



Statement of Proposal on FY2015 Strategy, Work Programme & Levy

Date issued: 11 December 2013
Submissions close: 7 February 2014





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: 7 February 2014

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Executive summary

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 (Act). In consultation with the industry, it develops an annual Statement of Intent¹, which includes an annual work programme, an indication of further activity in following years, and associated levy funding requirements.

Along with governance objectives set out in the Act, Gas Industry Co must have regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS).

Each financial year, the Company must consult with stakeholders on the costs for the work programme described in the Statement of Intent, which are funded through a levy and fees imposed on the industry. This paper is a Statement of Proposal setting out the key elements of Gas Industry Co's Statement of Intent and the associated levy funding required for the year ended 30 June 2015 (FY2015). Submissions from stakeholders are sought on this Statement of Proposal.

In performing its statutory role, the Company has developed a Corporate Strategy goal 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 also form part of the Corporate Strategy and have then been used to frame the proposed FY2015 work programme set out in this Statement of Proposal:

- Promote efficient, competitive, and confident gas markets.
- 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 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. It continues existing multi-year workstreams and proposes no significant new workstreams. This reflects the significant progress made over recent years in addressing the goals set for Gas Industry Co and the industry in the Act and the GPS.

This paper has been prepared after taking into consideration feedback received on the Corporate Strategy and the draft work programme at the Co-regulatory Forum held at Gas Industry Co's offices on 28 November 2013.

¹ 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.

The proposed work programme and costs also reflect the Company's approach to prioritising work 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.

The estimated FY2015 Work Programme Costs of \$5.6m are less than the corresponding budgeted and forecast costs for FY2014 (\$6.1m). Work Programme Costs are met by a combination of market fees, raised under specific gas governance regulations, and by the levy proposed in this paper. The estimated levy rates for FY2015 are: a retail levy of \$5.84 per ICP, and a wholesale levy of 1.33 cents per GJ of gas. This is a decrease from the current levy rates of \$5.90 /ICP and 1.63c/GJ².

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

Submissions and Potential Workshop

Submissions on this Statement of Proposal should be provided by **5.00pm on Friday, 7 February 2014**. 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.

Gas Industry Co is prepared to hold a workshop to discuss this Statement of Proposal on **23rd January 2014 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 may instead meet separately with any participant(s) that expressed interest in the workshop.

² Note: a key factor in the wholesale levy decrease is a change in the gas volume assumption for FY2015. This is described in section 4.

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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' develops and maintains governance arrangements for consumers and other participants 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 (Act). In consultation with the industry, it develops an annual Statement of Intent³, which includes an annual work programme and associated levy funding requirements for the next financial year, and provides an indication of further activity through the following two years.

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 arrangements⁴ 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.

³ 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.

⁴ 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 by or 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 Act and the GPS can be found on the Company's website⁵.

1.2 Gas Industry Co Corporate Strategy

Consistent with the above legislative and policy framework, the Board of Gas Industry Co has set a corporate strategy for the Company that assists in the delivery of its statutory role.

Strategic Goal: Optimise the Contribution of Gas to New Zealand

Gas has made a key contribution to New Zealand since the development of the gas 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:

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

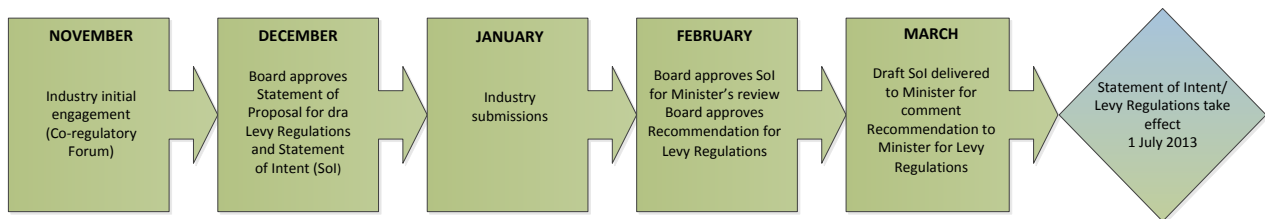
1.3 Statement of Intent and Levy Setting Process

