

## FROM THE CHIEF EXECUTIVE

The quarter to 30 June included a number of significant developments for the gas sector as well as finalisation of Gas Industry Co's Work Programme for the year forward.

The low oil price continues to affect upstream investment in both New Zealand and overseas. While there has been a modest recovery in the oil price, upstream investors' work programmes remain at low levels.

As its latest contribution to analysis of developing trends, Gas Industry Co will shortly publish the third edition of our *Long Term Gas Supply and Demand Scenarios* prepared by Concept Consulting, initially for stakeholder submissions. We thank those stakeholders who have already contributed their information, and again look forward to providing in return a thoughtful analysis of the scenarios forward for the industry. In essence, while previous editions of the *Scenarios* reflected high levels of wells being programmed, the pending report will focus more on the 'low case' scenario.

At the same time, a major vote of confidence in the industry is reflected in the completion during the quarter of First Gas's consolidated ownership of the former Vector and Maui Development Limited (MDL) transmission systems. First Gas has referred to the potential it sees for growth in the business.

In the initial period, First Gas will have its hands full bringing together the consolidated business, headquartered in New Plymouth. However, amongst its initial challenges is managing processes by both Gas Industry Co and the Commerce Commission in relation to gas transmission. The two agencies are working closely to ensure that these are aligned as far as possible.

All the key themes discussed above were also reflected in Gas Industry Co's latest round of consultation on our Strategy, Work Programme and funding requirements, and these are now finalised and documented in our *Statement of Intent FY2017-19* published on 30 June 2016, to coincide with the commencement of our new financial year. Details can be found [here](#).

Steve Bielby

Contents	Page
Highlights from the Quarterly Industry Performance Measures Report	02
Summary of developments in the quarter	03
Industry Performance Measures & Explanatory Notes	07
Gas Industry Co progress towards objectives and outcomes	34
Workstream developments during the quarter are summarised in this Quarterly Report. Further details of the developments have generally been reported previously through Gas Industry Co's periodic News Bulletins and are available on our website <a href="http://www.gasindustry.co.nz">www.gasindustry.co.nz</a>	

# HIGHLIGHTS FROM THE QUARTERLY INDUSTRY PERFORMANCE MEASURES REPORT

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- About 4,500 gas consumers switch retailer each month.
- Around 19.7% of gas consumers have switched in the past 12 months – this is one of the highest rates of retail utility switching worldwide. Gas customers can switch retailers for many reasons, but the high level of activity in the gas retail market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing. Switching rates have been over 18% for more than two years.
- Over 80% of customer switches are completed within three business days of the switch being requested by the new retailer.
- 58% of residential consumer sites have switched retailer at least once in the past five years; 64% of small commercial and 75% of large commercial sites have switched at least once.
- Nearly 99% of gas customers are connected to a gate where eight or more retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.
- Average annual unaccounted-for gas (UFG) over the past year stands at about 1.1% compared with about 2% in 2009.
- Genesis is the largest retailer by customer share. Nova has the largest share of commercial and industrial customers.
- Nova Energy, Genesis and Vector Gas Trading are the largest retailers by volume market share.

The complete Performance Measures Report is found on page **seven**.

# SUMMARY OF DEVELOPMENTS IN THE QUARTER

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## Security and reliability, and code convergence of gas transmission

Significant work during the quarter addressing gas transmission security and reliability, and code convergence has been progressing well. We consulted with stakeholders on the *Gas Transmission Security and Reliability Issues Paper* (Issues Paper), through a workshop and held wider consultations on the Paper which subsequently fed into a *Submissions Analysis* released recently.

The Issues Paper was developed in response to increased stakeholder concerns about the lack of clear information concerning the security and reliability (S&R) of the New Zealand gas transmission system. Feedback from the industry tended to be supportive of our analysis of the Issues Paper.

It is evident from the submissions that there is an acceptance that S&R is generally headed in the right direction. This is further assisted by information disclosed under the Commerce Commission's information disclosure determinations. First Gas noted its willingness to discuss concerns raised in the Issues Paper and is looking for opportunities for further improvement.

We believe that the Issues Paper and stakeholder submissions taken together set the groundwork for improved information concerning S&R. In the coming period, the potential for improvement of current S&R information arrangements will be explored through the Commerce Commission's work and stakeholder engagement by First Gas. Gas Industry Co will review progress thereafter.

The Issues Paper essentially:

- Introduces key gas transmission S&R concepts.
- Reviews available security and reliability information for each transmission system, and makes some observations.
- Discusses current commercial and regulatory arrangements for gas transmission that support S&R.
- Analyses what is required to achieve effective gas transmission S&R, and considers whether all of those elements are present in current New Zealand arrangements.
- Draws some conclusions from the preceding analysis, makes recommendations, and sets out the next steps.

Over recent years Gas Industry Co worked with gas transmission system owners and other stakeholders to improve gas transmission code arrangements. Much of this work reflected the separate ownership of the two systems by MDL and Vector. In late 2015, Gas Industry Co advised that it was pausing the code convergence work in light of the processes for sale of the two systems.

More recently, Gas Industry Co has been discussing how the code convergence work will be progressed with First Gas. Ownership of the two systems by First Gas offers significant potential

benefits, including natural incentives to converge the code arrangements, as well as streamlining replacement of the OATIS IT system.

Gas Industry Co and First Gas envisage that previous industry work on code convergence will still remain relevant and, with First Gas playing a leadership role, moving from the previous 'evolutionary convergence' approach to the development of a single code. Implementation of a single code will require agreement by relevant parties. If replacement commercial arrangements are not able to be agreed then Gas Industry Co can recommend regulated arrangements to the Minister of Energy and Resources. To prepare for that eventuality, Gas Industry Co will continue to work closely with stakeholders and the Commerce Commission on relevant aspects of replacement gas transmission governance arrangements.

In the coming months, Gas Industry Co and First Gas will discuss possible project governance arrangements, and will seek stakeholder feedback on those arrangements.

## Critical contingency activities

The quarter also saw a number of events in the critical contingency management work stream.

Key activities included the Pohokura Production Station unplanned outage, critical contingency operator (CCO) training sessions, CCO annual industry exercise, industry communications specialists discussion, and the significant media event involving a gas leak in Paekakariki. These activities, planned or not, test the industry's preparedness when faced with critical contingency events.

The unplanned outage at the Pohokura Production Station on 24 May triggered the industry's first critical contingency event since the Pohokura Production Station outage of 2012. The trip occurred because of a power supply interruption caused by bad weather. The Pohokura station as a result was shut for about 90 minutes. A critical contingency was declared by the CCO around 6.30pm once the pressure threshold at Kapuni had been breached. The recovery at Pohokura, combined with increased injections by other gas producers, helped alleviate the need for the CCO to issue curtailment directions. An incident report and a performance report prepared by the CCO are available on its website [here](#).

In late June a gas leak occurred as a result of some maintenance work being carried out on a mainline valve station causing the closure of State Highway 1 in Wellington. The faulty valve was isolated by First Gas, the pipeline's owner, while repair works were carried out. The isolation did not result in any shortage of gas deliveries to the Wellington region.

The annual industry exercise to test the Critical Contingency Management Plans (CCMPs) was conducted by the CCO in June. 'Exercise Kakama' followed a series of training sessions in Auckland, Wellington and New Plymouth. The exercise simulated accidental damage to First Gas' pipeline south of Turakina, resulting in an uncontrolled gas escape.

An exercise needs to be instigated every 12 months (unless there has been a critical contingency in that 12 months that has adequately tested the CCMPs). Although a critical contingency had occurred in the previous month (the Pohokura Platform trip), it did not result in curtailment instructions being issued, so a key component of the CCMPs was not adequately tested. The CCO conducted the test exercise as planned and an exercise report is available on its website [here](#).

Gas Industry Co facilitated discussions with industry communications specialists in June shortly before Exercise Kakama. The meeting was held as a reminder to ensure effective communications during critical contingencies. Participants were encouraged to sign up to receive CCO notices (by email and SMS), and to take part in the CCO's annual exercises. Gas Industry Co's aim remains to refresh and remind the network of people who would provide communications about their responsibilities should a critical contingency occur. We intend to hold this meeting annually.

While Gas Industry Co is responsible for the CCM Regulations, response to a contingency event is led by the CCO and implemented through market participants, particularly the transmission system owner First Gas, large users, and retailers. Relevant background information, including CCMPs, can be found on the CCO's website at [www.cco.org.nz](http://www.cco.org.nz).

### Audit report finds D+1 pilot processes robust

Gas industry Co has published the *Audit of D+1 Processes Report* (Report). The Report commissioned from Veritek to audit the D+1 pilot processes finds that the D+1 pilot processes and systems are as secure, robust and reliable as reasonably practicable for the duration of the D+1 trial.

D+1 allocation is a process that allocates gas on the business day following gas flow. Gas Industry Co is piloting the D+1 allocation as a means of providing more timely information to retailers about their respective allocations. The information will also allow the calculation of shippers' mismatch positions (the net of their gas purchases, allocations and cashouts) on business days. Retailers have requested that the pilot continue until such time as the outcome of the converged transmission arrangements is known. At that stage, if daily allocations will continue to be useful to the industry, then Gas Industry Co will look to implement the D+1 allocation formally as part of the Gas (Downstream Reconciliation) Rules 2008.

The full Report is available [here](#).

### FY2017 – 19 Statement of Intent and Levy Regulations take effect

Gas Industry Co has published its *Statement of Intent* (SOI) for the financial years (ended 30 June) 2017 – 2019.

The *Gas (Levy of Industry Participants) Regulations 2016* (the Regulations), came into force on 1 July 2016. The Regulations, which were Gazetted on 19 May 2016, provide for Gas Industry Co's funding for the financial year ended 30 June 2017 by way of wholesale and retail levies.

These cornerstone elements of the unique co-regulatory governance model for the gas industry provide the framework for Gas Industry Co to maintain its work with stakeholders in fulfilling policy and strategic objectives for the gas sector.

The SOI presents a strategy and Work Programme developed in close consultation with stakeholders and reflects the objectives of the Gas Act 1992, the objectives and outcomes of the Government Policy Statement on Gas Governance 2008 (GPS), and Gas Industry Co's broader strategic aspirations.

The SOI focuses in particular on the elements of Gas Industry Co's Work Programme for the 2017 financial year, and indicatively for the following two financial years.

The Work Programme is designed to fulfil Gas Industry Co's statutory role through the efficient administration of governance arrangements currently in place, progressing new or ongoing project commitments, and facilitating forward-looking discussion by the industry on future strategic issues.

In November we will commence consultation with industry stakeholders on the proposed FY2018 Work Programme at our annual Co-regulatory Forum.

Full details are available [here](#).

## Progress against objectives and outcomes

Good progress continues to be made in achieving the objectives and outcomes set for Gas Industry Co and the wider industry in Part 4A of the Gas Act and the Government Policy Statement on Gas Governance 2008 (GPS). An updated summary of progress is included on page 34 of this Quarterly Report.

# INDUSTRY PERFORMANCE MEASURES

1 APRIL – 30 JUNE 2016

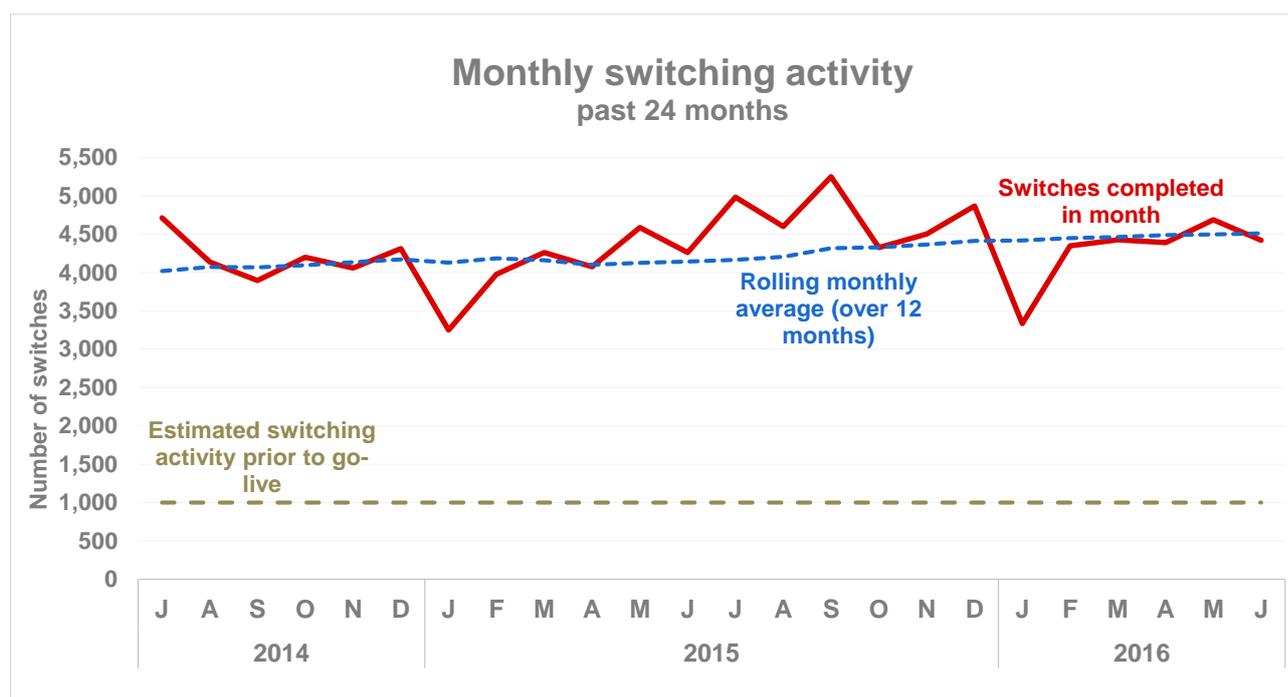
## 1 Summary

This report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of these measures is to track the performance of the Gas (Switching Arrangements) Rules 2008 (the Switching Rules), the Gas (Downstream Reconciliation) Rules 2008 (the Reconciliation Rules), and the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations), both in terms of activity related to these governance arrangements and the competitive outcomes that they foster. The Report also tracks transmission balancing actions, as a means of informing Gas Industry Co's work on this issue.

Explanatory details about the charts can be found in the Appendix to this report.

