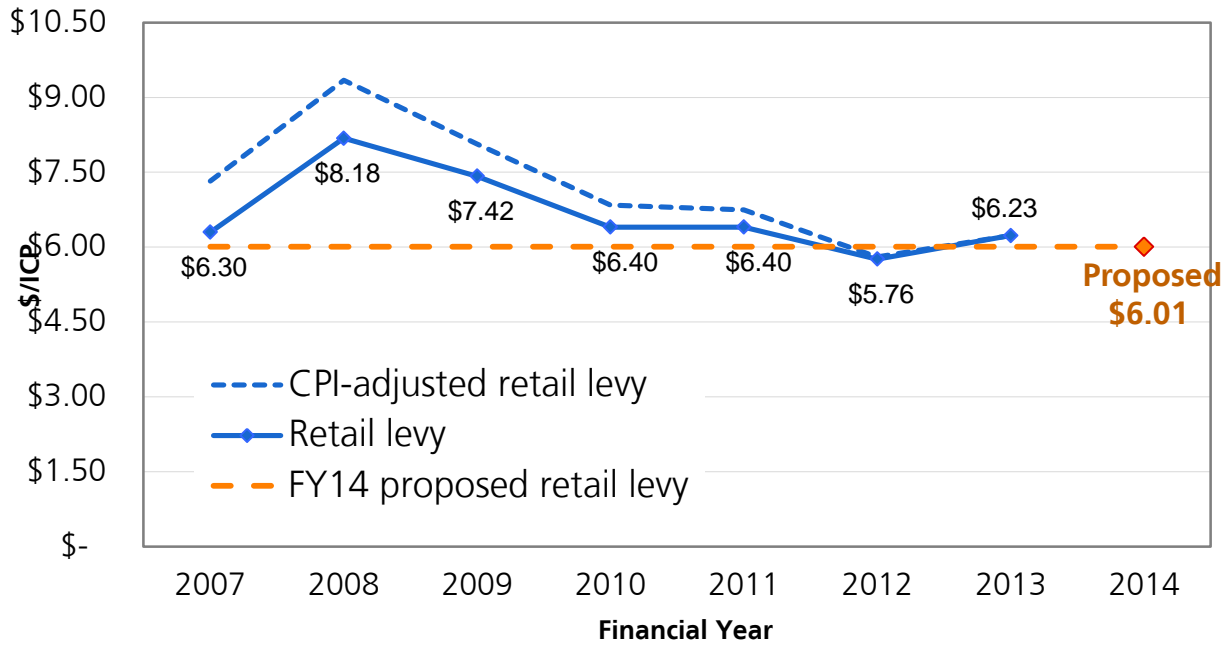
The proposed levy rates for FY2014 are:

- a retail levy of \$6.01 per ICP, and
- a wholesale levy of 1.64 cents per GJ of gas.

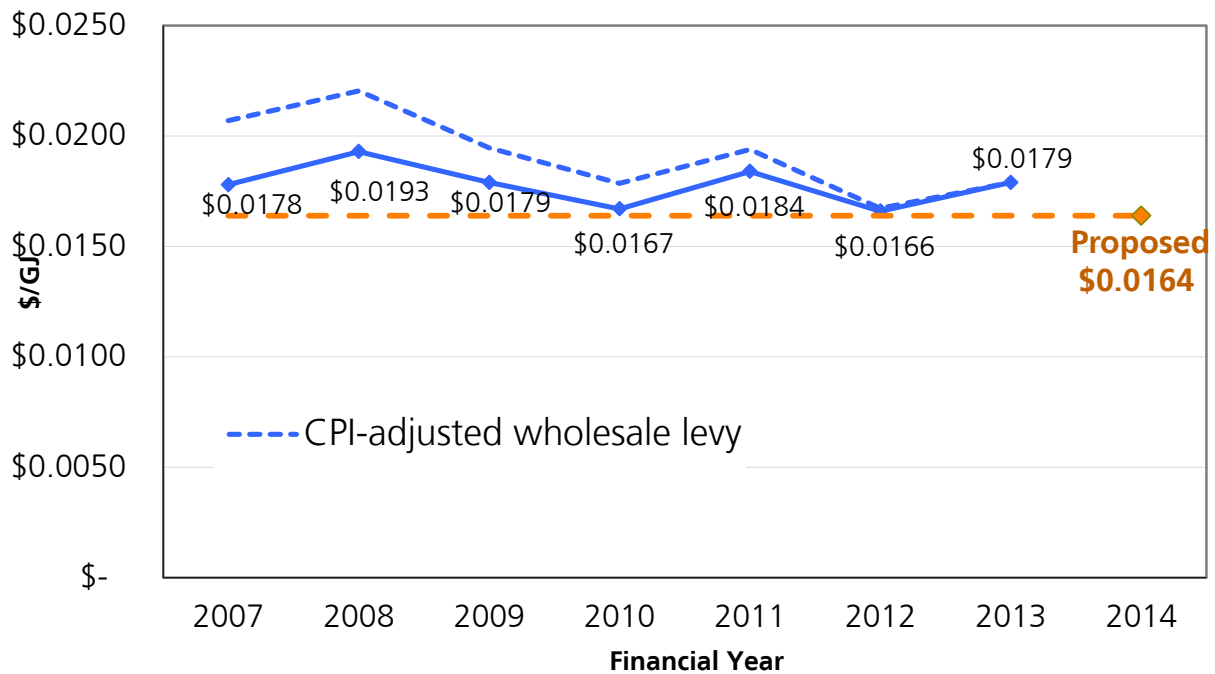
This is a decrease from the current levy rates of \$6.23/ICP and 1.74c/GJ.

