













FY2015 Indicative Work Programme and Budget Co-regulatory Forum

28 November 2013

Agenda

- Strategic context
- Work programmes
- Funding
- Forum discussion

Gas industry 2006-12: The trends are good...

- Net gas production 
- Remaining gas reserves 
- Wells drilled 
- Petroleum mining licence expenditure 
- Producing fields (all Taranaki) 
- Total transmission pipeline (km) 
- Total distribution networks 
- Gas consumer numbers 
- Large gas consumer volumes 
- Small gas consumer volumes 

Gas is crucial to the NZ Economy...

- **A “who’s who” of NZ business use the large majority of NZ gas:**
 - 44% electricity generation
 - Contact, Genesis, MRP
 - 33% petrochemicals
 - Methanex, Ballance Agri-Nutrients
 - 14% other industrial
 - including Fonterra, NZ Refining, NZ Steel, Carter Holt Harvey
- **NZ business has a strong dependence on gas supply** - for many, no alternative fuel

We have good governance of customer markets...

Customer choice

- Approx **261,000 customers** on Gas Registry
- Over 95% of customers have a **choice of at least 6 retailers** at their gas gate

Competition

- Customer **churn rate at around 16% p.a.**
- Average **switching time just over 5 business days**

Efficiency

- Annual **unaccounted-for gas (UFG) has reduced by 60%** to an average 1.3% (of injected volumes)

Compliance/Standards

- **High level compliance** across all rules/regulations

Transparency

- Monthly customer **data published and reported** widely

Gas Industry Co's *NZ Gas Story* – Update 2013

Headlines:

- New Zealand's gas industry is in good health, and is on track in terms of consumer needs and Government policy objectives for the sector
- Gas reserves compare well to international benchmarks, but we are increasingly unusual as an isolated domestic market
- The industry is investing substantially in new supply and is actively addressing downstream industry issues

Gas Industry Co's *NZ Gas Story* – Update 2013

Other key themes:

- **The NZ gas market is growing**
 - heading back up over 200PJ
- **Use of gas is changing (again)**
 - petrochemical volumes building back; generation reducing
 - “highest and best use of our gas” again being discussed
- **New upstream investment and regulation should see good ongoing supply**
- **New wholesale market(s) are evidence of maturing markets**
- **Existing gas infrastructure will likely carry us through to a next step-change from a significant new find**

NZ Gas Story – current industry issues

- Turning upstream investment into (domestic) production
- Retaining consumer confidence and investment
- Preparedness for significant new (domestic) gas find, including potential new sources of demand
- Improving efficiency of downstream infrastructure access arrangements that reflect a competitive and dynamic market
- Infrastructure resilience:
 - MBIE – technical standards and risk scenarios
 - GIC - improved processes to respond to critical contingencies affecting gas supply

Different markets need different arrangements...

Electricity



Gas



LPG



Gas Industry Co Role

- **Gas industry body** under Part 4A Gas Act; Government Policy Statement
- Co-regulator – **regulated and non-regulated options**
- Principal objective (of regulation) to **ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner**
- Other objectives:
 - 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

GPS goals are well advanced...

| GPS Goal | Status |
|--|---|
| Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers. | Retail Gas Contracts Benchmarks Oversight Scheme |
| Effective and efficient customer switching arrangements that minimise barriers to customer switching. | Gas (Switching Arrangements) Rules 2008 |
| Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities. | Downstream Reconciliation Rules 2008 |
| Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions. | Active workstreams: <ul style="list-style-type: none"> • Gas Transmission Investment Programmes (GTIP) • Balancing • Interconnection |
| Gas industry participants and new entrants are able to access third party gas processing facilities on reasonable terms and conditions. | Gas (Processing Facilities Information Disclosure) Rules 2008 to lapse as no processing access issues identified. |
| Efficient arrangements for the short-term trading of gas . | NZX/emTrade wholesale market platforms developing (first trades occurring) |
| All small gas consumers have effective access to a complaints resolution system | Electricity and Gas Complaints Commission – no significant gas consumer issues |