The Company must consider the work programme necessary to achieve the goals set for it. The Company's strategy and work programme for FY2015, and an indication of further activity in FY2016 and FY2017, will be published before the start of the next financial year (1 July 2014) as the

⁵ Gas Act - http://gasindustry.co.nz/sites/default/files/publications/gas_act_1992_as_at_12_december_2012.pdf and GPS - http://gasindustry.co.nz/sites/default/files/publications/Government_Policy_Statement_on_Gas_Governance_-_April_2008.pdf

Company's Statement of Intent (SOI)⁶. This must first be submitted to the Minister for comment. 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 FY2015.

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 SOI (formerly, strategic plan).



1.4 Submissions sought on this Statement of Proposal

Formal written submissions on the levy are due by 5.00pm on 7 February 2014.

Following analysis of these submissions, Gas Industry Co will finalise its draft SOI, 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 FY2015 are in place before 1 July 2014.

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 23 January 2014.

⁶ 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 Proposed Work Programme

The proposed FY2015 work programme set out in section 3 provides Gas Industry Co's proposed operations for FY2015 within a framework principally determined by statutory accountabilities, continued work on multi-year programmes, and deliverables in other existing workstreams.

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.

Consistent with our statutory role and our Company Strategy, we propose a relatively solid year for FY2015, focussing on our core market governance role under existing rules/regulations and continuing our key multi-year programmes. In particular, FY2015 sees a continuation of the Company's work on transmission issues. Our substantive work on implementing changes to the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) and the Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) should be largely complete, (and are in any case funded largely by market fees). Substantial mid-level work will continue in relation to gas allocation/reconciliation, gas quality, and gas balancing

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

Outlined below is a framework for assessing priorities and costs between and within project areas.

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, or stem from, 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;
- overseeing a scheme to compare gas distribution agreements 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 FY2015.

Other examples include:

- a second phase review of the Downstream Reconciliation process to consider improved allocation methodologies (including D+1);
- finalising the transition activities required to implement amendments to the CCM Regulations; and
- continuing to research and examine options for addressing transmission capacity allocation and pricing, as per the recommendation of the PEA.

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.

As noted earlier, transmission issues remain a priority for FY2015, with work being undertaken by the industry and the Company stemming from the recommendations of the Panel of Expert Advisers. At our recent Co-regulatory Forum, no new priority workstreams were identified by stakeholders. There was some discussion regarding the development of an 'investment test' and also reviewing metering arrangements; however, Gas Industry Co was unable to determine from attendees whether work on these issues was widely supported. Stakeholders are welcome to provide comments in submissions regarding these or any other possible workstreams.

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 implemented a programme in FY2013 to review organisational support costs, and appropriate mechanisms for ensuring that procurement decisions are managed effectively. The benefits of this review translated into savings reflected in the FY2014 budget and these will be maintained in the FY2015 budget.

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 areas⁷.

Cost-effectiveness is a key element in planning our work programme. For example, regarding the scope of the GTIP, 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.

⁷ 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.

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 to levy payers of any surplus at year-end.

2.3 Delivering value for money

The Government has advised 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'⁸. 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 stakeholders, 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.

⁸ Letter to Gas Industry Co from Minister Parata dated 21 November 2011.

3

FY2015 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 FY2014

- Continue to facilitate industry-led solutions for gas quality such as the IEP.
- Monitor/assess progress and identify any measures that may be needed beyond the IEP

Forecast Activities FY2015

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

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 FY2014

Critical Contingency Management:

- Instigate transition arrangements for amended CCM Regulations.

Downstream Reconciliation:

- Reconciliation Review Part II (including D+1 option) consulted on.

Switching:

- Develop and consult on proposed rule amendments for extra metering fields in registry.
- Scope implementation of changes via registry development project

Ongoing monitoring/review of existing gas governance arrangements:

- Implement improvements where identified

Forecast Activities FY2015

Critical Contingency Management:

- Continue with remaining transition work to 1 December 2014.

