

FY2014 Levy Submission Analysis

1. Initial Feedback

Prior to the Co-Regulatory Forum, held on 22nd November, participants were asked to provide initial feedback on the proposed FY2014 Work Programme and Levy. Submissions were received from Powerco and Genesis Energy.

Powerco had two comments:

The first asked that more detailed information be provided on metering governance proposals. The second asked for a discussion on the Information Exchange Protocol as to whether it should be elevated to a proper workstream in light of it being identified as a solution for the Gas Quality workstream.

Genesis Energy made the following comments:

Retail contract benchmarks – proposed that it would be beneficial for GIC to consider providing guidance alongside its current scheme to address the introduction of unfair contract term provisions. They would also like GIC to consider how often the retail contracts review would take place, suggesting that a biannual review would be effective given the progress already made.

Direct use of gas – Would like clarification of GIC's proposed ongoing work in this area suggesting that industry participants, who directly benefit from the uptake of gas, might be better placed to drive this work.

Gas quality – Genesis recommends that GIC continues to support the development of an information exchange protocol and consider incorporating this protocol as part of the sector's administrative arrangements.

Disconnection/reconnection guide – Genesis suggest there may be benefits from bringing this work (currently under GANZ) within the GIC co-regulatory framework and establishing it as an industry guideline.

2. Consultation Information: Parties responding and summary of submissions

2.1 Parties responding

Maui Development Limited

Contact Energy Limited

Mighty River Power Limited

Vector

Genesis

Powerco

Draft

2.2 Summary of submissions

The summary below analyses the responses to each question posed in the consultation paper.

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 the GPS.		
Response	Submitters	Gas Industry Co comment
<ul style="list-style-type: none"> • No comment • No, however regarding intended work on Retail Contracts Oversight Scheme – suggest consideration given to introducing a mechanism to monitor a retailer's actual compliance with the benchmarks and their T&C's ensure the GIC assessment remains relevant • No • Vector proposed that GIC include in its programme development of guidelines in relation to GIC's consultation process and requests for access to registry information by non-industry participants. Additionally, GIC should consider making more use of advisory groups and technical working groups to facilitate some (or aspects of) particular work streams. This would not involve large sums but would deliver significant benefits by providing certainty to stakeholders, and clarity and consistency in GIC's processes and treatment of relevant issues – Vector's response includes points on how they would like to see these guidelines developed (20-22 of their submission). • Genesis Energy is comfortable with the scope of work proposed, particularly they are happy to see a focus on enabling industry-led reforms. Specific comments include: They agree with minimising/aligning regulatory burdens on participants being a good objective for a regulatory body; they support GIC's proposal to review frequency for retailer benchmarking assessments; they are happy to see GIC reviewing the benchmark scheme to reflect changes in the Consumer Law Reform Bill; they consider the industry would benefit from a consistent approach to the disconnection/reconnection of gas sites (more detail in their letter). • Powerco does not think any further items should be added. They suggest the focus should remain on progressing and completing as many of the identified work areas as possible in a timely manner. 	<p>MDL Contact</p> <p>MRP</p> <p>Vector</p> <p>Genesis</p> <p>Powerco</p>	<p>General: The positive response to the use of advisory groups is heartening. Where possible, we will consider their use further.</p> <p>As with metering, Gas Industry Co will monitor industry activities to assess the extent of any market issue relating to disconnection and reconnection. If further work is warranted, this will be considered.</p> <p>Contact Energy: Contact Energy will have an opportunity during the upcoming Scheme review to expand on their suggestion that Gas Industry Co monitor actual compliance. An initial consideration of this, however, finds it difficult to see how such an audit process might be implemented in a cost-effective manner.</p> <p>Vector: Gas Industry Co has followed a well-established process for consultation since its inception. However, Management will look at existing policies and consider if these require updating and further publication.</p>

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.

Response	Submitters	Gas Industry Co comment
<ul style="list-style-type: none"> • No comment • See response to Q3 • No • Vector supports GIC's decisions not to include in its FY2014 work programme work on unwarranted rules/regulations. These include: the adoption of a voluntary approach for the disclosure of particular information by industry participants instead of progressing the Information Gathering Project; decision not to regulate gas quality at this time; and proposed recommendation to the Minister to allow the Gas Processing Information Disclosure Rules to lapse from 27 June 2014. Additionally, Vector supports the idea of assessing retail contracts against benchmarks on a selective basis. The approach could also be applied to assessment of gas distribution agreements. Vector proposes the removal of both assessments from the work programme once agreements are in substantial alignment with the benchmarks/principles. • No specific comment made • Yes. Powerco does not consider the timing of the Gas Metering Project to be appropriate. They recommend the work be deferred for a year to allow the market to settle down and an assessment of the need for intervention to be considered. 	<p>MDL Contact MRP Vector</p> <p>Genesis Powerco</p>	<p>General: We thank submitters for their comments and overall support for the ambitious work programme planned for FY2014.</p> <p>Vector: We look forward to hearing more from Vector as to their view on the retail contracts assessment scheme during the review of that work stream. We thank them for their support of our other initiatives.</p>