The following two charts show how the different levy components (retail and wholesale) have tracked over the last five years.

### Retail levy comparison



### Wholesale levy comparison



Q4: *Do you have any comment on the proposed levy for FY2014?*

# 5

## Proposed Regulation Amendments

---

The regulations that provide for the Gas industry Co levy must be struck each year. As such, the Company takes the opportunity each year to review the operation of the regulations and consider whether any amendments need to be made to the otherwise uniform arrangements.

### 5.1 Information clarity

When consulting on the levy arrangements for FY2012, the Company raised a concern about the auditing of information on levy returns. Following instances of industry participants discovering and rectifying under-reporting of gas volumes, Gas Industry Co identified that there was no mechanism in the levy regulations to verify the information supplied with respect to wholesale gas purchases.

It was determined that this issue required an amendment to the Gas Act. Gas Industry Co advised the then Ministry of Economic Development (MED, now MBIE<sup>10</sup>) of the need for this amendment and such a change was included in the Statutes Amendment Bill (No 3) 349-1 (2011). That Bill passed after its third and final reading on 6 December 2012; its date for entry into force is unknown at the time of writing but will most certainly be effective by the time the levy regulations for FY2014 are written in March 2013.

The amendment to the Gas Act enables the Company to seek clarity and verify information provided with respect to levy payments. A mechanism for verifying levy return information will be included in the FY2014 levy regulations.

### 5.2 Treatment of Unused Levy Funds

The Board of Gas Industry Co currently maintains a policy of returning unused levy funds from a given financial year to levy payers once that financial year has concluded, and once the Board is satisfied that the unused funds are not needed for the Company's operations in the current financial year. This policy addresses two aspects of the Company's funding model:

- First, the variability of gas volumes in any one year is such that it is difficult to accurately forecast the gas volumes on which to base the wholesale levy rate. Consequently, if actual gas volumes exceed

---

<sup>10</sup> Ministry of Business, Innovation, and Employment.

the forecast, the Company will collect more revenue than it budgeted to spend. The policy provides a mechanism to return that over-collection to the industry participants that pay the levy.

- Second, the work programme and levy rate are developed and consulted on approximately six months before the start of the relevant year to which they apply. As such, between the time that the levy recommendation is submitted to the Minister and the regulations come into force, unplanned events might occur that then give rise to new, unbudgeted workstreams. The policy recognises that, notwithstanding the re-prioritisation of workstreams, the Company may not have sufficient revenue budgeted to cover the new expense.

In the consultation round for the FY2013 levy regulations, the Company proposed a new wholesale levy collection method that would have reduced the variability of revenue. The monthly allocation and year-end wash-up method proposed is the same as that currently employed for the collection of some market fees. Submissions from industry participants were mixed and the proposal did not proceed.

However, the issue of variability between forecast gas volumes and actual gas volumes remains, giving rise to the continued possibility of Gas Industry Co accumulating unnecessary cash reserves through the year. We see several options for addressing this issue and seek industry input on these suggestions.