Downstream Reconciliation:

- Develop preferred option arising from Reconciliation Review Part II (plus any associated changes).
- Prepare Recommendation to Minister (assuming sufficient efficiency improvement).

Switching:

- Complete the extra metering fields implementation project.
- Prepare Recommendation to Minister.

Ongoing monitoring/review of existing gas governance arrangements:

- Ongoing monitoring of Rules and Regulations for effectiveness.
- Identify improvements and maintain registers of pending changes.
- Implement changes as appropriate.

Resources

In respect of switching and reconciliation, this workstream will require a significant amount of internal resource of 0.75 FTE in FY2015 to work with industry working groups; to liaise with the Allocation Agent and Registry operator; to finalise the necessary rules changes, and to address implementation

and transition issues. In addition, it is expected that finalising the arrangements for the transition period of the amended CCM Regulations will require a further 0.25 FTE

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 consult on drafting instructions The Electricity Authority (EA) has settled its approach to retailer insolvency and that solution cannot be implemented for the gas industry due to the different scope of the empowering provision in the Gas Act.

Activities FY2014

- High-level design of possible governance framework and associated consultation process.
- Utilise industry participant working group so as to ensure high-quality drafting instructions for consultation.

Forecast activities FY2015

- Address any remaining issues from FY2014 review.
- Provide final report to the Minister.

Resources

At this stage it is not clear what the requirements will be in FY2014 given that we have yet to consult on the drafting instructions. There is a modest allowance for external advice and the budget assumes a modest internal resource of 0.2 FTE dedicated to this workstream. Those resources can be redirected if not required for this work stream.

Distribution Contracts Oversight Scheme

The Minister endorsed Gas Industry Co's recommendation that gas distributors' contracts with gas retailers be assessed against a common set of distribution principles. The assessment will measure progress made by distributors in reflecting the distribution principles in their arrangements with retailers. In FY2013, Gas Industry Co developed and implemented a methodology by which adherence to the distribution principles can be evaluated. A first assessment was conducted in February 2013 and noted that distributors had not completed development of new arrangements at the time.

Activities FY2014

- Undertake 2nd assessment as per Oversight Scheme requirements.

- Report to Minister by May 2014.

Forecast Activities FY2015

- Undertake any follow-up actions from FY2014 assessment.

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. A review was commenced in FY2013 and consultation continued in FY2014. Gas Industry Co will issue a Statement of Proposal in early 2014 suggesting some changes to the Scheme.

Activities FY2014

- Scheme review complete.
- Advice provided to Minister as to new structure of Retail Contracts Oversight Scheme.

Forecast activities FY2015

- Implement and monitor revised Scheme.
- Oversee ad hoc assessments as required.

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.

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 FY2015, Gas Industry Co will continue to monitor the effectiveness of these commitments in enhancing retail competition on the North Pipeline.

Activities FY2014

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

Forecast activities FY2015

- Monitor tenders
- Monitor capacity trading activity
- Operate the 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.

Supply/Demand Model

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 was well received by stakeholders. It is clear that the contribution of that report is significant and it is worth ensuring that the model and report are updated annually.

Activities FY2014

- Updated supply/demand report published.

Forecast activities FY2015

- Review and update supply/demand model and report.

Resources

As the work for this is outsourced there will only be a modest requirement of 0.1 FTE for contract administration, stakeholder liaison and communication.

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 has been advanced with assistance and advice from a Panel of Expert Advisers (PEA) whose second advice report was delivered in FY2014. That advice recommended that, in general terms, the existing transmission codes should be evolved and converged so as to improve productive, allocative and dynamic efficiency. The PEA also recommended that Gas Industry Co should stand ready to regulate in the event that the necessary code changes do not eventuate in a timely fashion. The issues are complex, technical, and require detailed design. As a result, Gas Industry Co cannot take a “wait and see” approach regarding whether the codes undergo the necessary changes. Rather, Gas Industry Co will need to consider the solution space for addressing the “problem definition” put forward by the PEA and, applying the approach mandated by the Gas Act, evaluate the reasonably practicable options, identify the preferred option(s), and develop the detailed design including the necessary governance arrangements. This work can be slowed down or paused at any time in response to meaningful progress in the code changes.