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

Response	Submitters	Gas Industry Co comment
<ul style="list-style-type: none"> • No comment • Contact doesn't believe it is necessary at this time to undertake work on model contracts with respect to metering arrangements. They suggest a periodic review of this approach if the ComCom approves Vector's purchase of Contact's gas meters leading to Vector owing a significant proportion of those meters. They also suggest that GIC liaise with the EA to discuss their experience of the process of developing model contracts. • Yes. Given the quasi monopoly nature of the gas metering business MRP believes 	<p>MDL Contact</p> <p>MRP</p>	<p>General: The consensus is against undertaking a specific work stream in this area; however, Gas Industry Co will keep itself informed of developments in the metering sector (such as the Commerce Commission's decision on the sale of the Contact Energy meters) and will determine if further action is necessary at the relevant time.</p>

<p>it's important that GMS Agreements should be subject to same level of scrutiny as NSA's and RCC's. In particular, it is important to acknowledge that there are certain contractual arrangements, such as access, that are specified in the GMS Agreements that need to be replicated in Customer Contract. Some form of independent oversight on these agreements I therefore desirable.</p> <ul style="list-style-type: none"> • Vector considers that GIC doesn't need to do the metering project. Points 30-34 outline their reasons. • No specific comment made • No (refer to their comments in Q2 above) 	<p>Vector Genesis Powerco</p>	
<p>Q4: Do you have any comment on the proposed levy for FY2014?</p>		
<p>Response</p>	<p>Submitters</p>	<p>Gas Industry Co comment</p>
<ul style="list-style-type: none"> • MDL happy to see reduction in the levy • Contact believes there is insufficient detail to understand the costs apportioned to each objective. Their example is that objective 2 requires more FTE than objective 3 but the costs associated with objective 3 is 50% more than objective 2. They believe a large portion of cost for objective 3 should come from market fees. In the interests of transparency, it would be helpful if GIC could break the cost allocation down further. Contact also reiterates that many issues in the industry around balancing have now disappeared. And with industry actions, capacity constraint issues on the North pipeline have been largely dealt with. Therefore, they caution against increased spend in this area and advocate a watching brief stance. • No • Vector commends the proposed reduction in the FY2014 levy relative to the FY2013 level. • No specific comment made • Yes. Powerco both support the levy and congratulate GIC for developing a work programme that is prioritised to meet the sectors needs at a reduced cost. 	<p>MDL Contact MRP Vector Genesis Powerco</p>	<p>General: We thank submitters for their support of this year's proposed levy funding requirement.</p> <p>Contact Energy: Regarding the FTE:cost ratio, it should be noted that the FTE figure refers to internal resources (that is, Gas Industry Co staff). The costs figure is comprised predominantly of external resource costs. As the amount of internal staff time increases in a given area, the need for external resource (direct cost) decreases. As such, an objective with a high FTE figure will require less use of external consultants, and thus have a lower overall cost allocation.</p> <p>Contact Energy: We agree that issues relating to Balancing appear to have settled down; as such, we continue to maintain a 'watching brief' in this area and have set a combined budget to cover the chance of work needing to be done in any of Balancing, Gas Quality, and Interconnection (together, <i>Infrastructure Access</i>).</p>

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

Response	Submitters	Gas Industry Co comment
<ul style="list-style-type: none"> MDL satisfied with the status quo for setting the levy and treatment of unused levy funds Contact is comfortable with the status quo for the treatment of under- or over-recovery of the levy. MRP's preference is for dealing with over-collection is to see any over-recovery returned to the industry via a reduction in the following year's levy. This ensures that the actual levy payers receive the refund of any levy over-payment rather than a potential windfall, albeit minor, for gas wholesalers. Vector is happy with the status quo. They consider that other options (such as monthly allocation with year-end wash-up or intra-year refund/calibration to be more complex for wholesale levy payers. Vector think that the issue of returning levy money to levy payers is a 'nice problem for GIC to have' and an arrangement that Vector can live with. Genesis suggests that GIC needs to clearly define the extent of the problems with the current levy approach before suggesting changes to the industry. This information will enable participants to assess the benefits of improving the current status quo versus the costs of possible solutions. No comment 	<p>MDL</p> <p>Contact</p> <p>MRP</p> <p>Vector</p> <p>Genesis</p> <p>Powerco</p>	<p>To MRP: We understand the reasoning behind MRP's submission on the application of surplus levy funds, but we note that this is the system that was previously in place and which led to erratic distortions in the levy funding required on a year-to-year basis. The current system to refund over-recoveries allows for the development of discrete, year-to-year budgets with more transparency about the costs of the work programme.</p> <p>To Genesis Energy: We would refer Genesis Energy to our supplementary paper on the collection of wholesale levies, issued in February 2012. While referenced in the FY2014 Statement of Proposal, we were remiss in not providing a direct link to that paper.¹</p>