## 2 Switching performance measures

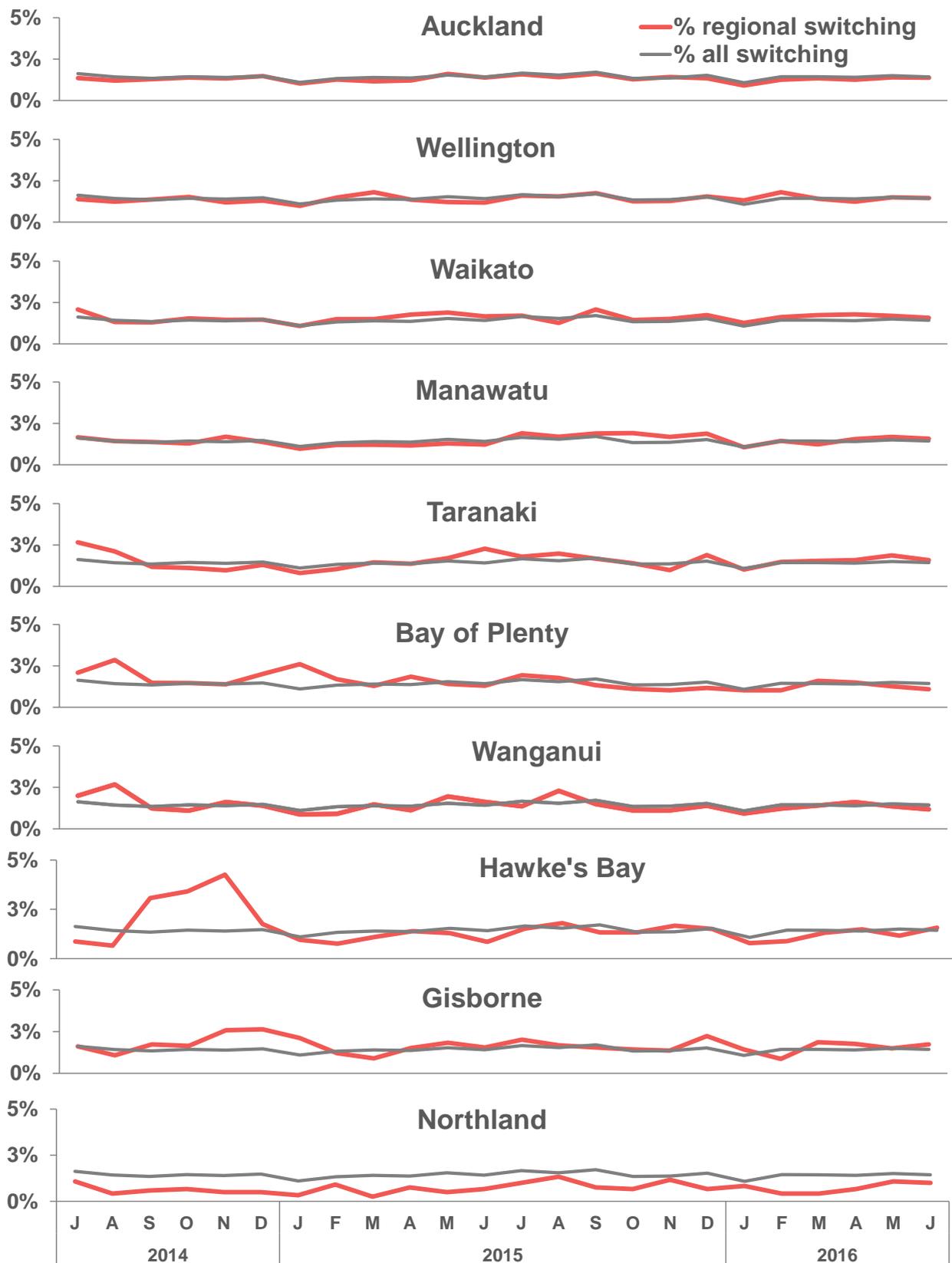
**Chart 1: Monthly switching activity**



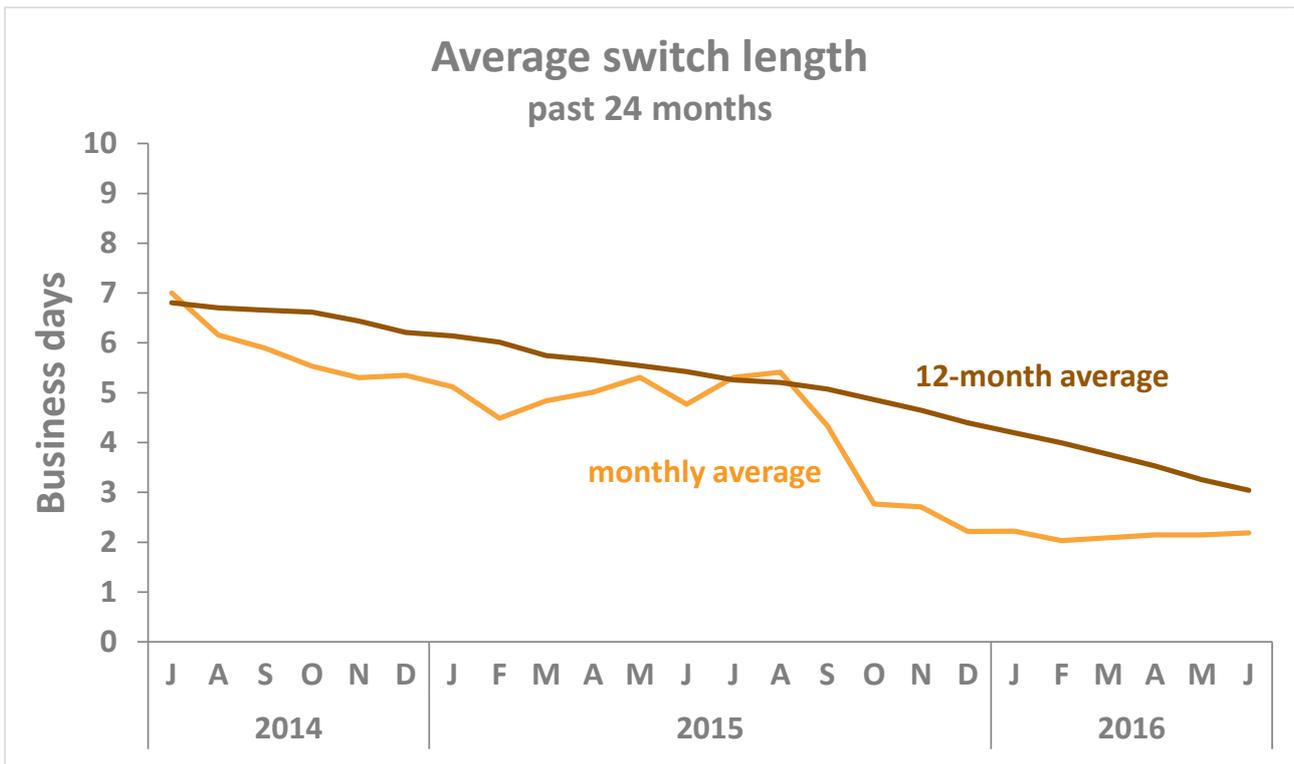
- The average number of switches per month is trending upwards slightly; at the moment, about 4,500 consumers switch gas supplier each month.
- The churn rate for the 12 months to June 2016 is 19.7%, one of the highest rates of retail utility switching worldwide. Gas customers can switch retailers for many reasons, but the high level of activity in the gas retail market suggests that customers find changing retailer easy and can put pressure on retailers to offer competitive terms and pricing.
- See Chart A-1 in the appendix for a chart of switching activity since the start of the registry.

**Chart 2: Regional switching activity**

**Monthly regional and overall switching, past 24 months**

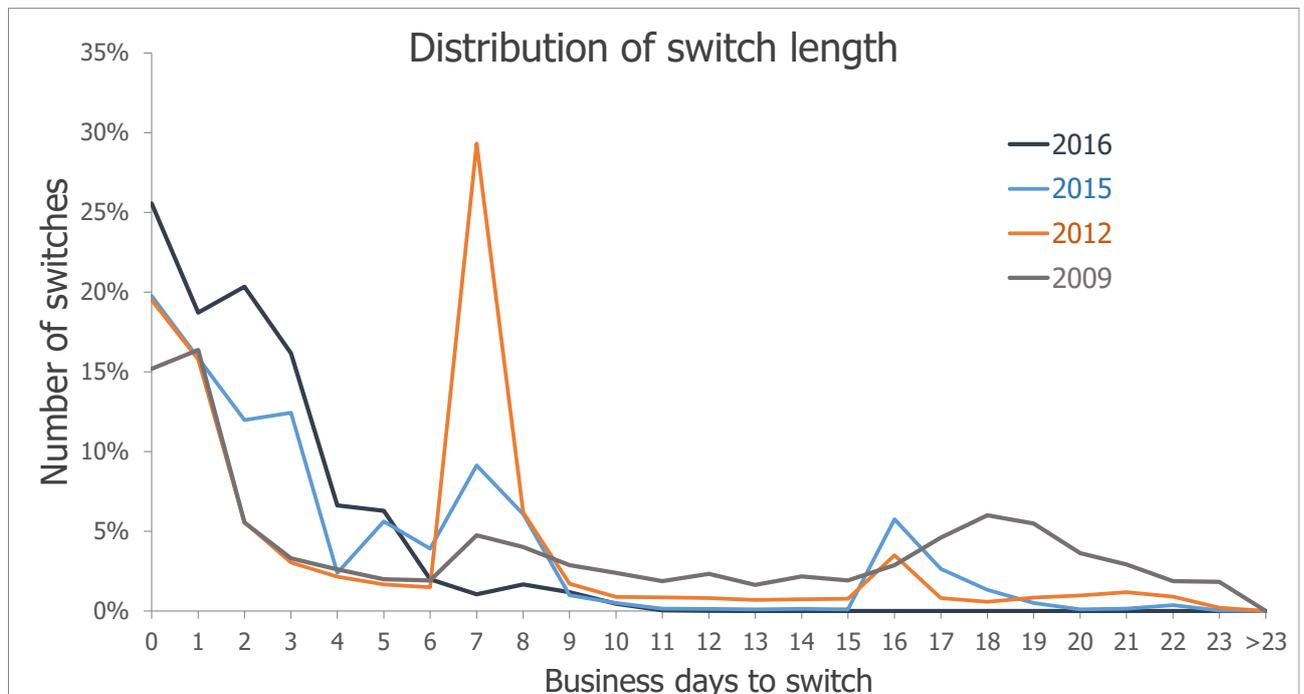


**Chart 3: Time to process switches**



- Switching times have fallen markedly in the past two years. It now takes just over two business days, on average, from when the new retailer initiates a switch request for a switch to be completed.
- The 12-month average switching time stands at about 3.0 business days.

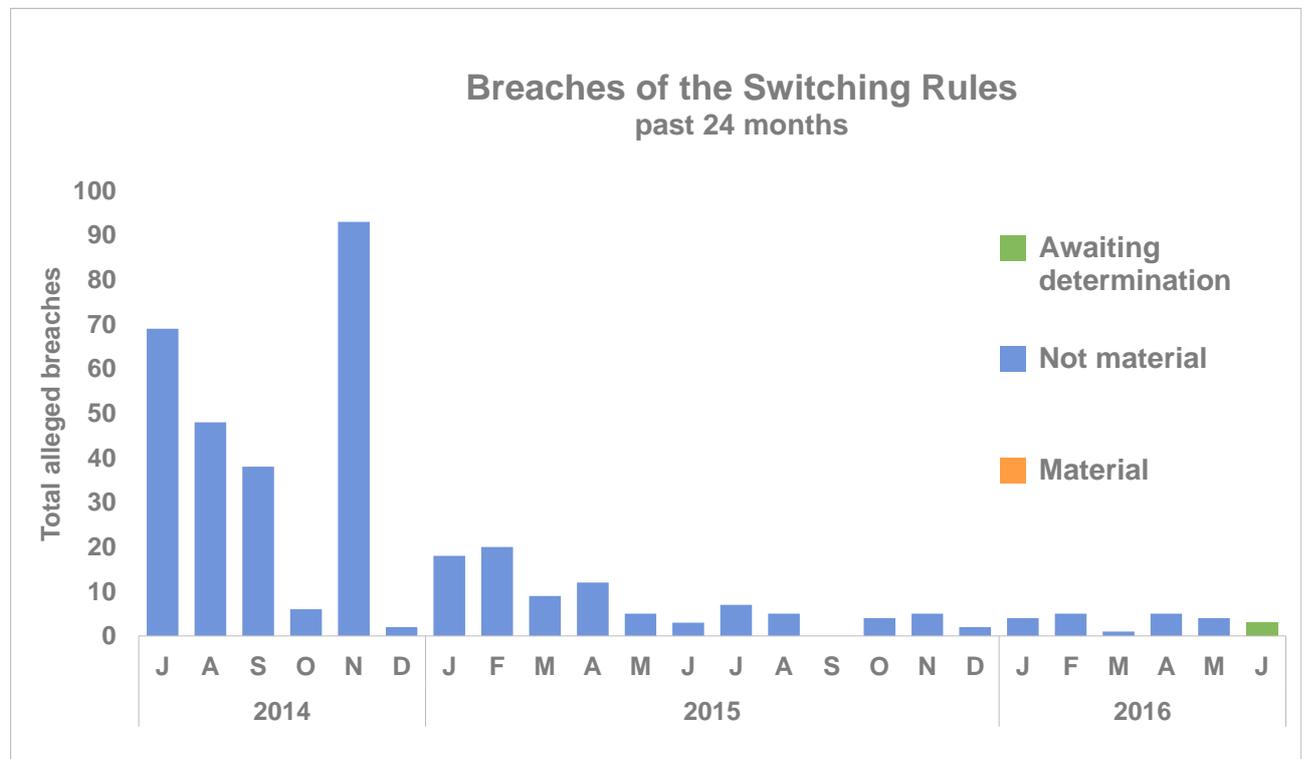
**Chart 4: Distribution of switching length**



- This chart shows the distribution of switching times for the calendar years of 2009, 2012, 2015, and 2016.

- The chart shows the change in switch length over time. In all years, there were some switches that took place within two days. In 2009, over half of switches took at least seven days to complete. By 2012, three-quarters of switches took place in seven days or less. In 2015, there was a shift to completion within three days. So far in 2016, 81% of switches have been completed within three days.

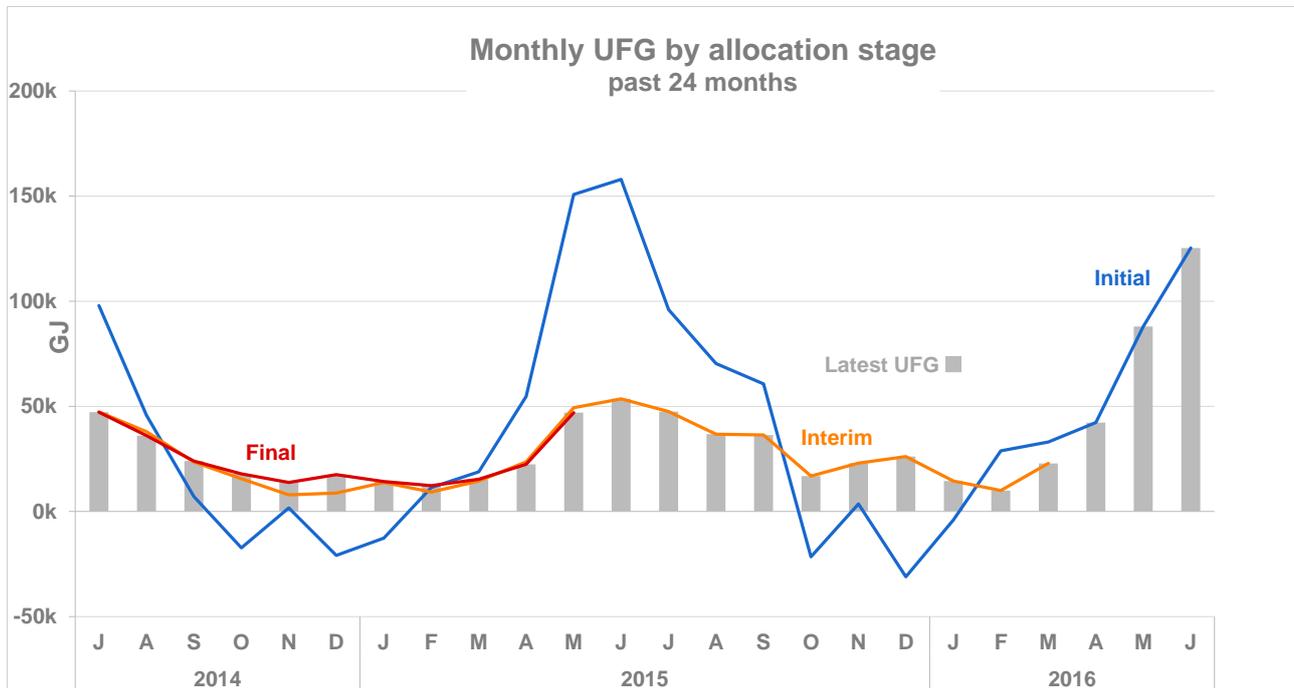
**Chart 5: Number and severity of breaches of the Switching Rules**



- No switching breaches have been found to be material for over two years.