Activities FY2014

- Consult on options.
- Use submissions to refine preferred options and then undertake comparative evaluation.

Forecast activities FY2015

- Detailed design of preferred option (or options if more than one).
- Preparations for statement of proposal.

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 2 FTE.

Transmission Pipeline Balancing

Expected position as at end of FY2014: MPOC change implemented as is associated VTC change; review status of balancing issues in response to a participant’s concerns over primary balancing incentives.

Activities FY2014

- Recent code changes implemented.
- Industry-led balancing improvement initiatives monitored.

Forecast Activities FY2015

- Monitor balancing activities.
- Assess balancing to identify any areas of concern or additional need for improvement.

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 FY2014

- New interconnections reviewed.
- Advice to Minister of any new interconnection issues.

Forecast activities FY2015

- Dependent on FY2014 interconnection review, consider any need for improved governance arrangements.

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 FY2014

- Process MPOC change requests and VTC appeals as required.

Forecast activities FY2015

- 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 funding for this will be provided from a shared pool.

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

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 FY2015

- 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 reports⁹ demonstrate that 'teething troubles' with new rules/regulations are short-lived and compliance activity typically sits at a fairly low level.

Forecast activities FY2015

- Perform the Market Administrator role.
- Assist the Investigator and Rulings Panel as required.
- Monitor compliance trends for indications of regulatory inefficiency.

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, historically, has accounted for 0.75 FTE. However, changes to both the Compliance Regulations and the Reconciliation Rules should see a reduction in the number of breaches alleged by service providers. That will reduce the work of the Market Administrator and have a positive spin-off for industry participants. Accordingly, it is expected there will be a reduction in resource in this area. However, that reduction is vulnerable to being offset in the event of any significant or complex material breaches. 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.

⁹ These reports can be found on the Gas Industry Co website: <http://gasindustry.co.nz/work-programme/performance-measures/performance-measures-quarterly-reports>

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 facilitates and monitors each switch from initiation through to completion.

Forecast activities FY2015

- Monitor Gas Registry Operator
- 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 FY2015

- Monitor the CCO under the Service Provider Agreement.
- Appoint/monitor experts as required.
- Monitor exercises and events as required.
- Administer contingency pool as required.
- Process applications for designations for critical care, essential services, critical processing, and electricity supply as required.

Resources

The 'business as usual' arrangements typically require approximately 0.25 FTE. Combined with the 0.25 FTE noted earlier in connection with the transition arrangements being completed through the first half of FY2015 means that, in total, 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, an objective for Gas Industry Co is to take a leadership role in building and communicating the wider New Zealand Gas Story through analysis and debate.

During FY 2013 Gas Industry Co published the first substantive review since 2006 of the state and performance of the gas industry Review (which we also refer to as the 'New Zealand Gas Story'). It is intended that this Review is updated at least annually to ensure the information is current and topical. The first annual update was issued during FY2014. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to better understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the Review document, Gas Industry Co communicates the New Zealand Gas Story through such other channels as its website, the Company's annual and quarterly reports, and presentations by the Chief Executive to various stakeholder groups.

Activities FY2014

- Regularly update statistics and changes occurring in the industry using different communications media, including New Zealand Gas Story.

Forecast activities FY2015

- Produce second full update of New Zealand Gas Story.

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 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 FY2015

- Prepare/publish Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication.
- Prepare/publish Annual Report; meet requirements for tabling in Parliament.
- 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.

Other Reporting

Forecast activities FY2015

- Compliance reporting.
- Industry performance measures.
- Switching statistics.

Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2015? 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 FY2015? Please provide reasons for your response.

