

Analysis of Submissions on Statement of Proposal on the FY2016-2018 Draft Statement of Intent and Levy

Background

On 15 December 2014, Gas Industry Co released its Statement of Proposal This captures the strategy, work and funding requirements for FY2016 (and with an indication in the Sol for the following two years), that ensure we continue to have a programme that is the product of robust industry consultation. The Statement of Proposal was prepared after taking into consideration feedback received at the Co-Regulatory Forum held at Gas Industry Co's offices on the 28th November 2014. Industry submissions were requested by 5 February 2015.

This document summarises submissions received, including providing a brief comment from Gas Industry Co where appropriate.

Parties submitting

Contact Energy Limited
Genesis Energy Limited
Maui Development Limited
Methanex NZ Limited
Mighty River Power Limited
Powerco Limited
Vector Limited

Submissions can be accessed [here](#)

Summary of submissions and Gas Industry Co comments

Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2016? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and the GPS.		
Contact Energy Ltd	<p>Intended WP builds on great progress to date. Would prefer to see GIC have greater involvement in industry working groups to prevent overlapping workstreams and duplication of resources.</p> <p>GIC has included in SoP development of an Industry Road Map. Contact strongly agrees with this and suggests GIC formulate and distribute to industry. Believes a great deal of work identified by GIC can be described under banner of 'pipeline management' Contact have viewed scope of such a road map quite broadly and provided its version of interdependencies in an attached diagram. Contact invites GIC to work with industry to ensure all issues are picked up and addressed including the interdependencies those issues may have on the rest of the pipelines management themes.</p>	<p>Gas Industry Co welcomes the supportive comments from submitters. We are pleased to see that, subject to the specific points made, submitters feel the Work Programme is in line with industry requirements.</p> <p>The submissions include a number of useful points we take on board, such as those supporting an industry 'road map'. We provide comment on the following specific submissions.</p> <p>Metering</p> <p>In relation to MRP's submission on the new metering workstream, similar proposals in previous years did not attract wider industry support and the Commerce Commission's clearance of Vector's acquisition of Contact meters in 2014 did not identify gas governance issues (although it indicated an intention to investigate potential competition aspects). We have proposed the 'seed study' to investigate developing issues for gas governance, including those highlighted by MRP and Powerco, and note the broader support in this year's submissions.</p> <p>Wholesale Market Monitoring</p> <p>We acknowledge Methanex NZ's suggestion about GIC's monitoring of the use of wholesale market/s for pipeline management purposes, and will consider how this might be able to be incorporated in the Work Plan (e.g. the market is currently a 'blind market').</p> <p>Balancing</p> <p>We acknowledge submissions about the need to further develop balancing tools, including D+1, if the MBB change request were to proceed. That request is still being assessed by GIC. However, irrespective, D+1 proposals are scheduled to enter a trial in 2015.</p>
Genesis Energy Ltd	No	
MDL	<p>MDL considers that GIC still needs to pursue one of the Gas Transmission Investment Programme (GTIP) projects that it has deferred: the Regulatory Project.</p> <p>This project aimed at identifying whether there are appropriate incentives in place for investment. The need for the project is acute because the Commerce Commission is considering whether an Incremental Rolling Incentive Scheme (IRIS) should apply to transmission businesses.</p> <p>There is also a need to consider the role and design of an investment test for transmission projects, and whether GIC should have any involvement in such assessments.</p>	
Methanex NZ Ltd	<p>Supports monitoring emsTradepoint gas market (and other markets). Propose GIC extend this activity to monitor use being made of emsTradepoint and other markets by MDL and Vector, as pipeline owners, in meeting their gas balancing and pipeline management objectives. Would like GIC to amend WP to clearly identify this theme, within scope of activities set out in section 3.3 of WP. This amendment should be an adjunct to activities proposed in section 3.4. Do not believe this amendment would materially change resourcing/funding.</p>	

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<p>Mighty River Power Ltd</p>	<p>Overall, MRP believes proposed work programme is in line with current industry requirements. However, believes that proposed work on daily allocation arrangements will need to be accelerated if current MPOC MBB change request is implemented later this year.</p> <p>Pleased that their suggestion of review of DR allocation group thresholds is being undertaken to determine if they are still appropriate.</p> <p>Also pleased with inclusion of gas metering work stream. Feel it appropriate as it is only sector of downstream gas market over which GIC has no regulatory oversight.</p>	<p>GTIP</p> <p>In relation to MDL's submission, we acknowledge issues for transmission owners about recovering costs of new investment. The GTIP Regulatory Project was developed at a stage where major new transmission investment through Auckland was a possibility for the short-medium term, the settings for the price-quality regulation were largely unknown and there was no experience with that regime. The Auckland investment is no longer envisaged, and the Project has otherwise not been developed because discussions with the Commerce Commission have determined that the project would be crossing over into areas that the CPP arrangements under the Commerce Commission's Part 4 regime are explicitly designed to cover.</p>
<p>Powerco Ltd</p>	<p>Supports work programme and has no additional proposals.</p> <p>Will continue to take active interest in GIC's assessment of how well distribution companies are executing new investments contracts consistent with distribution principles.</p> <p>Also look forward to seed paper on Metering.</p> <p>Suggest GIC should investigate the possibility of promoting a version of the NZ Gas Story as an educational resource to schools.</p>	<p>Working Groups</p> <p>We acknowledge comments about best use of the GITAWG, including suggestions about greater involvement for GIC. These are important because the industry is being given an opportunity to take the transmission codes' access and pricing arrangements to the next phase, based on the recommendations of the Panel of Expert Advisers, which were endorsed by GIC. GIC will continue to provide advice and support to the GITAWG, but the industry has accepted the opportunity presented to lead the next phase, and is aware that GIC is developing its 'counterfactual design' in the event that the industry's efforts are not successful.</p>
<p>Vector Ltd</p>	<p>Do not see need to include any more items in Work Programme. However, would like to emphasise that should MBB be pursued, enabling and supporting arrangement should be prioritized to ensure that tools are available to industry participants to enable its fair, efficient and effective implementation.</p> <p>Believe balancing issues would be better dealt with outside of matters under consideration by GITAWG.</p> <p>GIC should consider a range of flexible options than just full regulation as proposed in counterfactual. Vector would welcome GIC's further involvement in GITAWG process to develop collaborative solutions.</p> <p>If balancing is prioritized, the other GIC work that has implications for balancing should also be prioritised – such as daily allocations.</p> <p>Also suggest that GIC closely coordinate its gas quality work with GITAWG's work on same.</p>	<p>In relation to Vector's submission, we support the ongoing separate focus for balancing matters, but agree that GIC's work on gas quality can be co-ordinated with the GITAWG's work.</p>