### 3 Allocation and reconciliation performance measures

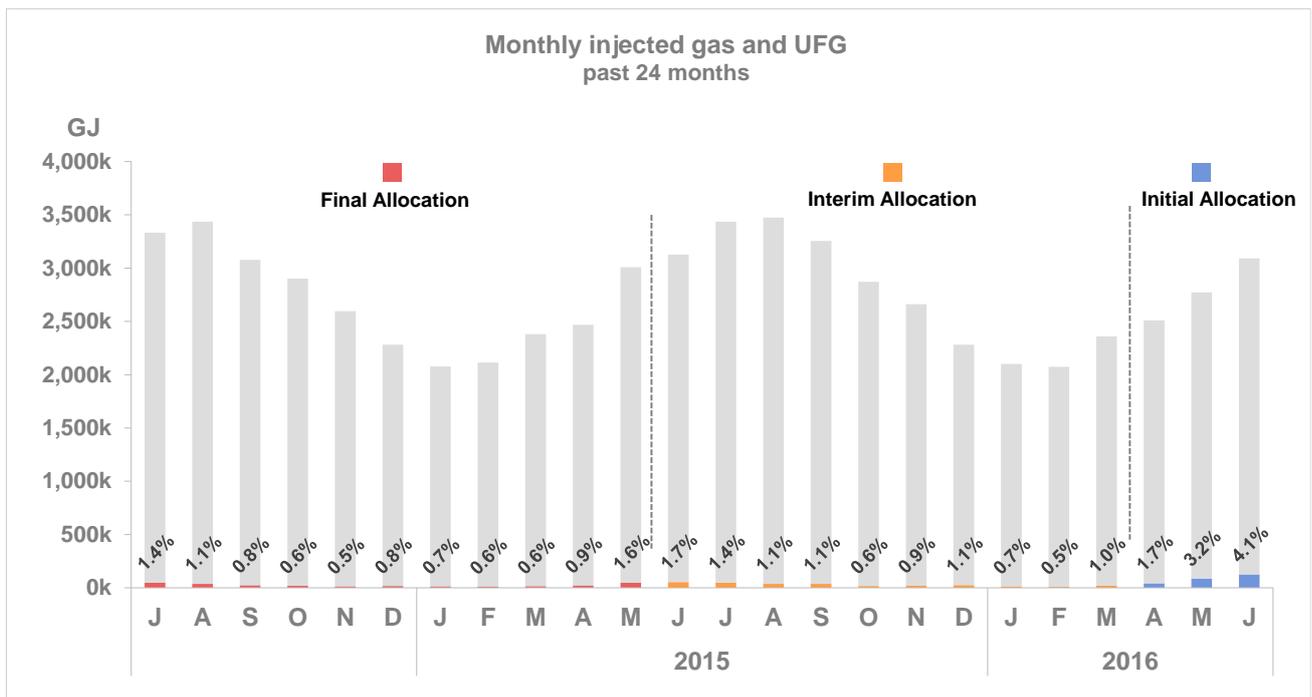
**Chart 6: Volumes of unaccounted-for gas (UFG)**



- As with previous years, UFG has increased in the autumn and winter months as consumption volumes have increased. Note that this chart uses the initial allocation produced by the allocation agent at the end of the month, not the D+1 allocation results.<sup>1</sup>
- See Chart A-2 in the appendix for a chart of UFG since the start of the Reconciliation Rules.

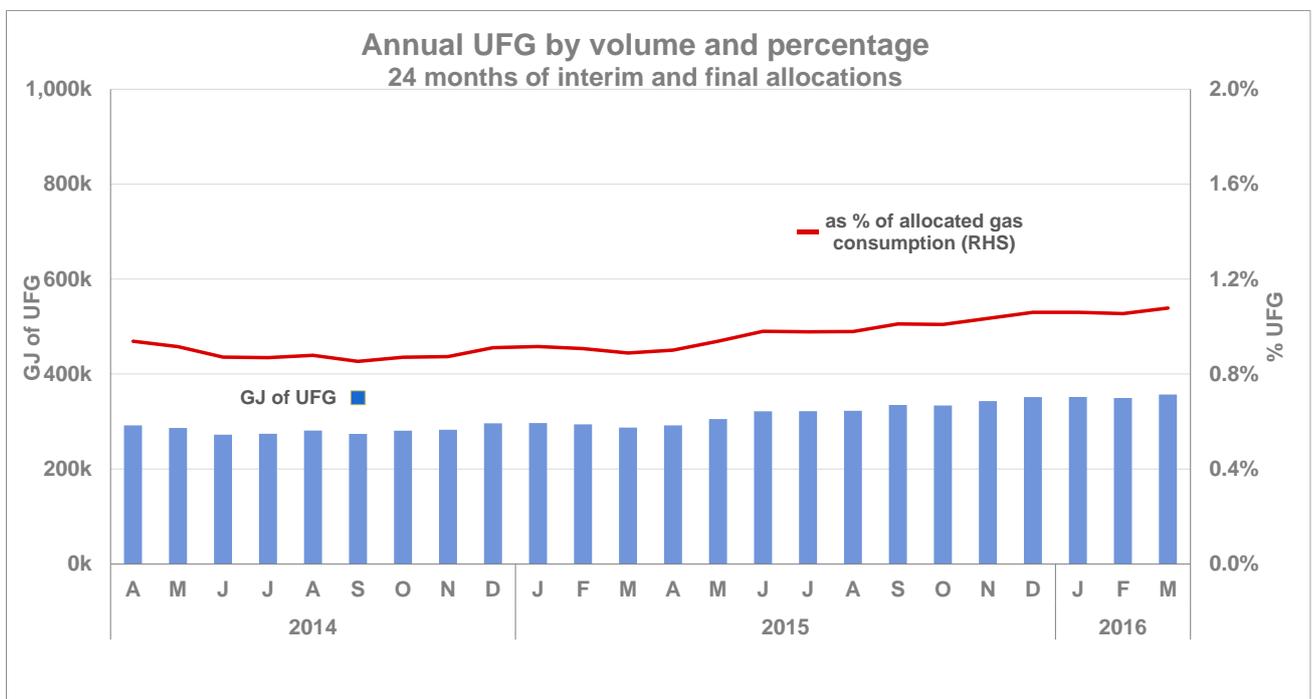
<sup>1</sup> The initial allocation produced by the Allocation Agent is a “bottom up” approach whereby each of the retailers submits data based on a combination of actual meter readings (historical estimates) and consumption estimates since the last meter reading (forward estimates). In that context, UFG is a meaningful measure of the difference between the aggregate estimates and the volumes that have entered the network. By contrast, D+1 is a system for dividing the network volumes among retailers and that process does not produce UFG figures that are comparable with the bottom-up approach to allocation.

**Chart 7: Percentage of UFG**



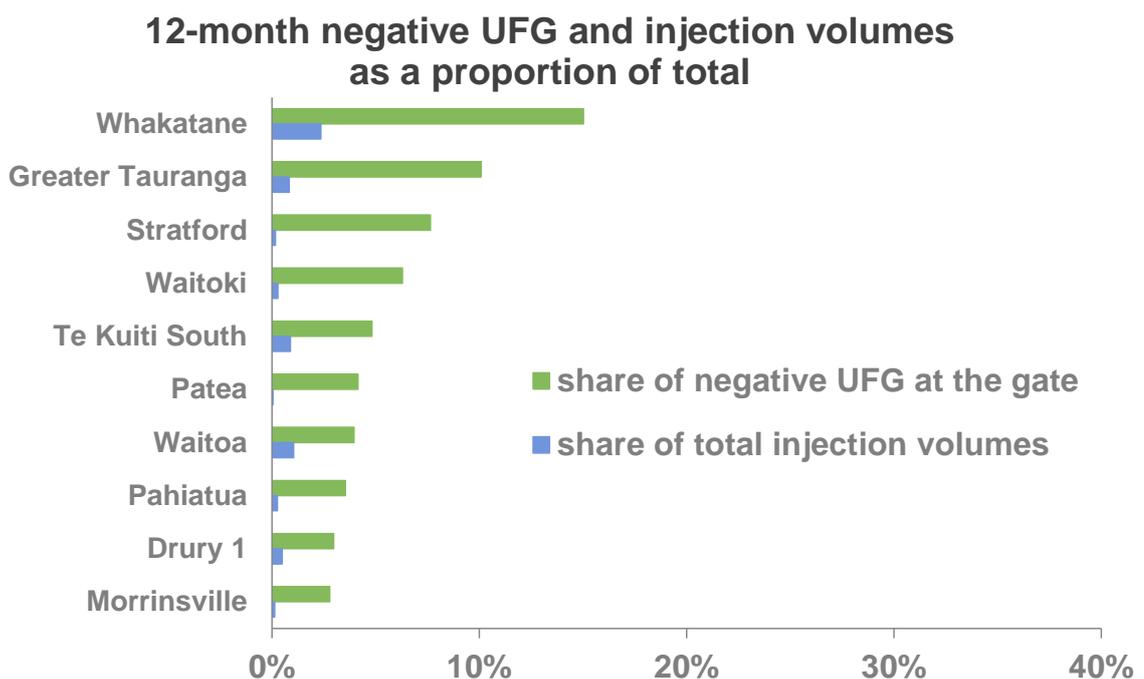
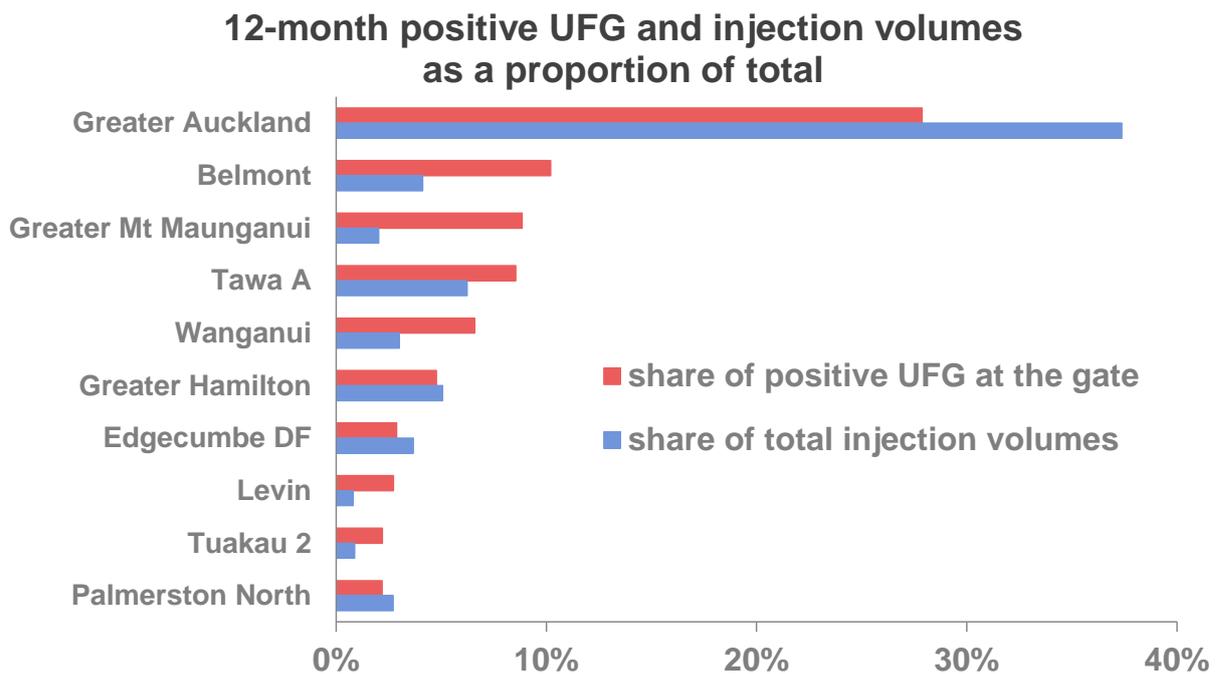
- UFG tends to be higher as a percentage when total volumes are high. This trend is most likely due to UFG attributable to mass market consumption.

**Chart 8: Rolling 12-month UFG**



- In volume terms, annual UFG has decreased dramatically since 2009, when UFG was about 600,000 GJ per year. It now stands at about 367,000 GJ, about 1.1% of allocated gas consumption.
- Recently, UFG has been trending upward in both volume and percentage terms, possibly due to an increase in mass market consumption volumes.

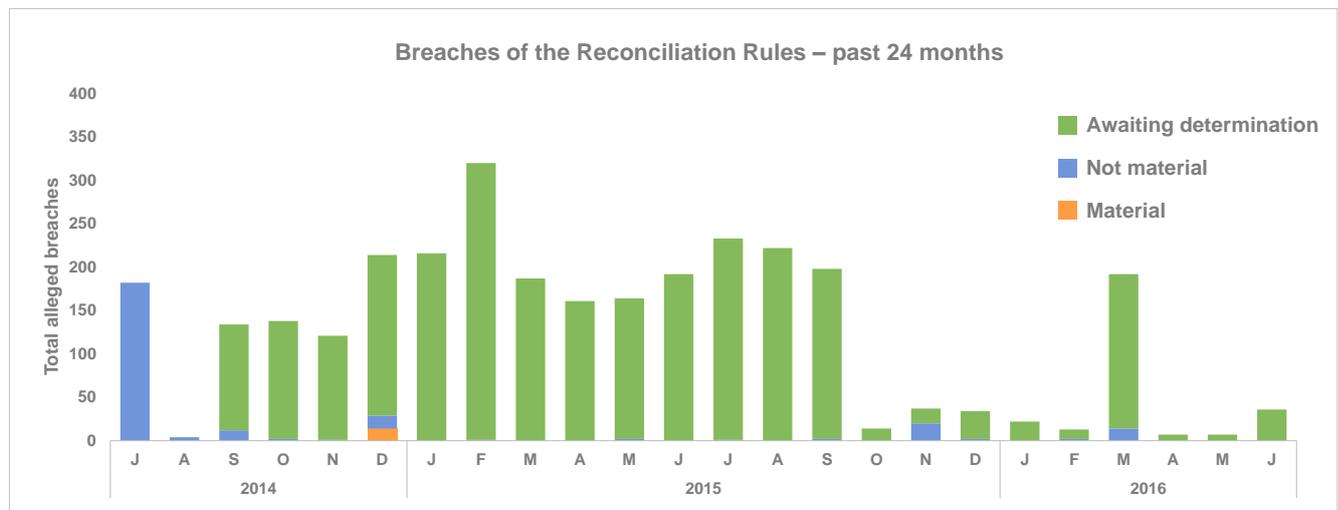
**Chart 9: Gas gates where UFG is the highest**



- These charts show the gates that experience the largest share of total UFG, compared to their share of total gas gate deliveries at shared gas gates. These charts use 12 months of the most recent interim and final allocation data available: in this case, April 2015 through March 2016.
- The 10 gates shown in the top chart account for 77% – about 343,000 GJ – of the positive UFG experienced over the past 12 months.

- The 10 gates shown in the bottom chart account for about 61% (about 55,000 GJ) of the negative UFG experienced in the past 12 months.
- A number of the gas gates shown have been determined to be global one-month gates, since, among other things, they have a high proportion of industrial load. The global one-month methodology assigns a share of the actual UFG experienced in a month to industrial consumers, in contrast to the usual calculation method, which assigns industrial load an annual average amount of UFG.
- In the first chart, Tuakau 2 and Edgecumbe are global one-month gates; Whakatane, Te Kuiti South, Waitoa, Pahiatua, and Drury 1 are in the second chart.