4

Funding of Operations

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 (referred to as 'market fees') imposed pursuant to each set of rules or regulations. The market 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 of those arrangements. By contrast, 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.

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 required to be published later in the year¹⁰. As well, market fees collected are 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 operation.

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.

¹⁰ 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).

4.2 Estimated Work Programme Costs

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).

Considering the expected end-point of workstreams during FY2014, we have developed a work programme for FY2015 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 FY2015 – \$5,628,000 as compared with \$6,141,000.

Costs of the Indicative FY2015 Work Programme set out in this paper are further broken down in the following table.

Table 1 FY2015 Work Programme Costs

Description	\$
Strategic Objective 1: Promote efficient, competitive, and competent markets	
Comprising: <i>Gas Quality; Regulation and Rule Changes; Retailer Insolvency; Distribution Contracts Oversight Scheme; Retail Contract Oversight Scheme;</i>	829,454
Strategic Objective 2: Facilitate efficient use of and timely investment in infrastructure	
Comprising: <i>Gas Transmission Investment Programme (Transmission Access and Pricing, Bridge Commitments, Supply/Demand Outlook); Transmission Pipeline Balancing; Interconnection; Code changes and appeals</i>	1,958,359
Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as industry body	
Comprising: <i>Downstream Reconciliation; Switching; Critical Contingency Management; Compliance; Statutory Reporting and Other Reporting.</i>	2,488,643
Strategic Objective 4: Build and Communicate the New Zealand Gas Story	
Comprising: <i>New Zealand Gas Story</i>	351,864
Total work programme costs	5,628,320
Estimated to be met by Market Fees	1,440,000
Levy funding Requirement (excludes system asset amortisation)	4,052,100

Note: The amortisation amount for the system assets (Registry and Allocation system) of \$136,220 is included in the total work programme cost for accounting purposes, but no market fee or levy is required to fund this cost as it is pre-funded through an equity reserve.

4.3 Proposed Levy Rates

The estimated levy funding requirement of \$4,052,000 is a 2% decrease on the levy funding requirement for FY2014. It is again proposed that its 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 FY2015 are:

- Wholesale levy –1.33/GJ (down from 1.63c/GJ, an 18.18% decrease – see assumptions)
- Retail levy - \$5.84/ICP (down from \$5.90/ICP, a 1.04% decrease)

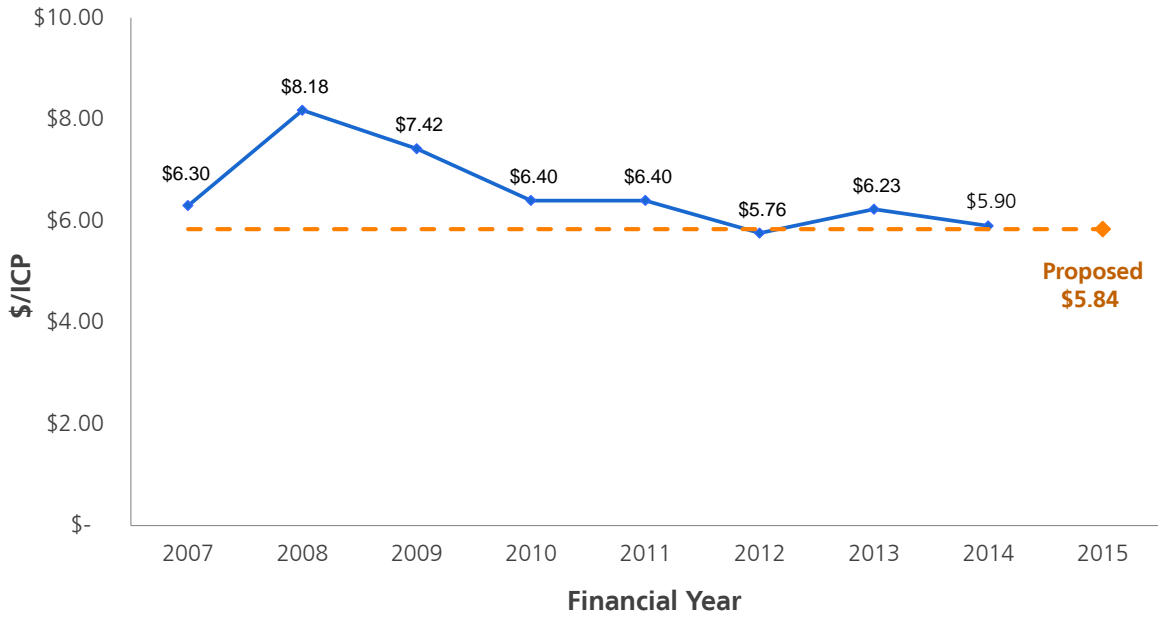
These rates are based on the following assumptions:

- The rates may be subject to change following consultation with stakeholders.
- The rates have been calculated using new assumptions for gas volumes. The gas volume assumption is 190PJ (up from 160PJ), which is based on projections for the total gas volumes expected in FY2015 (approximately 210-220PJ).
- The ICP assumption is based on the current number of ACTIVE-CONTRACTED entries in the gas registry (approximately 260,000).

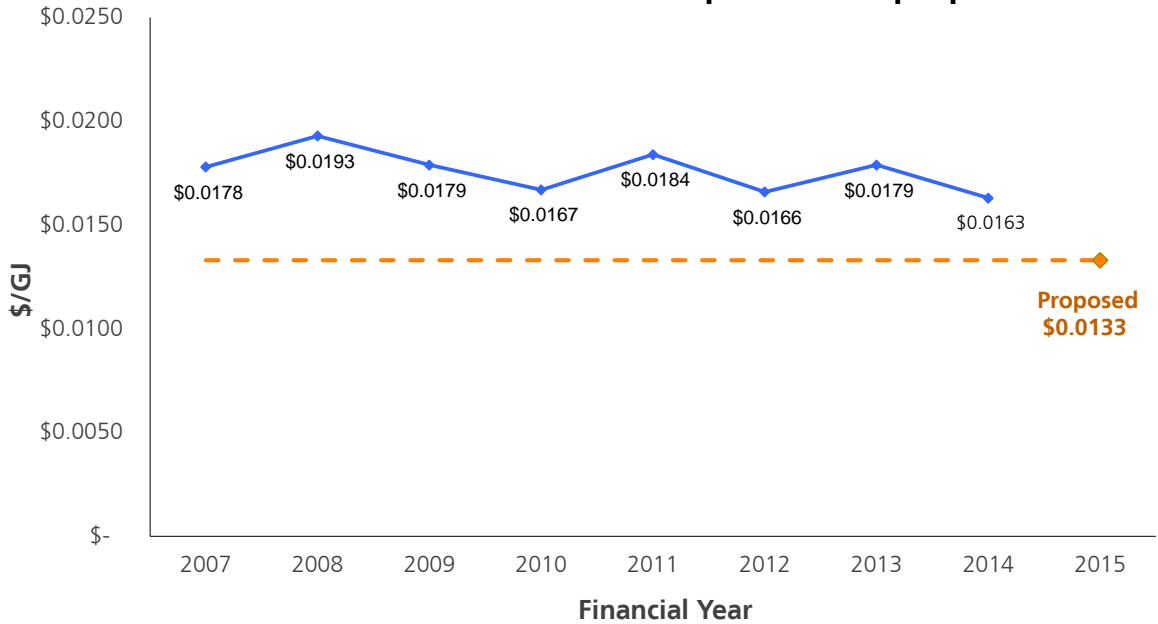
Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volumes estimate to be?