Q1: Do you consider there to be any other items that should be included in the Company's intended work programme for FY2016? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and the GPS.

	<p>Support development of road map for gas transmission access and pricing and believe would promote industry alignment. Flexibility will be guaranteed by having 'living road map' similar to evolving nature of NZ Gas Story. Would guarantee outcomes are not pre-determined and market participants not locked into costly paths which would be difficult to reverse in future. Right incentives should remain for industry participants to develop long-term industry-wide incentives that are efficient and fair.</p>	
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Q2: Do you consider there to be any items that should be excluded from the Company's intended work programme for FY2016? Please provide reasons for your response.

Contact Energy Ltd	No	<p>See comments above in relation to new metering workstream. Gas Industry Co supports industry based commercial solutions but acknowledges that some stakeholders have concerns. We therefore consider that a seed paper may help to fill an information gap that will be useful to a broad number of stakeholders.</p>
Genesis Energy Ltd	No	
Maui Development Ltd	No comment	
Methanex Ltd	No	
Mighty River Power Ltd	No	
Powerco Ltd	No	
Vector Ltd	<p>Do not believe it necessary for GIC to commission a seed paper that would 'consider issues associated with the introduction of new metering technology'. Believe could compromise fledgling market by developing expectations about technologies/regulatory arrangements in that market.</p> <p>Would prefer to see organic growth of this area to allow technologies to trialed, tested and subject to market discipline.</p> <p>Believe regulators should focus instead on identifying and removing barriers to competition and investment and support environment that would enable development of commercial solutions.</p> <p>Should GIC go ahead with this proposed initiative, recommend that it accord it low priority. Further recommend that terms of reference for this initiative indicate its benefits and be subject to stakeholder consultation.</p>	

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 volume estimate to be?		
Contact Energy Ltd	Consider projected forecast gas volume for FY2016 to be reasonable.	The consistent feedback is noted and valuable.
Genesis Energy Ltd	Consider projected forecast gas volume for FY2016 to be reasonable.	
Maui Development Ltd	No comment	
Methanex NZ Ltd	Note that forecasting is difficult in NZ context and see no reason to change status quo assessment of gas volumes for purposes of developing FY2016 wholesale levy.	
Mighty River Power Ltd	Consider projected forecast gas volume for FY2016 to be reasonable.	
Powerco Ltd	Consider projected forecast gas volume for FY2016 to be reasonable.	
Vector Ltd	Consider projected forecast gas volume for FY2016 to be reasonable.	

Q4: Do you have any comment on the proposed levy for FY2016?		
Contact Energy Ltd	Consider estimated costs acceptable. Contact's only concern relates to GIC's oversight of work carried out by various industry working groups and individual parties.	<p>The consistent feedback is notable and valuable. GIC has achieved 'flat-to-dropping' costs over several years, including by maintaining downward pressure on organizational costs. That remains the goal for coming years, subject only to unusual work demands.</p> <p>In response to Methanex NZ's comment, with the exception of the Compliance workstream, workstreams are normally assigned to either wholesale or retail levy component. We will nevertheless look to include clarification in future years.</p>
Genesis Energy Ltd	<p>Supports work programme for FY2016.</p> <p>Found 2015-17 SOI to be useful. Value the transparency. Congratulates GIC on successful 2014; eg facilitating GITAWG.</p> <p>Inclusive approach essential for vibrant, competitive and adaptable NZ gas market.</p> <p>Agree with proposed levy which reflects split of work being undertaken between wholesale/retail</p>	
Maui Development Ltd	MDL appreciate the reduction.	
Methanex NZ Ltd	Consider revised fees structure proposed for FY2016 reflects rebalancing of workstreams. Methanex would like to see GIC provide more information as to how the costings within each workstream have been divided between wholesale and retail.	
Mighty River Power Ltd	No	
Powerco Ltd	Levy seems reasonable and commend GIC on maintaining downward pressure on costs.	
Vector Ltd	Broadly agrees with GIC's Statement of Intent and Levy for FY2016. Welcome and appreciate proposed reduction in GIC's TWPC costs for FY2016. Particularly pleased with proposed LFR for FY2016 and that it	

Q4: Do you have any comment on the proposed levy for FY2016?

follows two years of successive cost reductions.
Believe it reflects efficiency gains made by GIC and industry and restraint exercised by GIC over the past year, intervening only when there are market failures that required regulation and benefits of such intervention significantly override the cost of regulation.
Vector would like to see GIC maintain this approach in the coming years.