**Chart 10: Number and severity of breaches of the Reconciliation Rules**



- Historically, the majority of breaches have occurred in relation to rule 37 – the rule that requires initial consumption information submitted by retailers to be within a percentage of accuracy of the consumption information submitted for the final allocation.
- The very low level of alleged breaches in August 2014 can be attributed to the Allocation Agent omitting rule 37 breaches in its reporting that month. The Allocation Agent alleged the outstanding breaches in February 2015.
- In September 2015, the market administrator issued a guideline<sup>2</sup> on the materiality of rule 37 breaches, stating that instances where the volume involved is less than or equal to 200 gigajoules do not need to be alleged as a breach by the allocation agent, as there is no likelihood that those errors will raise material issues under the Reconciliation Rules. This change can be seen in the decrease in alleged breaches in October 2015.
- In March 2016, a number of breaches were alleged in relation to the audit of the Greater Tauranga and Greater Mount Maunganui gas gates.
- It has proven efficient for the Market Investigator (or, more recently, Gas Industry Co) to attempt to reach a settlement on 12-month batches of rule 37 breaches, which is why there are a large number of breaches awaiting determination.

<sup>2</sup> Available at <http://gasindustry.co.nz/dmsdocument/5031>.

## Audits commissioned

### Event audits

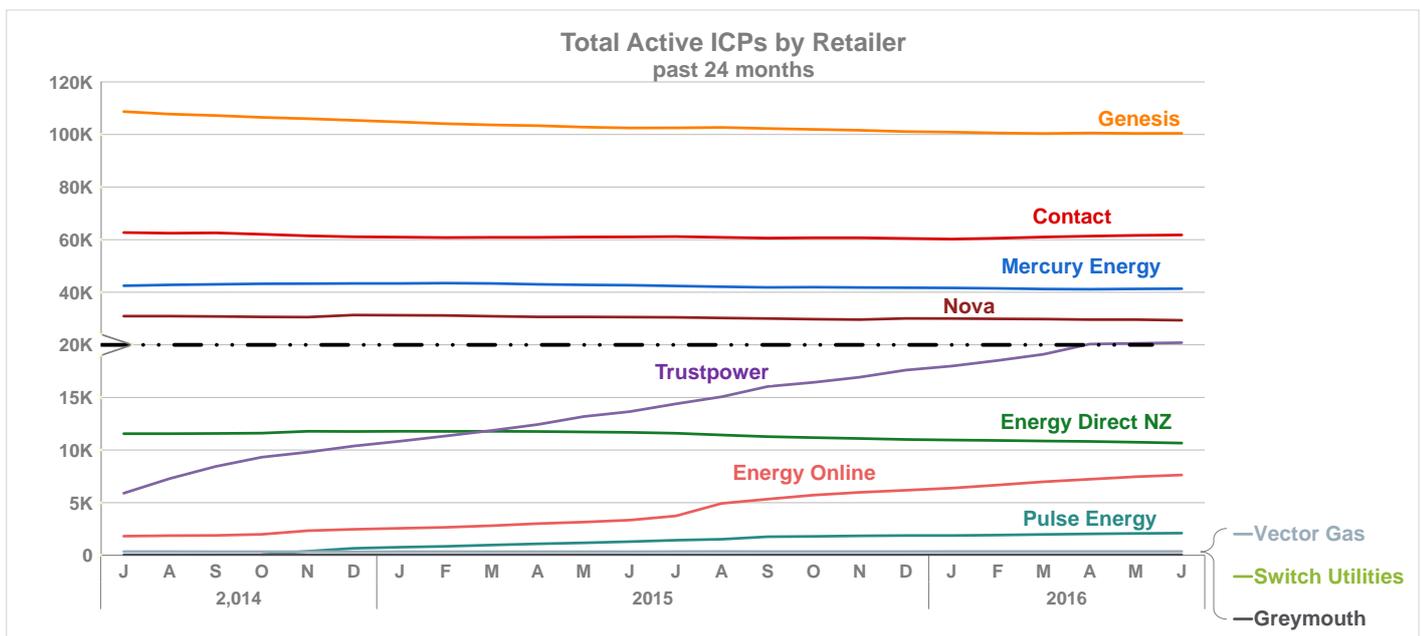
No event audits were commissioned in this quarter.

### Performance audits

The second round of retailer performance audits is complete and audit reports are available on the Gas Industry Co website.

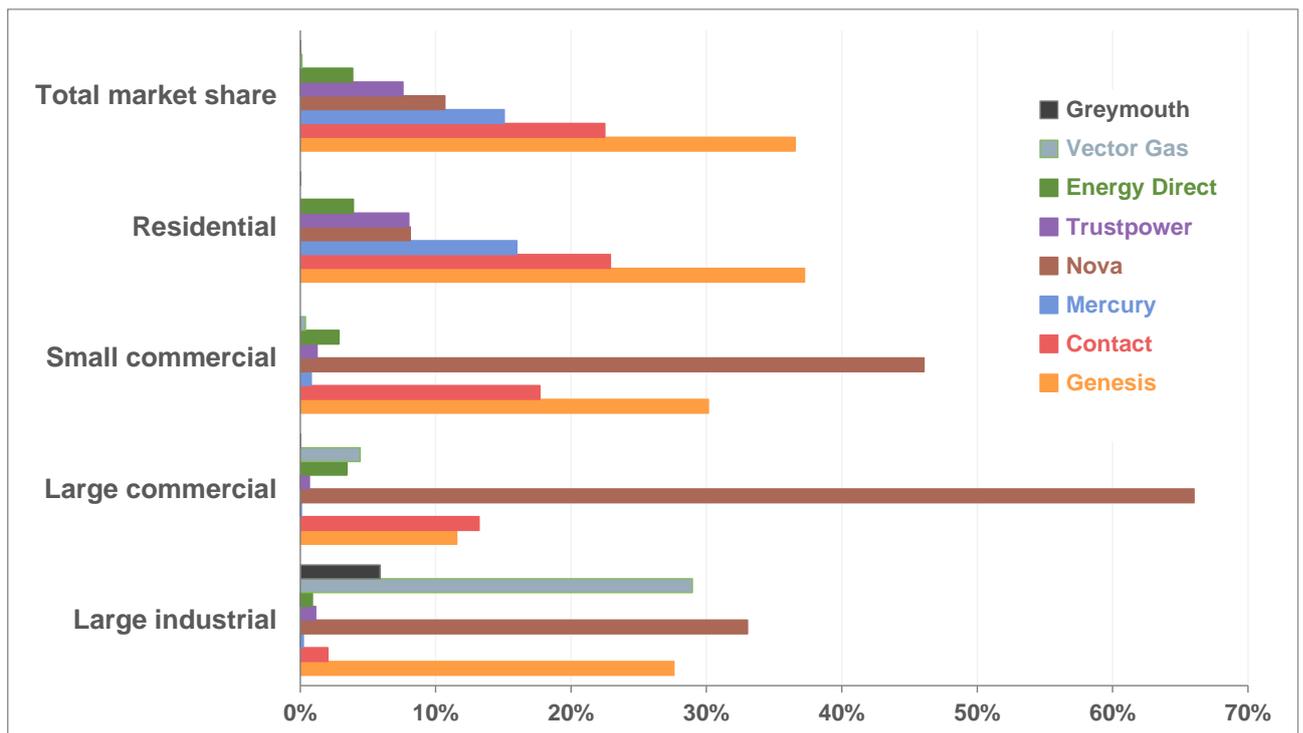
## 4 Market competition performance measures

**Chart 11: Market share of ICPs by retailer**



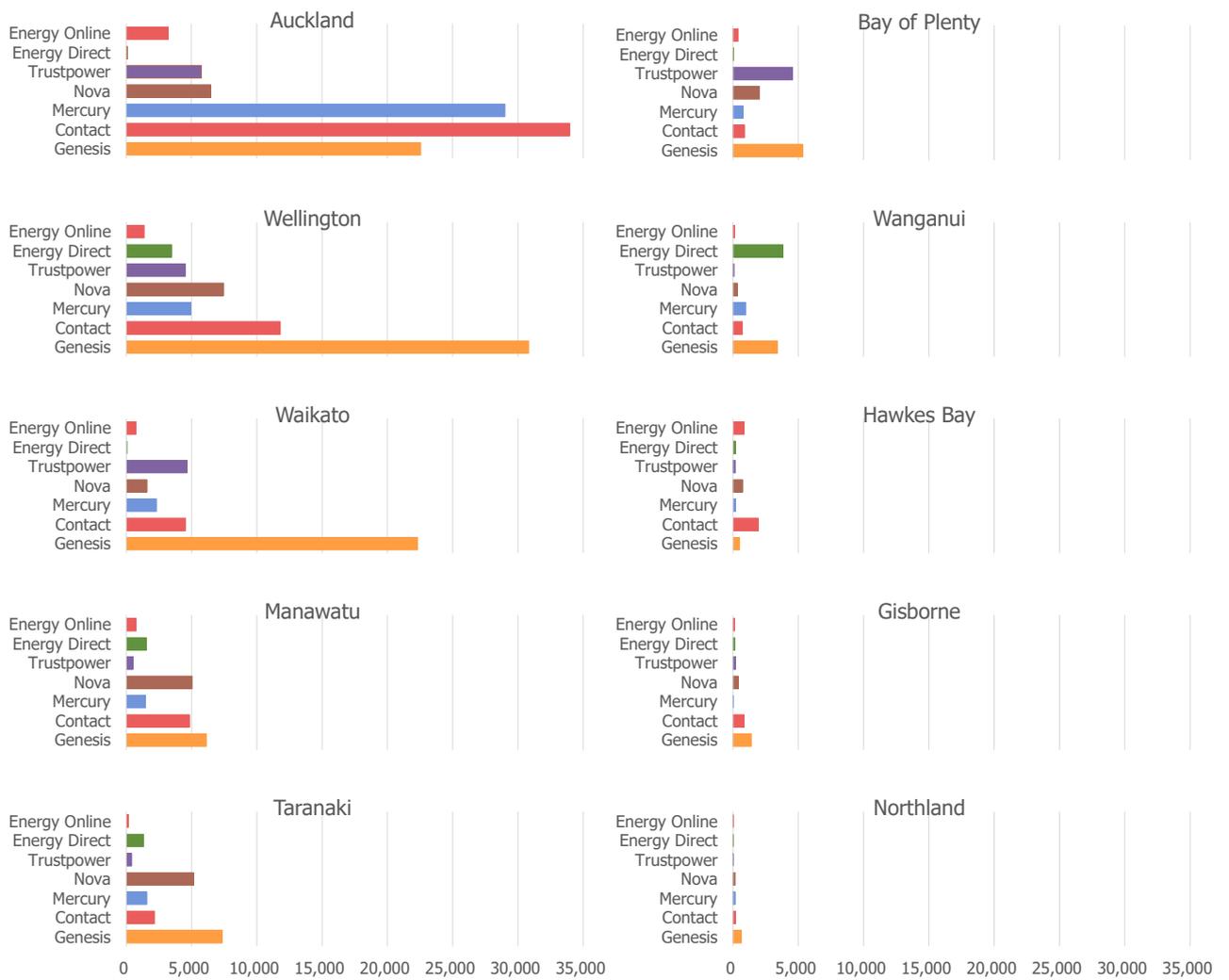
- This chart shows the contrast between the relative stability of customer numbers for the established retailers versus the growth of the new entrant retailers:
  - Trustpower, which entered the retail gas market in November 2013, now has over 20,000 customers;
  - Pulse Energy entered the market in October 2014;
  - Switch Utilities entered in July 2015.
- Energy Online is a retail brand of Genesis Energy and has also been experiencing growth in customer numbers.
- There are 11 distinct retail brands, owned by nine different retail companies (Energy Direct is owned by Trustpower; Energy Online is owned by Genesis Energy).

**Chart 12: Customer market share by consumer segment**



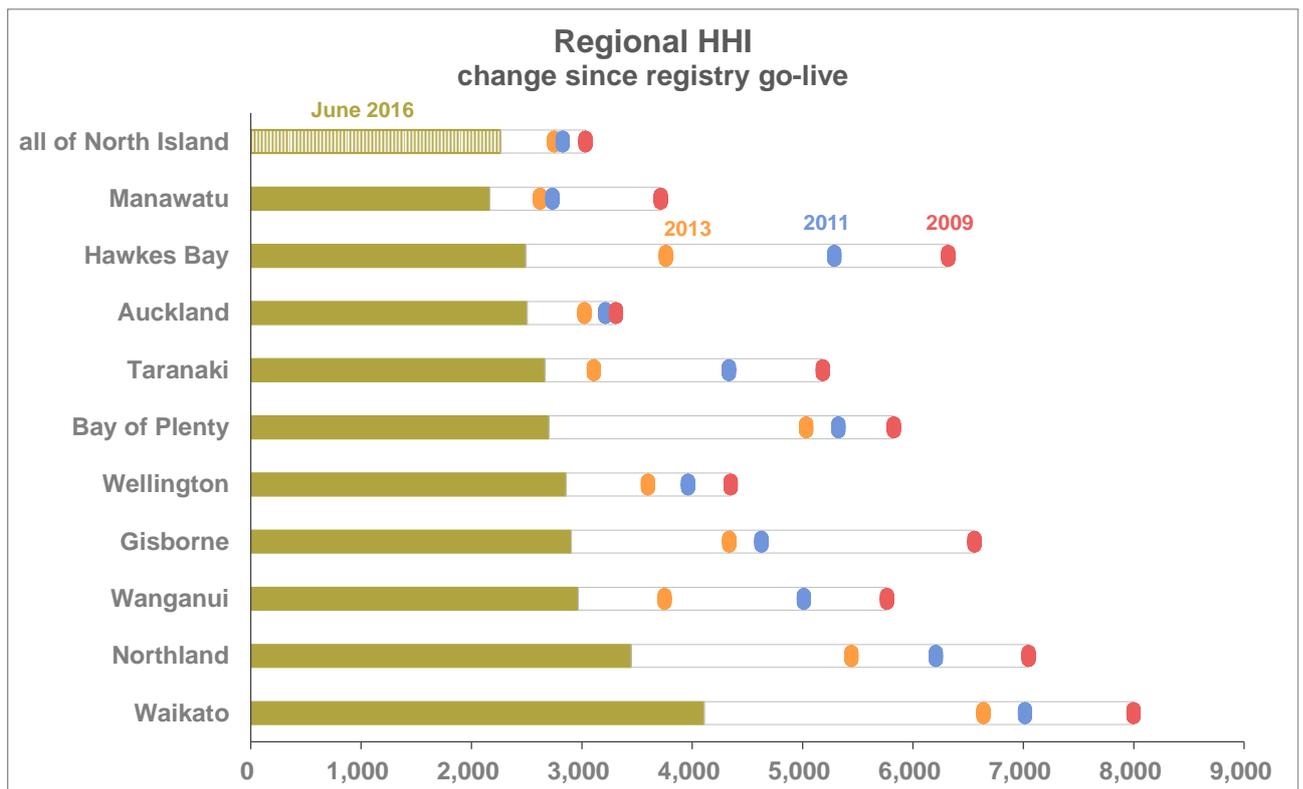
- In this chart, consumer segment is determined by the load shedding category listed on the gas registry for each consumer site. The top set of bars shows the same set of data as the previous chart. The other sets of bars show how some retailers are more dominant in specific sectors of the retail gas market. Vector Gas, for example, focusses on large industrial and commercial customers, while Greymouth has a focus on large industrial customers.
- The chart includes the retail brands that have more than 3% of market share in a category. Energy Online, Pulse Energy, and Switch Utilities, with 2.9%, 0.8%, and 0.008% of the residential market, respectively, are not shown on the chart. Switch Utilities also has 0.5% of the large commercial and 0.17% of the small commercial markets.