Gas Industry Co Strategy

- **STRATEGIC GOAL**

Optimise the Contribution of Gas to New Zealand

- **PURPOSE**

Provide leadership for the Gas Industry and the New Zealand Gas Story

- **OBJECTIVES**

- Promote efficient, competitive and confident gas markets
- Facilitate efficient use of, and investment in, gas infrastructure
- Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
- Communicate the NZ Gas Story (includes review of industry performance)

FY2015 Statement of Intent/Levy Development Process

| | |
|-----------------|--|
| November | Industry initial engagement (Co-regulatory Forum) |
| December | Board approves Statement of Proposal for Levy Regulations |
| January | Industry submissions |
| February | Board approves Sol for Minister's review Board approves Recommendation for Levy Regulations |
| March | Draft Sol delivered to Minister for comment Recommendation to Minister for Levy Regulations |

Sol released/Levy Regulations take effect
1 July 2014



Indicative Work Programme

FY2015 is again framed around the Company's Strategy objectives:

- **Objective 1:** Promote efficient, competitive and confident gas markets
- **Objective 2:** Facilitate efficient use of, and timely investment in, gas infrastructure
- **Objective 3:** Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
- **Objective 4:** Build and communicate the New Zealand Gas Story

Objective 1:

**Promote efficient, competitive and confident
gas markets**

Retail contract benchmarks

Expected position FY2014

- Scheme review complete
- Review of benchmarks in light of proposed consumer law reforms

Forecast activities FY2015

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

Indicative milestone(s)

- Monitor state and performance of retail gas contracts
- Report as required to Minister

Distribution principles

Expected position FY2014

- Undertake 2nd assessment as per Distribution Scheme requirements
- Report to Minister by May 2014

Forecast activities FY2015

- Undertake any follow-up actions from FY2014 assessment

Indicative milestone(s)

- Review and report to Minister (as required)
- Minister remains satisfied that GPS objectives and outcomes are met

Arrangements to address retailer insolvency

Expected position FY2014

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

Forecast activities FY2015

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

Objective/ Milestone

- Any instances of retailer insolvency able to be managed in an efficient and effective way

Gas quality

Expected position FY2014

- Continue to monitor/assess industry-led solutions for gas quality
- Consult on any substantive issues that arise and, if necessary, implement any needed measures to address the Gas Act and GPS objectives

Forecast activities FY2015

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

Indicative milestone(s)

- Provide ongoing updates to Minister on progress of gas quality issues

Regulation and Rule changes

| Expected position FY2014 | Forecast activities FY2015 | Objective |
|---|---|--|
| Critical contingency management <ul style="list-style-type: none"> Implement transition arrangements for amended CCM Regulations | <ul style="list-style-type: none"> Complete any remaining transition work | Efficient, effective regulatory arrangements |
| Downstream reconciliation <ul style="list-style-type: none"> Options for D+1 allocation consulted on | <ul style="list-style-type: none"> Develop preferred option Prepare recommendation to Minister | |
| Switching <ul style="list-style-type: none"> Proposed amendments for metering fields in registry consulted on | <ul style="list-style-type: none"> Develop preferred option Prepare recommendation to Minister | |
| <ul style="list-style-type: none"> Ongoing monitor/review of existing gas governance arrangements; implement improvements where identified | <ul style="list-style-type: none"> Ongoing monitoring of rules for effectiveness Identify improvements Implement changes as required | |

Strategic Objective 2:

Facilitate efficient use of, and timely investment in, gas infrastructure

Transmission access and pricing

Expected position FY2014

- Identify near term improvements
- Facilitate improvements by industry arrangements and/or regulation as appropriate
- Continued engagement with wider gas community

Forecast activities FY2015

- Continued development of industry arrangements and/or counterfactual design

Objective

- To ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal the need for efficient investment in additional capacity

Supply/demand model

Expected position FY2014

- Updated supply/demand report published

Forecast activities FY2015

- Review/update model regularly

Objective

- Range of scenarios that can assist stakeholders in their business planning
- Toolset for stakeholders to model their own scenarios