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

Historical retail levies compared with proposed rate



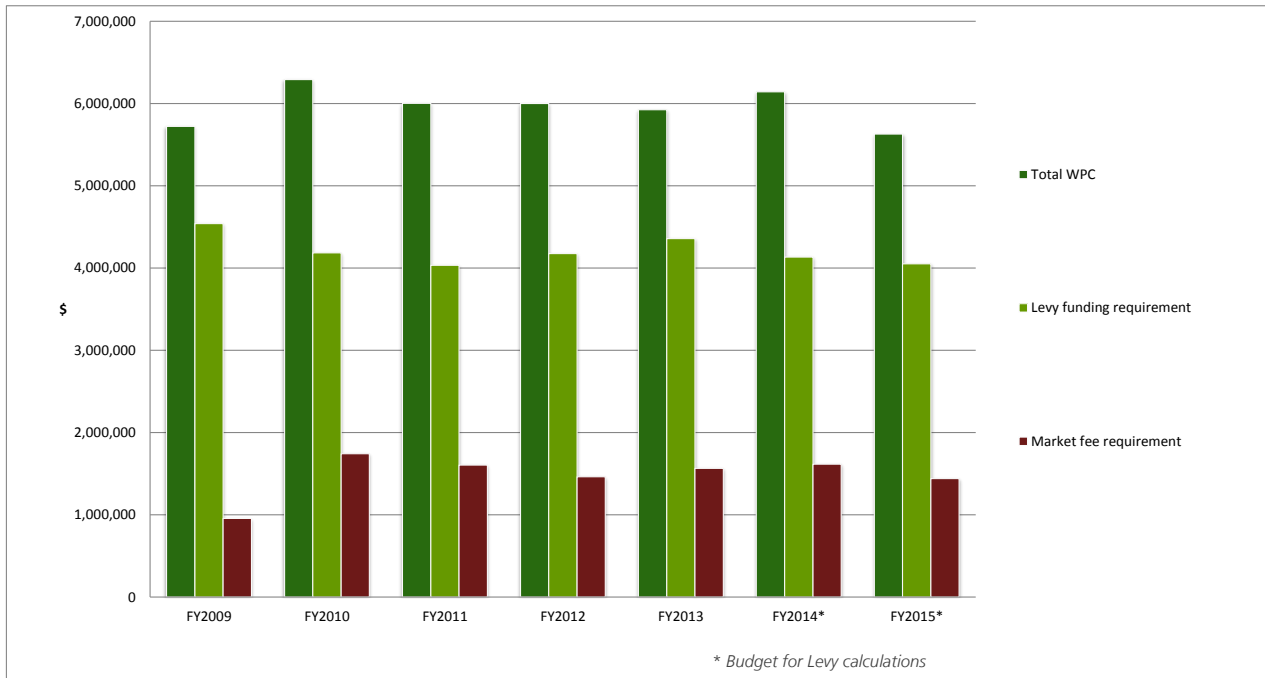
Historical wholesale levies compared with proposed rate



4.4 Historical Levy Costs

The following chart shows actual Work Programme Costs for FY2009-13, forecast Costs for FY2014 and estimated Costs for FY2015. The light green and brown bars show the proportion of Costs met by the levy (light green) and market fees (brown).

Chart 1: Historical and projected work programme costs



Q4: Do you have any comment on the proposed levy for FY2015?

5

Proposed Amendments to the Regulations

The regulations that provide for the Gas industry Co levy must be struck each year and are generally promulgated with similar wording and requirements. 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.

At the time of writing, Gas Industry Co has not identified any amendments that are necessary for improving the levy regulations. Stakeholders are invited to propose any regulatory amendments for consideration.

Q5: *Do you have any suggestions for amending the annual levy regulations?*

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 FY2015? 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 FY2015? Please provide reasons for your response.	
Q3: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volumes estimate to be?	
Q4: Do you have any comment on the proposed levy for FY2015?	
Q5: Do you have any suggestions for amending the annual levy regulations?	

Appendix B Submissions Process

Submissions

Gas Industry Co invites submissions on the proposed FY2015 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 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) if you do not receive electronic acknowledgment of your submission within two business days.

The closing time for submissions is **5pm on Friday 7 February 2014**. 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 23 January 2014**, subject to sufficient interest being received. If you plan to attend the workshop, please register by emailing info@gasindustry.co.nz by **5pm on Friday 17 January 2014**.