**Chart 12a: Customer market share by region**



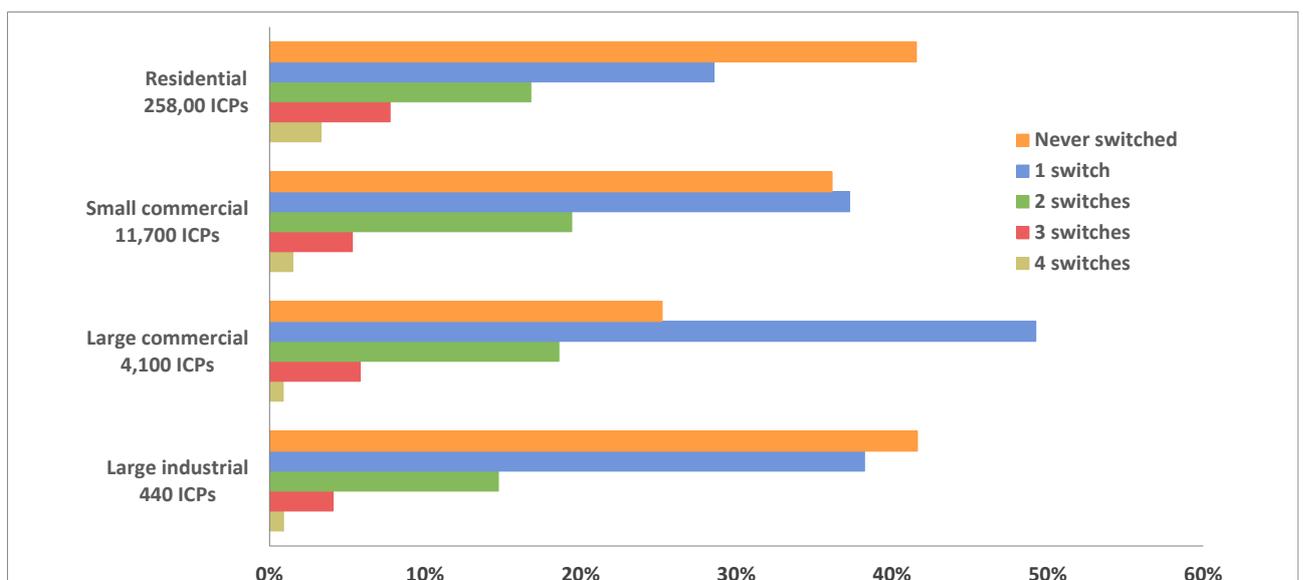
- This chart shows the number of ICPs for each retailer in each geographical region. The retailers shown each have over 1% of total customer market share.

**Chart 13: Herfindahl–Hirschman Index (HHI)**



- The HHI has decreased in all regions since 2009, indicating that the retail market is becoming less concentrated across the North Island.
- Nationally, the HHI stands at 2,261, in comparison to 3,033 in February 2009 (the start of the registry).

**Chart 14: Switching by consumer sites since 2009**

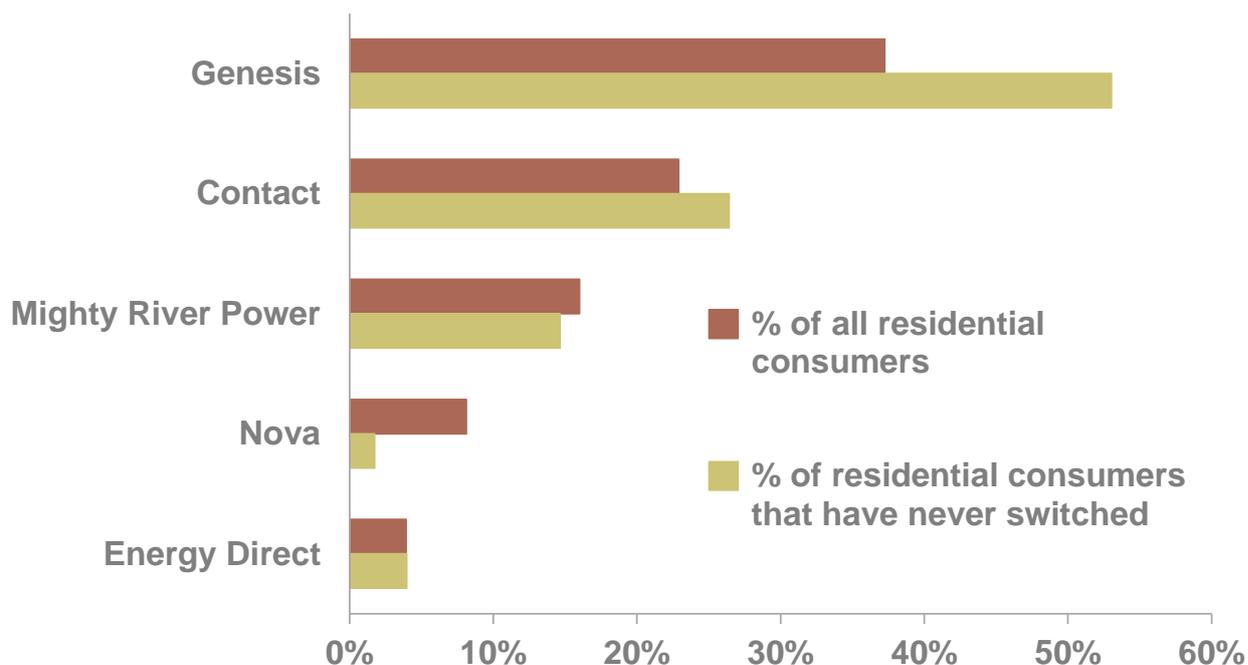


As with Chart 12, consumer sites in this chart and Chart 15 are categorised based on the load shedding category recorded in the gas registry.

- 58% of residential consumer sites

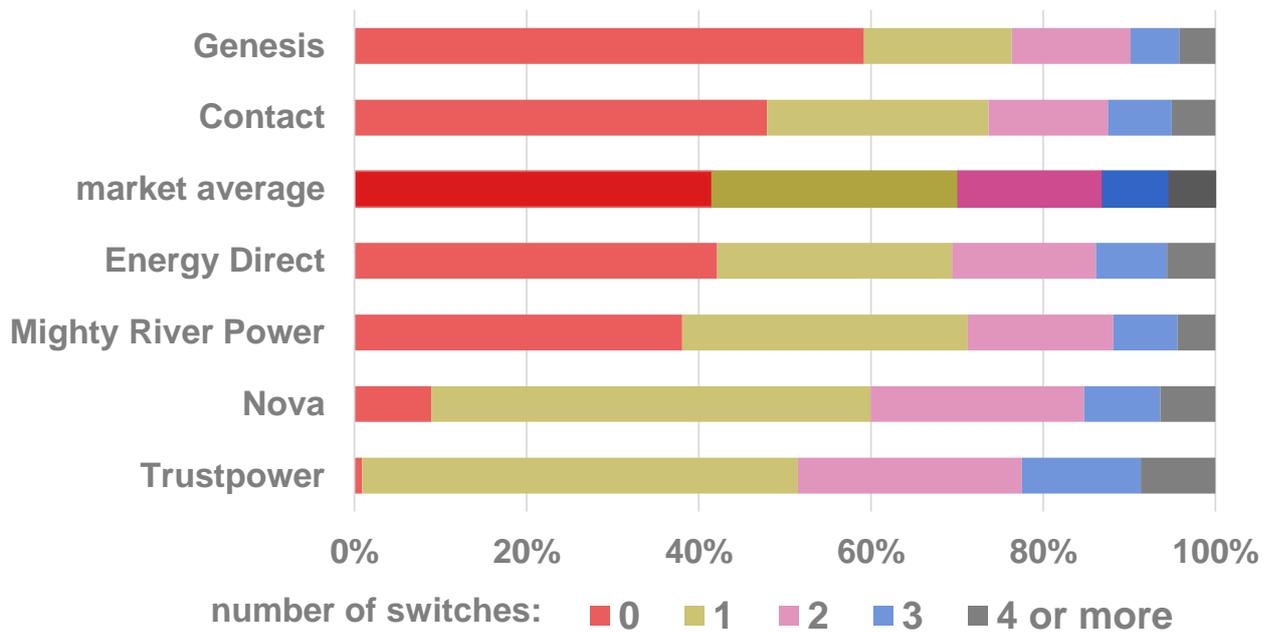
- 64% of small commercial sites
  - 75% of large commercial sites; and
  - 58% of large industrial sites
- have switched retailer at least once since the start of the gas registry (February 2009).

**Chart 15: Residential consumer sites that have never switched**



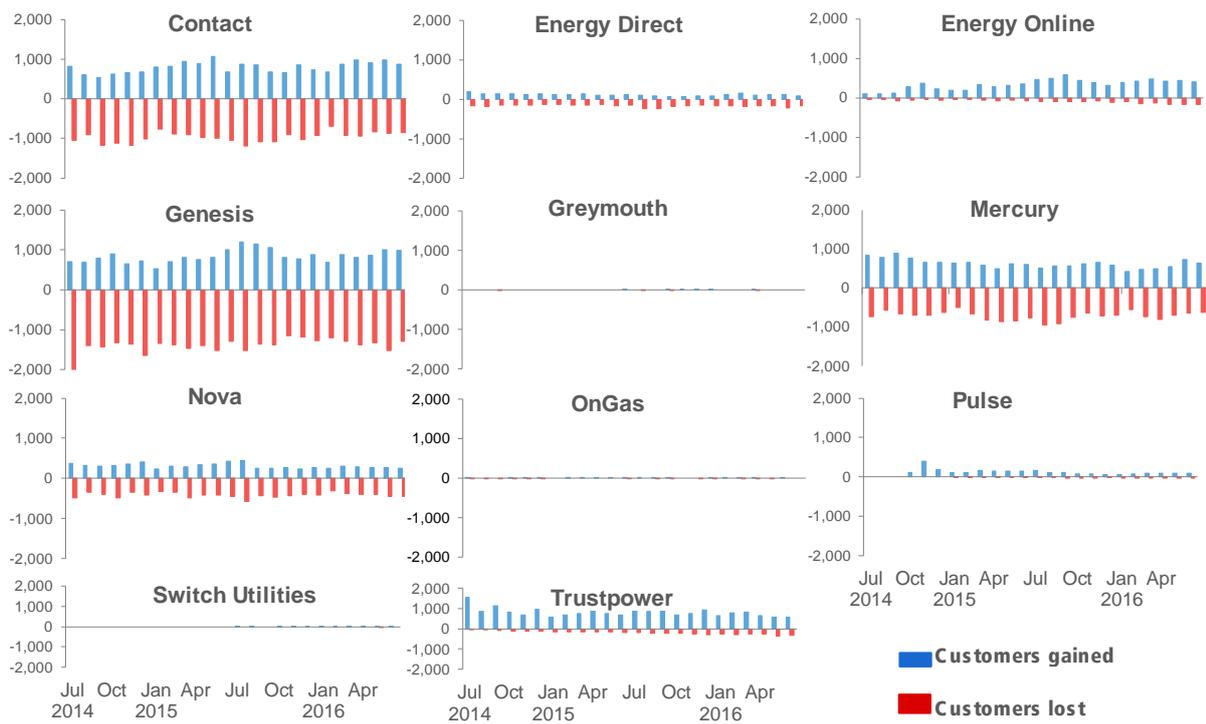
- This chart compares retailers' market share of all residential consumers with their share of residential consumers that have never switched. It shows, for example, that Genesis has about 37% of the total residential market, and about 53% of the residential consumers that have not switched retailer since the start of the gas registry in February 2009.
- The chart focuses on the incumbent retailers that were in operation at the start of the gas registry.

**Chart 15a: Residential customers by number of switches**

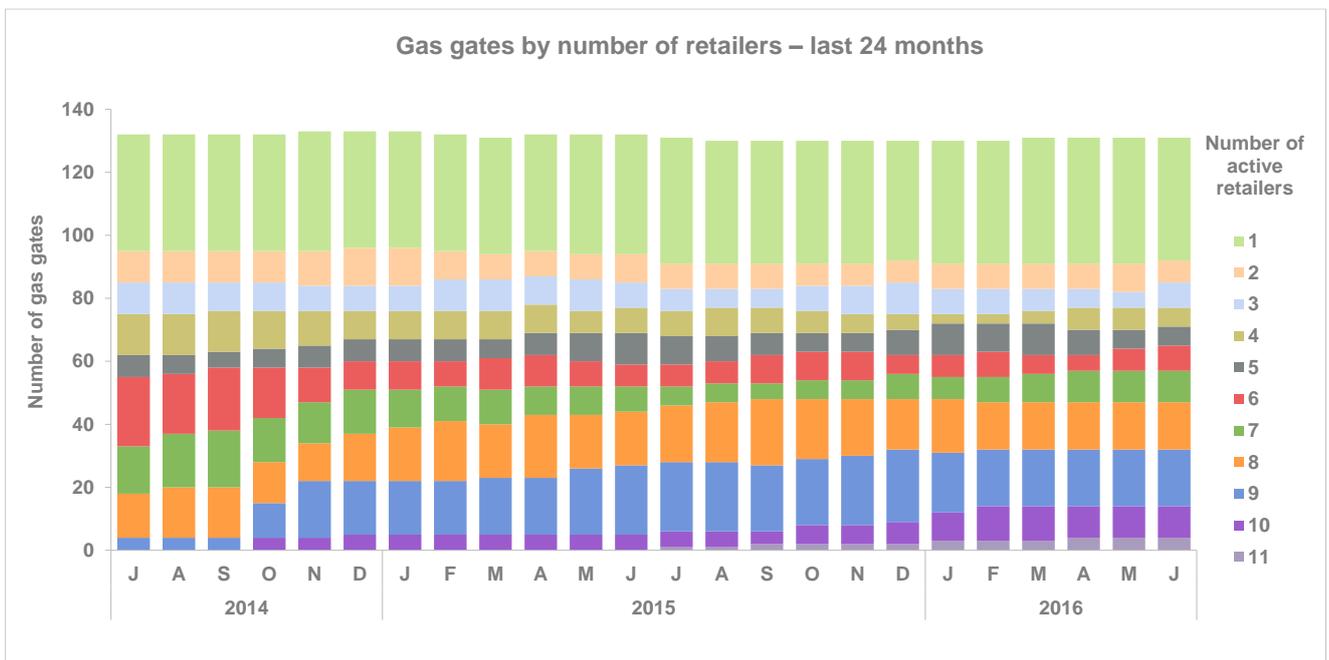


- This chart provides another way to think about residential customer switching. The third bar repeats the data on residential switches from chart 14 above: 42% of residential consumer sites have never switched retailer; 29% have switched once; 17% have switched twice; 8% three times, and 5% four or more times.
- The other bars enable comparison with retailers' residential customer bases. 59% of Genesis customers, for example, have never switched; the proportion is 48% for Contact customers.
- In contrast, Trustpower has built its customer base almost entirely through switching: 51% of its customers have switched once; 26% twice; and 14% three times. (Trustpower is also retailer to a small number of newly-created ICPs that have never switched.)