- Status quo – the status quo would see Gas Industry Co continue to forecast a conservative level of gas volumes on which to then base its wholesale gas levy rate. If volumes are under-estimated, the Company accumulates excess funds that are returned to levy payers once the financial year is complete and final audited accounts received at the Annual Meeting. If volumes are over-estimated, the Company will be under-funded and work may need to be halted or deferred, and any deficit recovered through a subsequent or special levy round.
- Monthly allocation and year-end wash-up – as discussed in the last levy round, a set funding amount for the 'wholesale workstreams' would be determined for each month and the levy allocated to levy payers according to each participant's share of gas volumes from the previous month (as reported by those participants). A 'wash up' would be calculated at the end of the year to ensure participants' annual share of gas volumes determined their annual allocation of levy charges. The risk of over-collection is reduced as the Company only collects the budgeted amount each month. The inconvenience for participants is that the monthly rate of the levy may vary making it difficult to advise customers of the confirmed price of gas supply, but this could be mitigated by prompt publication of the monthly rate.
- Intra-year refund/calibration – this option would require amending the regulations to allow for either a direct refund of excess levy funds accumulated to a certain point, say each quarter but subject to the Company having discretion to retain some contingency, or allow for a mid-year rate change to recalibrate the wholesale levy rate based on volumes thus far reported and allowing for a reforecast of year-end volumes. This option would allow for excess funds to be returned directly or slowly

reduced as the rate-change manifests. There may be a similar rate uncertainty as with the monthly option above, and levy payers that are required to pass-through any levy returns to their customers may prefer to return one bulk amount at the end of the year, rather than smaller amounts during the year.

The views of stakeholders are welcome regarding the best approach to the treatment of unused levy funds.

*Q5: Do you have any comment on the regulatory amendments described in section 5?*

# Appendix A Recommended Format for Submissions

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

Submission prepared by: (company name and contact)

QUESTION	COMMENT
Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2014? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.	
Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2014? Please provide reasons for your response.	
Q3: In particular, do you consider that work should be undertaken with respect to metering arrangements? Please provide reasons for your response.	
Q4: Do you have any comment on the proposed levy for FY2014?	
Q5: Do you have any comment on the regulatory amendments described in section 5?	



# Appendix B Submissions Process

## Submissions

Gas Industry Co invites submissions on the proposed FY2014 levy and the associated issues set out in this paper. Specific matters on which submissions are sought are set out in each section of the paper, and a suggested format for submissions is set out in the template in Appendix A.

Submissions can be made by registering on Gas Industry Co's website [www.gasindustry.co.nz](http://www.gasindustry.co.nz) and uploading your submission, preferably in the form of the submissions template attached to the consultation document. All submissions will be published on this website after the closing date. Submissions may be amended up to closure date.

Gas Industry Co will acknowledge receipt of all submissions electronically. Please contact Jay Jefferies (Ph: +64 4 472 1800 or email: [jay.jefferies@gasindustry.co.nz](mailto:jay.jefferies@gasindustry.co.nz)) if you do not receive electronic acknowledgment of your submission within two business days.

The closing time for submissions is **5pm on Friday 8 February 2013**. Please note that submissions received after this date may not be able to be considered.

Gas Industry Co values openness and transparency and therefore submissions will be made available to the public on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

## Possible Levy workshop

To assist industry participants with submissions and to provide a prior indication of matters that will require consideration by Gas Industry Co, an industry workshop may be held at Gas Industry Co's office in Wellington, from **10.00am to 12.00pm on 30 January 2013**, subject to sufficient interest being received. If you plan to attend the workshop, please register by emailing [info@gasindustry.co.nz](mailto:info@gasindustry.co.nz) by **5pm on Friday 25 January 2013**.

## Levy Principles

Gas Industry Co now has eight years' experience of setting an annual levy. During this time we have consulted extensively, receiving a number of submissions on both the structure of the levy and our methodology. Drawing on this experience, a robust set of general levy principles, covering levy setting, were codified into a formal Statement of Levy Principles and published in September 2009.

The Statement of Levy Principles describes the legislative authority, levy principles, and levy structure Gas Industry Co uses when developing its levy recommendation for funding each year under the levy provisions of the Gas Act. These have been used in

the preparation of the FY2014 levy proposal. The Statement of Levy Principles is available on the Gas Industry Co website.