Bridge commitments

Expected position FY2014

- Monitor tenders
- Monitor capacity trading activity
- Operate capacity trading bulletin board (GTX)

Forecast activities FY2015

- Monitor tenders
- Monitor capacity trading activity
- Operate capacity trading bulletin board (GTX)

Objective

- Monitor effectiveness of these commitments in enhancing retail competition on the North Pipeline
- Provide stepping stone to longer term transmission access/pricing arrangements

Code changes and appeals

Expected position FY2014

- Process MPOC change requests and VTC appeals as required

Forecast activities FY2015

- Process MPOC change requests and VTC appeals as required

Objective

- Co-regulatory model demonstrated through healthy, non-regulated solutions (where possible)
- Foster robust, non-regulated solutions, where efficient

Transmission pipeline balancing

Expected position FY2014

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

Forecast activities FY2015

- Monitor balancing activities
- Process code changes as required

Objective

- Efficient arrangements that promote primary balancing, leading to efficient level of secondary balancing

Interconnection

Expected position FY2014

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

Forecast activities FY2015

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

Objective

- Access to transmission pipelines available on reasonable terms and conditions

Strategic Objective 3:

**Deliver effectively on Gas Industry Co's
accountabilities as the gas industry body**

Downstream reconciliation

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

Objective

- To establish a set of uniform processes that enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities

Switching

Forecast activities FY2015

- Monitor Gas Registry Operator
- Assess ongoing performance of the Rules
- Monitor switching statistics
- Make determinations under the Rules as required

Objective

- To establish a set of gas switching and registry arrangements that will enable consumers to choose, and alternate, efficiently and satisfactorily between competing retailers

Critical contingency management

Forecast activities FY2015

- Monitor 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

Objective

- To achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply

Compliance

Forecast activities FY2015

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

Objective

- To provide for the monitoring and enforcement of the following arrangements:
- Gas (Switching Arrangements) Rules 2008
 - Gas (Downstream Reconciliation) Rules 2008;
 - Gas Governance (Critical Contingency Management) Regulations 2008

Strategic Objective 4:

**Build and communicate the New Zealand Gas
Story**

New Zealand Gas Story

Expected position 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

Objective

- Build and communicate the New Zealand Gas Story
- Report to the Minister on the present state and performance of the gas industry

Statutory reporting

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

Objective

- Perform the functions of the industry body
- Report on the present state and performance of the gas industry