**Chart 16: Switching activity by retailer**

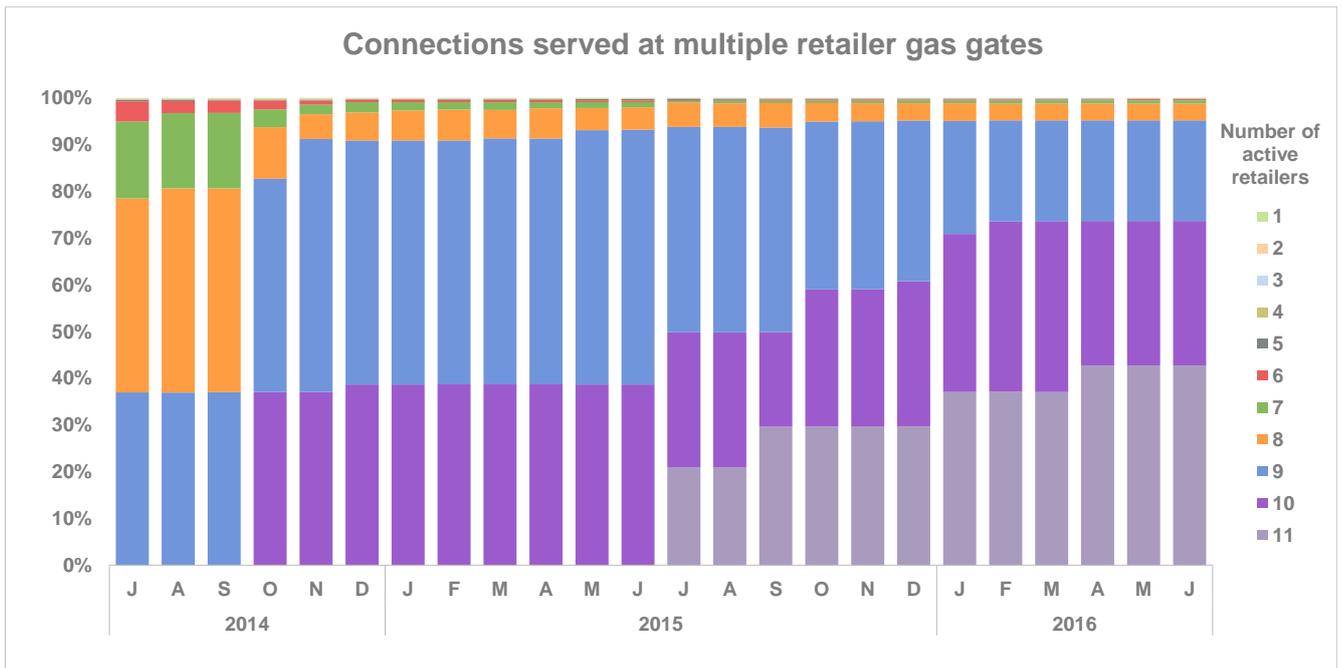


**Chart 17: Gas gates by number of retailers**



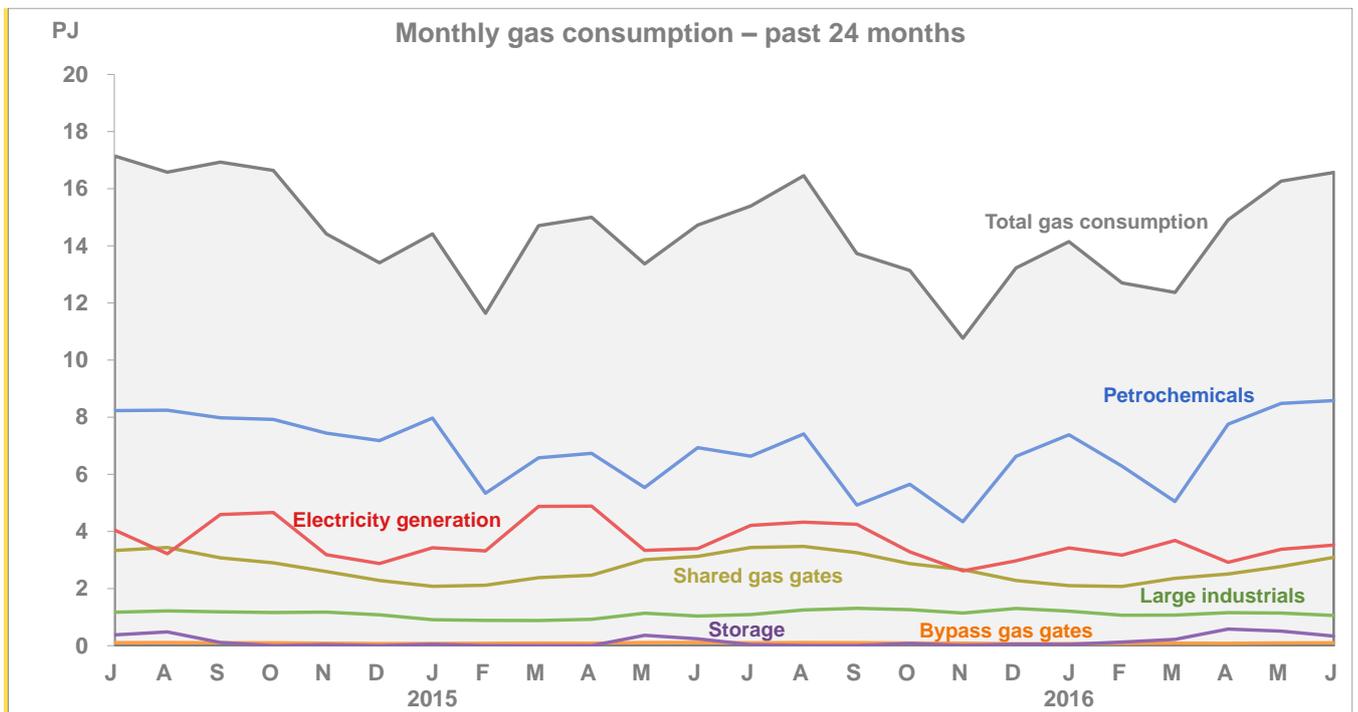
- Due to Switch Utilities entering the retail gas market in July 2015, there are now 11 retailers trading at some gas gates in the Wellington and Auckland regions.
- The chart also shows the step change due to Pulse Energy’s entry into the retail gas market in October 2014.

**Chart 18: Connections served by multiple retailers**

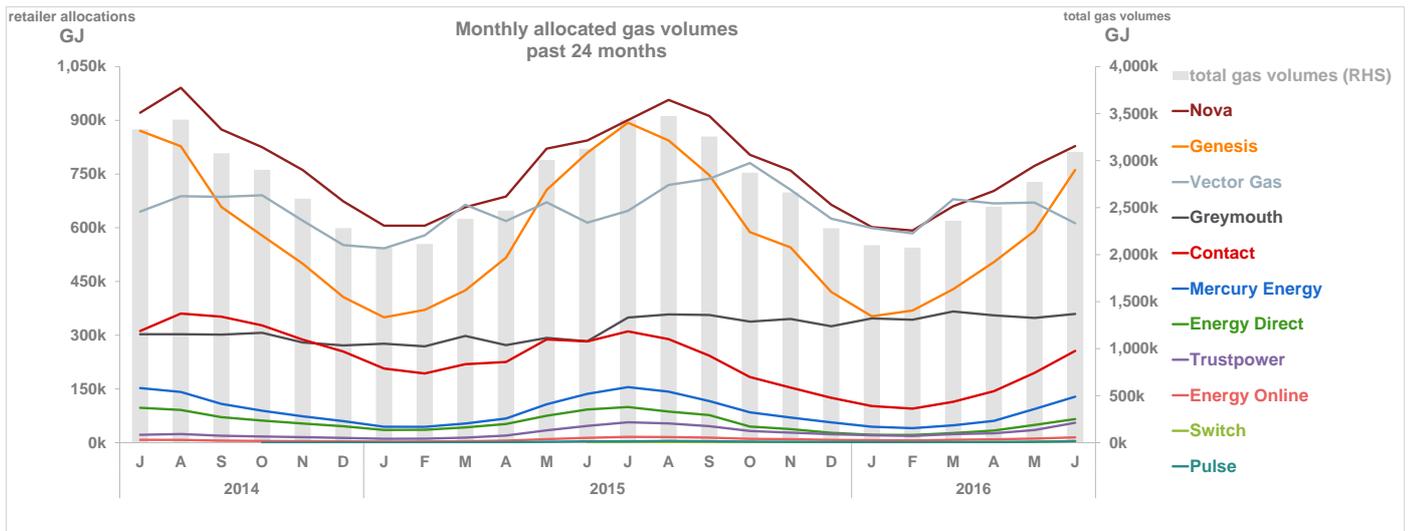


- Nearly 99% of gas consumers are connected to a gate where eight or more retailers trade.

**Chart 19: Total gas volumes**

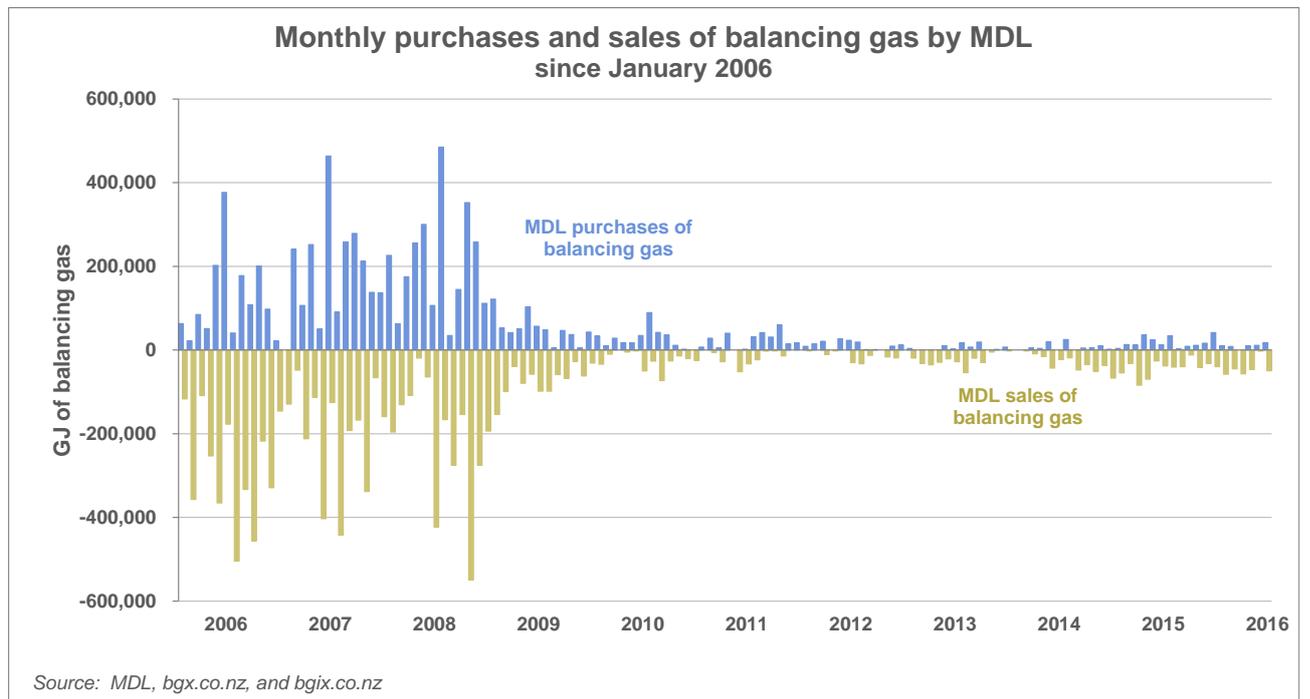


**Chart 20: Allocated gas volumes**

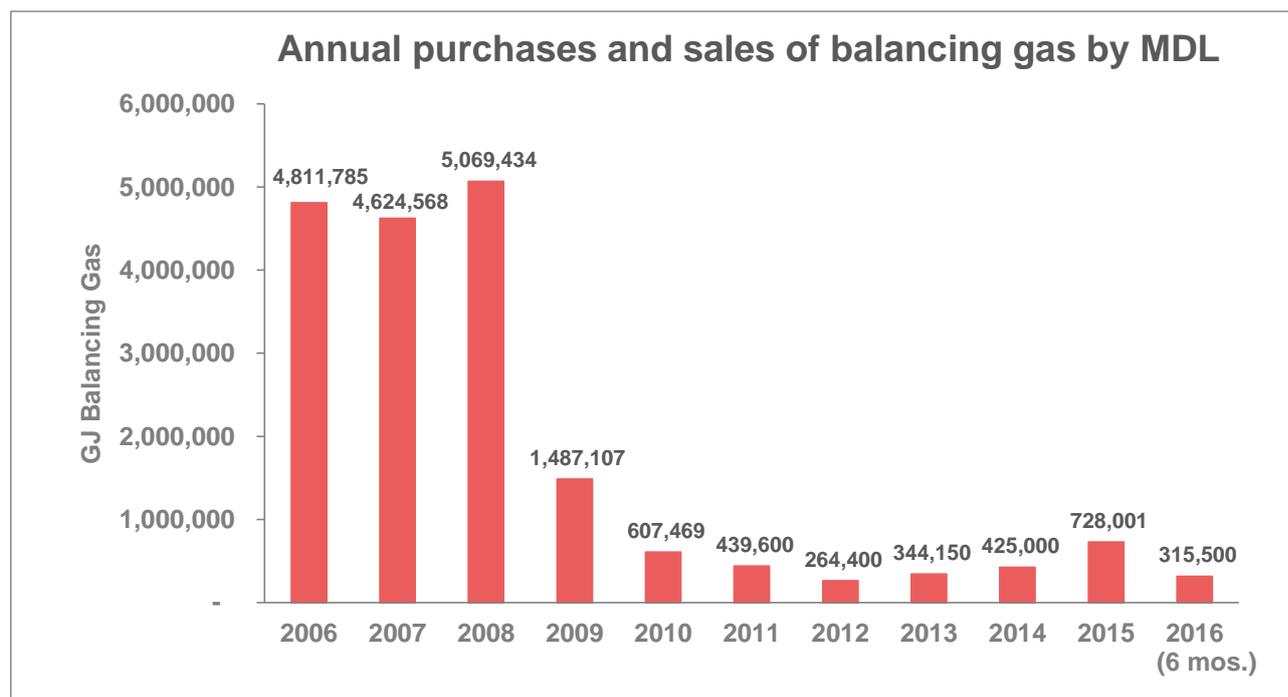


- The data is from a mix of allocation stages: Final through May 2015; Interim for June 2015 through March 2016; and Initial for March through June 2016. Note that the initial allocation data are those initially produced by the allocation agent, not the D+1 allocations that were used to replace the initial allocations.

**Chart 21: Balancing gas volumes**



**Chart 22: Annual volumes of balancing gas**



October 2015 saw the first month of Market Based Balancing (MBB). This new set of arrangements is designed to more accurately target the costs of secondary balancing (i.e. balancing undertaken by the transmission operator) to parties that are out of balance. The change is relatively new, and it is too early to draw any conclusions on its effectiveness, but market participants have agreed to provide the information that will allow Gas Industry Co to assess it. An initial assessment of data for the period to the end of June 2016 is now underway.

## 5 Critical Contingency Management performance measures

### **Pohokura Production Station Unplanned Outage on 24 May 2016**

At 16:20 on the 24th May, Pohokura Production Station suffered an unplanned outage. The loss of gas production combined with the large gas demand at the time resulted in depleting linepack and pressures such that the critical contingency threshold of 3 hours to 37.5 barg at the Kapuni Gas Treatment Plant (KGTP) was breached.

At 18:05, the Critical Contingency Operator (CCO) determined that the critical contingency conditions required to declare a critical contingency had occurred. The critical contingency declaration notice was posted at 18:30.

In cases where the critical contingency is declared to be non-regional, that is, affecting the entire gas transmission system, the CCM Regulations incentivise producers to increase production and large consumers to decrease consumption. This incentive appears to have been effective: in response to the critical contingency determination, SENZL increased production from Oanui and Todd increased flows from McKee/Mangahewa. In addition, Methanex and Contact Energy's Ahuroa storage facility decreased their flows of gas from the pipeline.

The response by industry participants, together with the recovery of the affected production stations, meant that the system recovered without the CCO needing to curtail any consumers. At 22:45, the CCO consulted with the transmission system operator (TSO) to determine if the system could be considered stable, and both parties agreed that the Critical Contingency could be terminated at 23:00 hours. The CCO issued a notice of termination at 23:00.

In its draft performance report, the CCO considered that the regulations and industry preparations for a critical contingency achieved the purpose of the regulations.

Recommendations stemming from the event include:

- Reviewing the pressure thresholds at which a critical contingency is triggered;
- Formalising co-location of the CCO at the TSO's control room as a preferred operating mode for an event when circumstances allow.

### **Exercise Kakama, 22 June 2016**

The CCO is required by regulation 34 of the CCM Regulations to instigate test exercises that assess:

- that the Critical Contingency Management Plans (CCMPs) comply with regulation 25 and achieve the purpose of the regulations;
- that the CCMPs contain the contact details required by regulation 25 and that they are current; and
- that the Retailers' list of emergency contact details required by regulation 43 are current.

An exercise needs to be instigated every 12 months (unless there has been a critical contingency in that 12 months). Although a critical contingency had occurred in the previous month, it did not result in curtailment instructions being issued, so a key component of the CCMPs was not adequately tested as required by the regulations. The CCO therefore conducted the test exercise as planned.

The exercise started at 9:00am and ran until 3:30pm. The exercise simulated accidental damage to the First Gas Ltd 100 pipeline south of Turakina, resulting in an uncontrolled gas escape. This resulted in the transmission pipeline system south of Turakina to Wellington and east to Hastings being isolated for 24 hours while repairs were carried out. In order to conserve linepack and pressure in the system, the CCO issued curtailment instructions affecting consumers in Bands 3, 4, 5 & 6.

The CCO is expected to publish an exercise report shortly.

# GLOSSARY

Critical contingency	A state of emergency on the transmission system characterised by falling or extremely low gas pressures. In such situations, the critical contingency operator has the authority to require consumers to stop using gas in order to balance the system, as set out in the Gas Governance (Critical Contingency Management) Regulations 2008.
Direct connect consumers	Large industrial consumers who are supplied gas directly from the transmission system via a dedicated gas gate.
Distribution system	System of lower pressure pipelines conveying gas from the transmission system to consumer sites.
Gas gate	A place where gas leaves the transmission system. Gas gates (most commonly) lead to distribution systems, which supply a number of different consumers. Some gas gates are direct connects, meaning that they supply a single large industrial consumer. A few gas gates supply private gas networks, which supply the customers of a single retailer.
Herfindahl–Hirschman Index (HHI)	Measure of market concentration. Generally, markets in which the HHI is between 1,500 and 2,500 are considered moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated. For more information, see the Appendix.
ICP	Installation Control Point: the point where a consumer installation is connected to the distribution system. Used to describe a consumer site.
Move switch	A switch where the retailer supplying gas to a consumer site is changed to another retailer at the request of an incoming tenant or homeowner.
Reconciliation	The processes by which the volume of gas leaving the transmission system is allocated on a gate-by-gate basis to retailers with consumers at those gates; governed by the Gas (Downstream Reconciliation) Rules 2008. Reconciliation is done on a monthly basis, and each consumption month is calculated three times: in the month immediately after consumption month ( <i>initial allocation</i> ); four months after consumption month ( <i>interim allocation</i> ); and 13 months after consumption month ( <i>final allocation</i> ).
Registry	Database of information on consumer sites, including metering information, associated gas gate, and responsible retailer. Used to facilitate efficient and accurate switching.
Standard switch	A switch where a gas customer decides to switch the retailer that supplies its existing location.
Switching	The processes by which the retailer supplying a customer site is changed to another retailer, governed by the Gas (Switching Arrangements) Rules 2008.
Transmission system	System of high pressure pipelines that convey gas from gas processing facilities to a distribution system or to a direct connect consumer.
Unaccounted-for gas (UFG)	The difference between the amount of gas leaving the transmission system and retailers' estimates of their consumers' consumption. It is made up of technical losses on the system, metering inaccuracies, and retailer estimation errors. For more information, see the Appendix.

# Appendix A - Explanatory Notes

## 1 Introduction

This appendix provides context and additional information about the industry performance measures contained in the body of the report. Section numbering is consistent with the main report.

## 2 Switching performance measures

All of the switching charts include only switches that occurred on open-access distribution networks; switches from open-access to bypass networks (or vice versa) would not be recorded as a switch in the gas registry. The charts also exclude bulk transfers of customers associated with events such as retailer amalgamation or the purchase of a retail customer base. Specifically, the charts exclude the transfer of E-Gas customers to Nova Energy in November 2010 and the amalgamation of Auckland Gas (June 2011) and Bay of Plenty Energy (March 2013) with Nova Energy.

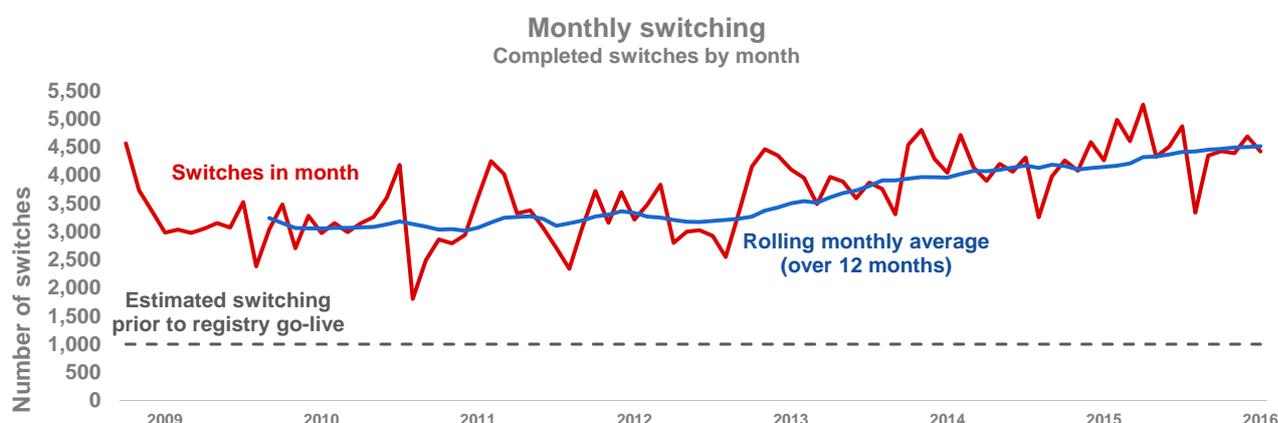
### Chart 1: Monthly switching activity

Prior to the gas registry going live in March 2009, there were approximately 1,000 switches per month, and the annual churn rate was approximately 4.8%.

Since registry go-live, switching rates have more than quadrupled to over 4,000 per month. The churn rate (defined as the number of switches in 12 months divided by the total number of gas consumers) has varied in that time from 14% to over 19%. By comparison, electricity switching rates vary from about 16% to about 20%.

For context, the chart below shows customer switching trends since March 2009, when the registry went live.

### Chart A- 1: Monthly switching since March 2009



### **Chart 2: Regional switching activity**

These charts compare regional switching rates with total switching rates. The grey line is the same in all the charts and shows the number of switches in a month as a percentage of active customer sites (that is, customer sites that either have a contract with a retailer or that recently had a contracted consumer but is temporarily vacant) across all North Island gas consumers. The data include both move switches (where a property is switched at the request of an incoming tenant or homeowner) and standard switches (where a gas customer decides to switch the retailer that supplies their existing location). As that grey line shows, monthly switching generally involves between about 1.0% and 1.7% of total North Island gas customers in a month.

The red line in each chart shows the number of switches in that region as a percentage of ICPs in that region. Auckland and Wellington switching rates tend to be similar to the North Island rates, since a large proportion of gas customers are located in those regions. Differences emerge in the smaller regions and show both long-term trends and the effects of regional marketing campaigns.

### **Chart 3: Time to process switches**

The time to process switches has fallen markedly since the commencement of the Switching Rules and the associated inception of the gas registry. Prior to those events, switching could take weeks or months to complete. Once the registry went live, switching times dropped to about 10 days, and since then, switching times have dropped further, to an average of about three business days.

### **Chart 4: Distribution of switching length**

These charts show the distribution of switching length since the start of the gas registry by calendar year. Since the start of the registry, switches have tended more and more to occur either in zero or one day; or in seven days. Switches taking zero to two business days generally are move switches (where a property is switched at the request of an incoming tenant or homeowner), while the majority of switches taking three or more business days are standard switches (where a gas customer simply decides to switch the retailer that supplies their existing location).

### **Chart 5: Number and severity of breaches of the Switching Rules**

Most breaches of the Switching Rules are alleged by the registry operator, though a few have been alleged by other market participants.

## **3 Allocation and reconciliation performance measures**

### **Chart 6: Volumes of unaccounted-for gas (UFG)**

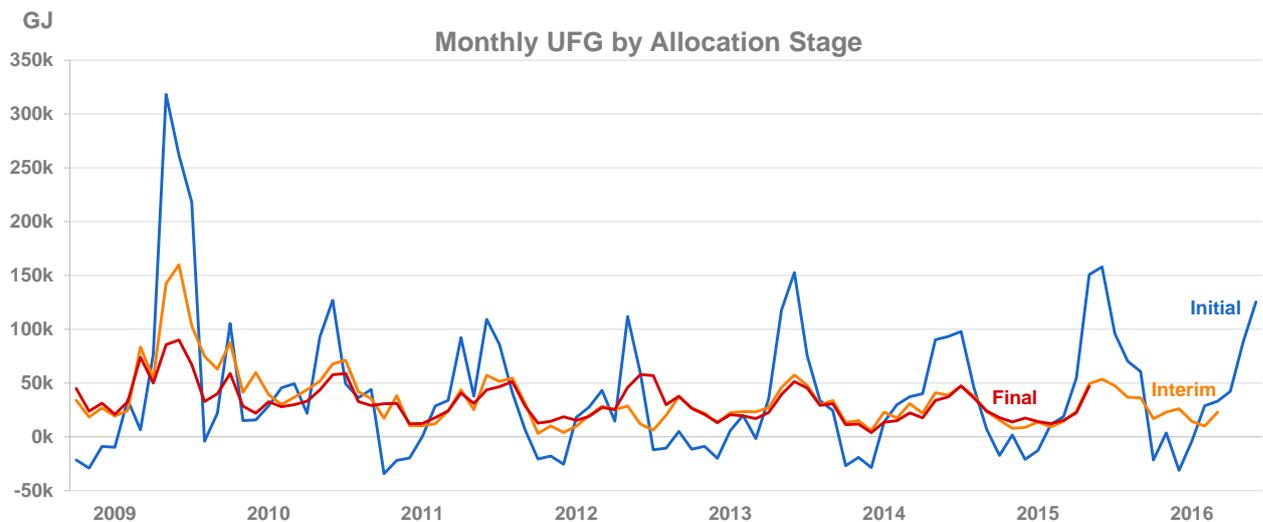
Under the Reconciliation Rules, the amounts of gas that retailers estimate their customers have used are subtracted from the amounts of gas leaving the transmission system. The difference is UFG, which arises from technical losses on the system, metering inaccuracies, and retailer estimation errors. UFG imposes a cost on the market: it is gas that retailers are allocated and must pay for, but cannot sell. Tracking UFG is a way of monitoring these costs and the efficiency of the retail market. This transparency should assist the industry to take steps to reduce UFG where it is efficient to do so.

The chart compares total UFG quantities by consumption month and allocation stage (initial, interim or final). The grey bars show UFG based on the most recent data available.

Changes in UFG from one allocation stage to another are largely due to mass market retailers' consumption submissions becoming more accurate at later allocation stages. UFG tends to be most extreme at the initial allocation stage: in summer, UFG tends to be negative due to retailers' overestimations of customer consumption; and in winter, UFG tends to be positive due to retailers underestimating consumption. Generally, UFG volumes diminish considerably from the initial to the interim allocation stages. The final allocation stage reflects further minor adjustments to retailers' data, which can result in slightly more or less UFG, as shown by the orange and red lines in the chart below.

For context, the chart below shows UFG trends since October 2008, when the Reconciliation Rules went into effect.

**Chart A- 2: UFG since October 2008**



**Chart 7: Percentage of UFG**

This chart shows the amount of UFG in comparison with the total amount of allocated gas consumed each month. The grey bars show gas consumption at allocated gas gates, while the coloured bars show UFG volumes by allocation stage. The labels show the percent of UFG as a proportion of total allocated gas.

**Chart 8: Rolling 12-month UFG**

Another way to think about UFG is the amount recorded over a 12-month period. This chart shows rolling 12-month UFG figures, both as a GJ total and as a percentage of gas consumed. That is, each data point shows the amount of UFG recorded for that month and the preceding 11 months. As initial data is often inaccurate, the chart includes only consumption months for which interim or final data are available. The figures in the chart are based on the best data available at the time of publication.

**Chart 9: Gas gates where UFG is the highest**

These charts show the gates with the largest volumes of positive and negative UFG over 12 months, according to the most recent final and interim data.

The first chart shows the 10 gas gates that had the highest volume of UFG, in terms of the percentage of total positive UFG experienced over the same time period. As a comparison, the

chart also includes the percentage of total gate injections each gate represents; that is, the proportion of total gas consumption that is drawn from those gates.

The second chart shows negative UFG compared with gate injections.

#### **Chart 10: Number and severity of breaches of the Reconciliation Rules**

Most breaches of the Reconciliation Rules are alleged by the Allocation Agent. Rule 37 breaches tend to be considered and settled in yearly batches.

## 4 Market competition performance measures

#### **Chart 11: Market share of ICPs by retailer**

This chart shows the number of active contracted customer sites associated with each retailer over the past two years, as recorded by the gas registry.

#### **Chart 12: Market share by consumer segment**

This chart shows market share by consumer type, as shown in the gas registry. Note that the chart shows retailers that have more than 3% of the market share of any category.

#### **Chart 12a: Market share by geographical region**

This chart shows the number of customers served by each retailer by geographical region. For simplicity, the charts include only those retailers with over 1% of total customer market share.

#### **Chart 13: Herfindahl–Hirschman Index**

The Herfindahl–Hirschman Index (HHI) is one way of measuring market concentration by using size and number of competing firms. The index ranges from 0 to 10,000. A low score indicates a low level of market concentration, which arises when there are a large number of small firms in the market, each with a small proportion of market share. Conversely, an HHI score of 10,000 represents a market with a single retailer. The measure is used because market concentration is often inversely related to market competition; that is, the more retailers there are, and the more that market share is spread among them, the greater the competition for customers is thought to be.

As a point of reference, the United States Department of Justice considers markets in which the HHI is between 1,500 and 2,500 to be moderately concentrated. Markets with an HHI of greater than 2,500 are considered highly concentrated.<sup>3</sup>

The bars in the chart shows the HHI of the retail gas market as June 2016; for comparison, the HHI for 2009, 2011, and 2013 are also shown. In all regions, the HHI has decreased, indicating that the retail gas markets in these regions have become less concentrated.

Until 1992, when the new Gas Act disestablished local exclusive franchise areas, gas retailing occurred through local vertically-integrated monopolies. With the consequent onset of retail competition, these former monopoly providers became 'incumbents', subject to competing retailers vying for customers in their areas. (A similar change occurred in the electricity sector). In most regions, there is still a dominant retailer, but the decrease in HHI shows that they have become less dominant in the past seven years. With the introduction of the Switching Rules, new retailers have entered the market and smaller retailers have increased their market share.

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<sup>3</sup> <http://www.justice.gov/atr/public/guidelines/hhi.html> accessed 1 May 2014.

#### **Chart 14: Switching by consumer sites since 2008**

This chart shows the proportion of active contracted consumer sites by the number of times they have switched since the start of the registry, broken down by consumer type (as indicated by load shedding category in the registry).

#### **Chart 15: Residential consumer sites that have never switched**

This chart shows, for the residential consumer sites that have never switched retailer (since the start of the gas registry in February 2009), the proportion served by each retailer, compared to that retailer's market share of residential consumers.

#### **Chart 15a: Residential customers by number of switches**

This chart breaks down retailers' residential consumers by the number of times they have switched and compares those proportions with switches for the residential consumer market as a whole.

#### **Chart 16: Switching activity by retailer**

This chart shows the numbers of ICPs gained and lost by retailers over the past two years. The blue bars show the number of customers gained by the retailer each month, and the red bars show the numbers of customers lost.

As shown by these charts, although the net changes in number of customer ICPs may not change significantly from month to month for some retailers, there is a lot of underlying switching activity, particularly for the mass market retailers Contact, Genesis, and Mercury.

#### **Chart 17: Gas gates by number of retailers**

This chart shows, by month, numbers of gas gates by the number of active retailers. In this case, an active retailer means a retailer that has at least one active contracted ICP at that gas gate. About 40 gas gates are direct connect gates, meaning that they serve only one consumer, generally a large industrial consumer, and can have only one retailer active at that gate.