Other reporting

Forecast activities FY2015

- Compliance reporting
- Industry performance measures
- Switching statistics

Objective

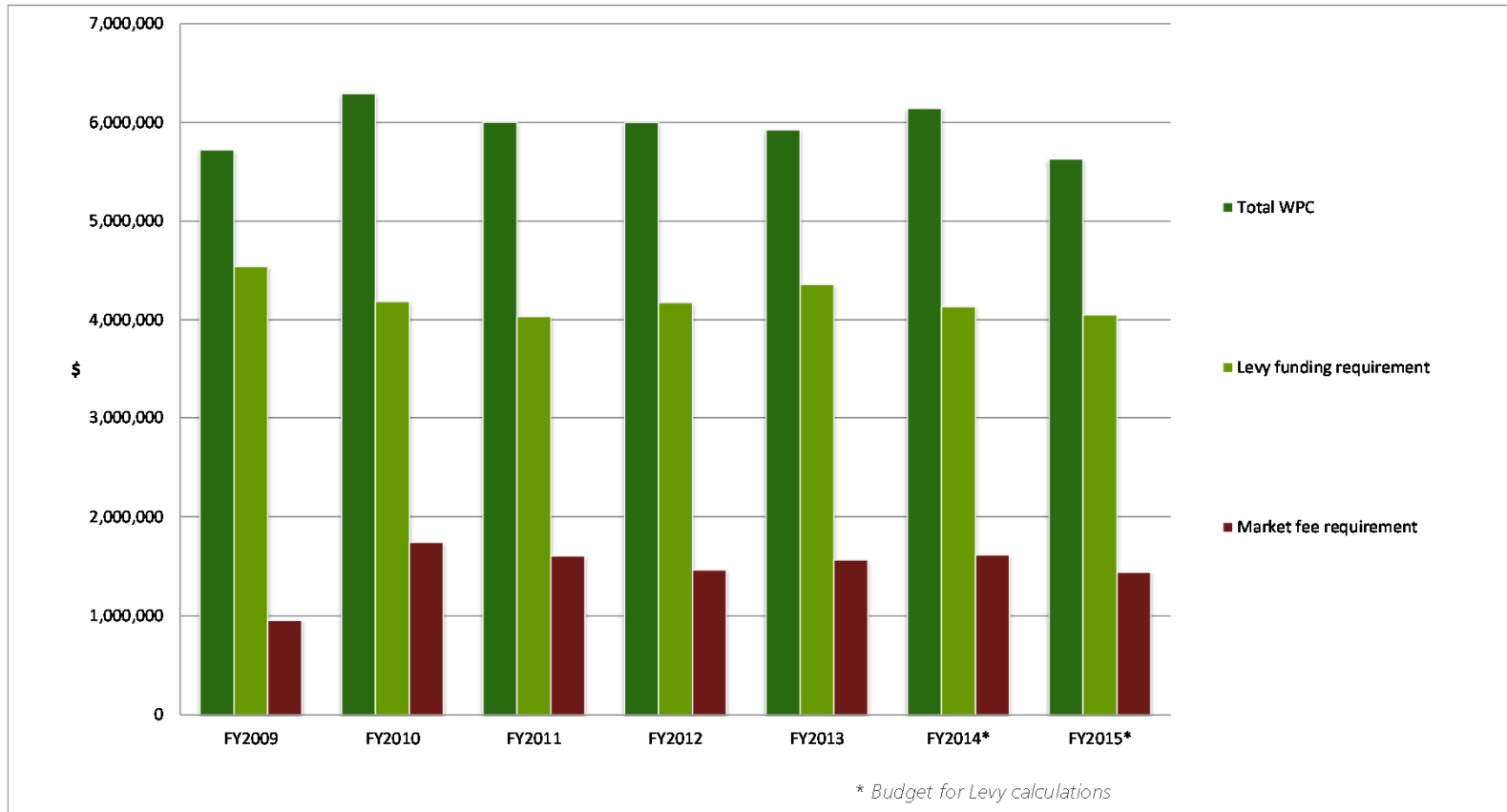
- Report on the present state and performance of the gas industry



Establishing the Indicative Work Programme

- Start with expected activity end-point for current year (FY2014)
- FY2015 Work Programme assumes continuation of GTIP and other committed deliverables and statutory roles
- Expenditure expected to be the same or less than in FY2014
- No contingency built in for unplanned workstreams
- Priorities to be re-ordered in the event of unexpected changes to scope of operations

Costs



Note: FY09-13 actual; FY14-15 budget

Projected FY2015 expenditure

- Total expenditure decreasing (both levy and market fee funded spending)
- Scope of work programme expected to be similar, thus some level of direct external costs (consultants, cost of consultation) remains, although reduced
- Discipline on organisational support costs maintained (downward pressure)
- Benefit of cost savings achieved in FY2013 reflected in reduced budgets for support costs in FY2014 and FY2015

Comparison of FY2014 and FY2015 (000's)

| | FY2014 | FY2015 (indicative) |
|-----------------------|------------------|------------------------|
| WPC | \$6,141 | \$5,628 |
| Market Fees | \$1,615 | \$1,440 |
| LFR | \$4,133 | \$4,052 |
| Retail Levy (\$/ICP) | 5.90 | 5.84 |
| Wholesale Levy (¢/GJ) | 1.63 (160 PJ) | 1.33 (190 PJ) |

- WPC includes all costs funded through Levy, Market Fees or equity reserves
- Provision for industry asset amortisation drops by half
- PJ assumption increase: Methanex production rising

Forum Discussion

Feedback on 'how we do things'