The majority of gas gates – 98 at last count – serve multiple consumers. The greater the number of retailers that trade at a gas gate, the greater is the potential competition for customers.

#### **Chart 18: Connections served by multiple retailers**

This chart plots the proportion of gas consumers who are served from the gas gates in the chart above; that is, consumers served at gas gates where multiple retailers trade. This chart shows, for example, that while ten or eleven retailers are active at only a handful of gas gates, those gates tend to be the largest ones, since about half of all gas consumers are connected at these gates.

#### **Chart 19: Total gas volumes**

This chart shows the total amount of gas consumed over the past two years by all gas users. The top grey line shows total consumption; the coloured lines provide a breakdown by type of use.

- The red line shows the variability of gas usage for thermal electricity generation.
- Consumption for petrochemicals is shown in blue.
- The tan line shows the amount of gas used by consumers connected to shared gas gates. This represents the majority of commercial and residential consumers. There is a seasonality trend to the consumption, higher in winter and lower in summer.

- The green line represents volumes of gas used by large industrials, including steel, wood products, dairy processing, and oil refining.
- The purple line shows the volumes of gas going to storage.
- The orange line represents gas used by consumers connected to the private pipelines owned by Nova.

Gas used by consumers connected to distribution pipelines (the tan line) is allocated by retailer and shown in the next chart.

#### **Chart 20: Allocated gas volumes**

This chart shows the gas volumes allocated to retailers at shared gas gates over the past two years, i.e. gas gates connected to a network that supplies multiple consumers. This includes gas used by industrial, commercial, and residential consumers, but it excludes gas volumes from direct connect gas gates; that is, from gas gates that supply a single consumer directly from the transmission system. For this reason, gas volumes supplied through direct connect gas gates to such industrial sites as thermal power stations, the oil refinery, and paper and chemical factories are not included in the chart.

The grey bars in the chart show total volumes of allocated gas (using the right-hand scale); company volumes are denoted by coloured lines and use the left-hand scale. The bars show the seasonality of gas consumption: higher in winter and lower in summer, and many of the retailers show similar patterns in their allocated volumes.

Nova Energy is generally the largest retailer by allocated volumes. Genesis has a load profile that peaks in winter and troughs during the summer. Contact, Mercury, and Energy Direct all show similar – but less pronounced – winter peaking patterns. Greymouth’s share of allocated gas, in contrast, is relatively steady throughout the year, reflecting its position as largely a supplier to industrial loads.

## **5 Balancing gas**

The volume of gas in a pipeline relates to the gas pressure in the pipeline and needs to be maintained below the safe operating pressure limit for the pipeline and above the minimum required to maintain the supply of gas to consumers. On the Maui pipeline, pressures rise or fall as parties who inject gas into the pipeline over- or under-inject, and as parties who receive gas from the pipeline under- or over-take relative to their respective scheduled volumes. When a transmission owner or operator manages the gas inventory in a pipeline, it is referred to as *secondary or residual balancing*. The Maui pipeline Balancing Agent (now First Gas) buys and sells balancing gas in order to manage gas volumes and thus maintain gas pressure within safety and operational limits.

Prior to 2008, secondary balancing services were essentially free to holders of legacy Maui gas contracts, but changes implemented at the end of 2008 to the Maui Pipeline Operating Code, together with the arrangements in the Vector Transmission Code, meant that the costs associated with secondary balancing were generally recovered from pipeline users. In 2009, MDL instituted the Balancing Gas Exchange, an online platform that displayed pipeline balance conditions and enabled parties physically interconnected to the Maui pipeline to post offers to buy and sell balancing gas. These two changes provided gas transmission customers with an incentive to self-balance and greater information on which to base their balancing decisions.

The outcome was the significantly reduced volumes of gas needed to be purchased or sold by MDL to balance the Maui pipeline.

On 1 October 2015, MDL introduced market-based balancing on the Maui pipeline, wherein welded points are cashed out at the end of each day for imbalances over a tolerance limit. The rationale for the change was to provide welded parties with even greater incentive to self-balance. Balancing gas transactions are now posted on the Balancing Gas Information Exchange, [bgix.co.nz](http://bgix.co.nz).

**Chart 21: Balancing gas volumes**

This chart shows the purchases and sales of balancing gas by MDL by month since January 2006.

**Chart 22: Annual volumes of balancing gas**

This chart uses the same data as chart 21, but the data is shown as annual volumes of total purchases and sales.

# PROGRESS TOWARDS OBJECTIVES AND OUTCOMES

1 APRIL – 30 JUNE 2016

This section provides an update of progress towards objectives and outcomes for Gas Industry Co the gas industry body, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, particularly as implemented through the Company's FY2016-2018 Statement of Intent.

Project	Rationale	Activity	Status
Strategic Objective: Efficient use of, and timely investment in infrastructure			
Transmission Pipeline Balancing	<ul style="list-style-type: none"> <li>Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Assess balancing market developments.</li> <li>Provide advice to Minister on balancing market developments as appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>All participants have agreed to the release of pipeline and trading information to allow GIC to assess the performance of the Market Based Balancing regime. Some of the information covering the period up to the end of June 2016 has now been provided and is being assessed.</li> </ul>
Interconnection	<ul style="list-style-type: none"> <li>Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor two new interconnection arrangements on the Vector and Maui transmission pipelines.</li> </ul>	<ul style="list-style-type: none"> <li>No new interconnections in the quarter. Continue to monitor any new connections and related activity.</li> <li>Now that First Gas is the owner of both the Vector and Maui transmission pipelines, it is expected that the interconnection arrangements will be aligned, but probably not until a new single access regime is introduced.</li> </ul>

Project	Rationale	Activity	Status
Strategic Objective: Build efficient, competitive, and confident gas markets			
Rule Changes	<ul style="list-style-type: none"> <li>• Improved industry governance through regular review of existing arrangements and recommending changes where appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintain rule change registers.</li> <li>• Review industry feedback on options paper on Reconciliation Rules.</li> <li>• Review the effectiveness of the CCM Regulations following any events/exercises.</li> <li>• 2015 changes to Switching Rules have reduced maximum switching times.</li> <li>• Market Administrator Guidelines published with associated drop in reported breaches.</li> </ul>	<ul style="list-style-type: none"> <li>• A pilot of day-after (D+1) gas allocation and daily BPP information delivery is continuing. The pilot will be reviewed once the form of transmission convergence is determined. Options for a long-term solution will also be assessed.</li> </ul>
Gas Quality	<ul style="list-style-type: none"> <li>• Maintain an acceptable standard of gas quality.</li> <li>• Ensure costs of gas quality incidents are met efficiently.</li> <li>• Achieve improved transparency on gas quality incidents.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing review of industry arrangements for managing gas quality.</li> <li>• Consider options for improving gas quality arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Gas Quality: Requirements and Procedures Document</i> has been issued and will be reviewed and updated by GIC as required.</li> <li>• GIC is reviewing past work with a view to discussing outstanding matters with First Gas and stakeholders.</li> </ul>

Project	Rationale	Activity	Status
Insolvent Retailer Arrangements	<ul style="list-style-type: none"> <li>• Following recommendation to revoke 2010 temporary Insolvent Retailer Regulations, consider whether generic regulatory solution is required to address retailer insolvency.</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare Issues and Options paper for industry consultation.</li> </ul>	<ul style="list-style-type: none"> <li>• Gas Retailer insolvency management framework is now complete.</li> <li>• The Minister accepted GIC's recommendation that permanent backstop regulations are not necessary, and approved minor changes to each of the Switching and Reconciliation Rules that facilitate the gas retailer insolvency management regime.</li> <li>• GIC issued its Final Decision Paper and accompanying drafting instructions to support any future process to manage a retailer insolvency.</li> </ul>
Gas Distribution Principles	<ul style="list-style-type: none"> <li>• Improved industry outcomes. Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions.</li> <li>• Ensure consistency in distribution services arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor and report to Minister on status of distribution arrangements.</li> <li>• Develop and publish distribution contract Principles.</li> <li>• Encourage publication of network services agreements.</li> <li>• First assessment of contracts conducted 1 February 2013. Arrangements not progressed as well as expected, but positive indication from industry as to completion.</li> <li>• Report on second assessment of distribution contracts issued in May 2014. Overall alignment improves from 'Moderate' to 'Substantial'.</li> </ul>	<ul style="list-style-type: none"> <li>• GIC is monitoring distributors/retailers progress with the signing of new distribution contracts. GIC has sought an update from distributors and is considering next steps.</li> </ul>

Project	Rationale	Activity	Status
Transmission Code Change Requests	<ul style="list-style-type: none"> <li>• Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines.</li> <li>• GIC has different roles in relation to MPOC and VTC changes. It has a contractual role to review proposed MPOC changes. It has no contractual role in relation to VTC changes, but may choose to make submissions to Vector and its shippers on proposed VTC changes.</li> </ul>	<ul style="list-style-type: none"> <li>• The MPOC Amendment Process Change Request proposed by MRP was not supported by GIC in its October 2015 Final Recommendation.</li> <li>• The VTC Congestion Management Change Request proposed by Vector was commented on in a June 2015 submission by GIC. The proposed change has been withdrawn by Vector. This was the first under an amended VTC Change Request Process in which GIC no longer has an appellate role but is able to make submissions.</li> <li>• The 13 April MPOC Change of Ownership change request was supported by GIC and the changes are now in effect.</li> </ul>	<ul style="list-style-type: none"> <li>• With its acquisition of both the Maui and Vector transmission pipelines, First Gas is now party to all Transmission Services Agreements and Interconnection Agreements.</li> <li>• The MPOC and VTC will continue in operation until a single new access regime is introduced.</li> <li>• In relation to code changes GIC will: <ul style="list-style-type: none"> <li>○ continue to access each MPOC change request in accordance with the Memorandum of Understanding (MoU), now between First Gas and GIC; and</li> <li>○ consider each VTC change request and make a GIC submission to First Gas and its Shippers where warranted.</li> </ul> </li> </ul>
Compliance	<ul style="list-style-type: none"> <li>• Statutory role under the Compliance Regulations.</li> <li>• Improved industry operations through provision of a compliance and dispute resolution process for industry participants.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas Governance (Compliance) Regulations 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• GIC continues to fulfil its role as Market Administrator under the Compliance Regulations.</li> <li>• Breach activity has been low; a positive indicator of industry compliance.</li> <li>• The Investigator has commenced work on breaches of the Gas Governance (Critical Contingency Management) Regulations 2008 and the Gas Governance (Compliance) Regulations 2008 against a participant for incorrectly filing purchased gas amounts on its levy returns.</li> </ul>

Project	Rationale	Activity	Status
Customer Issues	<ul style="list-style-type: none"> <li>Enhanced consumer benefits through complaints process for small gas customers.</li> </ul>	<ul style="list-style-type: none"> <li>Liaise with the Electricity &amp; Gas Complaints Commission (the approved complaints scheme), and other relevant regulators to remain aware of consumer complaint issues.</li> </ul>	<ul style="list-style-type: none"> <li>Regular liaison with the EGCC and other relevant regulators. Gas-related inquiries and complaints statistics included in GIC's Annual Report.</li> </ul>
Retail Contracts	<ul style="list-style-type: none"> <li>Enhanced consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small users.</li> </ul>	<ul style="list-style-type: none"> <li>Administer the Retail Gas Contracts Oversight Scheme.</li> <li>Assessment of alignment of retail contracts with contract Benchmarks.</li> <li>Report to Minister on the results of the 2012 assessment.</li> </ul>	<ul style="list-style-type: none"> <li>Results from the fourth assessment of retailers' standard published contracts with small consumers as at 1 July 2015 were published in October 2015 and shows further improvements in alignment with the contract benchmarks.</li> <li>Since the Retail Scheme's introduction in 2010, retailers' overall rating has increased from 'Moderate' to 'Substantial' alignment with the benchmarks.</li> </ul>
Transmission Pipeline Capacity	<ul style="list-style-type: none"> <li>Improved consumer outcomes by addressing short and long-term competition issues arising from the North Pipeline capacity constraint.</li> <li>Enhanced industry/consumer outcomes by improved level, and quality, of information on which to base business/energy use decisions.</li> </ul>	<ul style="list-style-type: none"> <li>Address by regulatory and/or non-regulatory options any lessening of competition due to transmission constraints.</li> <li>Implement the Gas Transmission Investment Programme (GTIP).</li> <li>Improve the quality and availability of pipeline security and supply/demand information.</li> <li>Promote changes to commercial and regulatory arrangements so the GTIP objectives can be met.</li> </ul>	<ul style="list-style-type: none"> <li>GIC's 2015 <i>Options for Improvement Paper #2</i> (OP2) proposed developing a vision for converged transmission arrangements, a concept that received wide support in submissions.</li> <li>Both pipelines have since been acquired by First Gas. First Gas is keen to replace the MPOC and VTC arrangements with a single new access code. GIC and First Gas are developing a proposal on how stakeholders can take part in the process of developing new arrangements.</li> </ul>

Project	Rationale	Activity	Status
Strategic Objective: Deliver effectively on accountabilities			
Downstream Reconciliation	<ul style="list-style-type: none"> <li>• Statutory role under Reconciliation Rules.</li> <li>• Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas (Downstream Reconciliation) Rules 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Updated Billing Factors Guidelines published in December 2015.</li> <li>• Gas reconciliations performed each month.</li> <li>• Long-term UFG has flattened out at approximately 1.1%.</li> </ul>
Switching and Registry	<ul style="list-style-type: none"> <li>• Statutory Role under Switching Rules 2008.</li> <li>• Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers.</li> </ul>	<ul style="list-style-type: none"> <li>• Oversight of Gas (Switching Arrangements) Rules 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Registry Amendments Project post-implementation activities have included data cleansing processes and monitoring of retailers' switching accuracy.</li> <li>• Customer switching facilitated through Rules and Gas Registry processes.</li> <li>• Switching statistics report issued monthly.</li> </ul>
Performance Measures	<ul style="list-style-type: none"> <li>• Improved industry and consumer outcomes through the provision of public information on industry performance.</li> <li>• Monitor the effectiveness of governance arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>• Determine and publish information on each gas governance arrangement that has been implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• Performance measures have been computed and reported for the quarter.</li> </ul>

Project	Rationale	Activity	Status
Industry Facilitation	<ul style="list-style-type: none"> <li>• Facilitate nexus between industry and Government.</li> <li>• Maintain informed industry participants and other stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate, influence and communicate with the industry and Government.</li> <li>• Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>NZ Gas Story</i> fourth edition released December 2015. Publication updated regularly to reflect changes in the market – latest update released in July 2016.</li> <li>• <i>NZ Gas Story</i> roadshow presentations held in October 2015 in Wellington, Auckland and Taranaki (continuing the practice started in 2014).</li> <li>• Regular liaison with MBIE, Electricity Authority, and other relevant regulators.</li> </ul>
Critical Contingency Management	<ul style="list-style-type: none"> <li>• Statutory role under Gas Governance (Critical Contingency Management) Regulations 2008.</li> <li>• Improved industry outcomes through increased market confidence in industry's ability to manage critical events.</li> </ul>	<ul style="list-style-type: none"> <li>• Manage Critical Contingency Operator (CCO) via service provider agreement.</li> <li>• Review effectiveness of the Regulations following any events/exercises.</li> <li>• Operate critical contingency pool following an event.</li> <li>• Conduct annual critical contingency management exercise.</li> </ul>	<ul style="list-style-type: none"> <li>• CCO activities have been reviewed for the quarter.</li> <li>• A Critical Contingency event was declared by the CCO on 24 May following the unplanned trip of the Pohokura Production Station which led to the breach of the Critical Contingency threshold at the Kapuni Gas Treatment Plant. The critical contingency was called off at 11.00pm, with an overall duration of 4 hours and 30 minutes. There was no curtailment required over the course of the event. A Critical Contingency Price was published on 18 July.</li> <li>• The annual CCM exercise (Exercise Kakama) was conducted on 22 June 2016.</li> </ul>