

Analysis of Submissions on Consultation on Gas Industry Co FY2018 Statement of Intent and Levy

Background

In December 2016, Gas Industry Co released its *Consultation on Gas Industry Co FY2018 Statement of Intent and Levy (Consultation Paper)* in respect of the proposed strategy, work programme and levy for FY2018. This ensures we continue to have a programme that is the product of robust industry consultation. The *Consultation Paper* was prepared after taking into consideration feedback received at the Co-Regulatory Forum held at Gas industry Co's offices on 22nd November 2016. Industry submissions were requested by 3 February 2017.

This document summarises submissions received, including providing comments in response from Gas Industry Co where appropriate. Overall, submissions were broadly supportive of Gas Industry Co's Strategy, role, Work Programme and costs, but some useful points were raised in submissions. In particular:

1. Submissions acknowledged the significant work and associated costs expected for development of the Gas Transmission Access Code (GTAC); and
2. The *Consultation Paper* included a proposal for provision of additional information that would give Gas Industry Co ability to verify wholesale levy returns. Whilst some matters were raised in submissions, Gas Industry Co considers that the proposed solution is both feasible and low-cost. Accordingly, the Recommendation will also include corresponding changes to future levy regulations (commencing with this year).

Parties submitting

Major Gas Users Group (MGUG)

Shell (Petroleum Mining) Company Limited

First Gas Limited

Genesis Energy Limited

Vector Limited

Powerco Limited

Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Statement of Intent and Levy

Submitter	Comment	GIC Response
MGUG	None	Noted.
Shell	No	
First Gas	No	
Genesis	No	
Vector	Generally agree	
Powerco	Agree and add that GIC as a regulator can contribute to efficient and strong gas sector by delivering regulation and ensure effective market operation. Therefore Powerco particularly pleased to see continued commitment to 'telling the Gas Story'.	

Q2: Do you have any comments on the process for developing Gas Industry Co's Statement of Intent and Levy

Submitter	Comment	GIC Response
MGUG	None	<p>Given the feedback, Gas Industry Co will clarify in future SoI and Levy documents that, as provided by the Act, its approach is to prefer non-regulated solutions where such solutions can deliver the required objectives and outcomes.</p> <p>Appreciate confirmation that the Co-regulatory Forum adds value in the process.</p>
Shell	No	
First Gas	No	
Genesis	No	
Vector	Happy with GIC's process and principles underpinning this process. Note GIC's statement that it will continue to monitor the LPG market and consider there to be strong argument for LPG networks to be subject to an open-access regime. Support GIC's statement at Co-Regulatory Forum that it intends to explore commercial solutions within industry before considering any regulation. Note that regulation should only be considered where there	

	is evidence of market failure and where regulation would deliver significant net benefits to industry.	
Powerco	Appreciate initial engagement GIC takes through Co-Regulatory Forum and opportunity to provide feedback there. Forum is useful framework providing context for subsequent consultation document.	

Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2018? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.

Submitter	Comment	GIC Response
MGUG	None	
Shell	We consider the resourcing for the GTAC work could be insufficient given the tight schedule and the likelihood that urgent regulation under the Gas Act might be required to implement it.	Appreciate the messages of support for a co-leadership approach with First Gas. Both parties are committed to achieving an industry solution in preference to regulation. Nevertheless, a regulated solution remains the backstop option.
First Gas	Welcomes opportunity to co-lead development of GTAC. Important development for the gas industry. Supports the level of resourcing given its significance and complexity but notes it is important to use them efficiently and to work collaboratively.	Gas Industry Co notes the concern about resourcing the GTAC and is committed to ensuring that sufficient resources are assigned so as to achieve the outcomes in the timeframes indicated by First Gas and Gas Industry Co to date. In addition to the FTE allocation there is also a budget for external support equivalent to 0.5 FTE.
Genesis	Supports proposed work programme for FY2018 and agree that transmission access workstream is likely to be highly intensive and variable over that year. Feels that if the GTAC progresses with strong stakeholder support and robust governance arrangements, they encourage GIC to carefully review the work programme and progress projects that will complement the Code.	

Vector	GIC identified 'new electricity technologies' as being one key challenge facing the gas industry and believe GIC should take a more forward-looking approach in response to this challenge. Consider these technologies to include distributed generation and believe it would be appropriate for GIC to consider the potentially disruptive impact of these technologies on the gas industry in future updates to <i>Long Term Gas Supply and Demand Scenarios</i> and other studies and reviews.	
Powerco	Support indicative work programme. Considers prioritisation of workstreams pragmatic and appreciate the efforts made to focus on specific areas of work with thinly spread resources. Powerco looks forward to working with GIC on Distribution Scheme. Also support ongoing development and release of <i>NZ Gas Story</i> . Note that while consultation document provides short-term view of GIC work plan, they encourage GIC to retain a medium-term view of Smart metering and to review this against objectives set out in the GPS (accurate, efficient and timely arrangement for allocation/reconciliation of downstream gas quantities; efficient market structure for provision of gas metering, pipeline and energy services; and respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.	

Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2018? Please provide reasons for your response.

Submitter	Comment	GIC Response
MGUG	No	Noted. Transmission access is regarded as the highest-priority work stream for FY2018.
Shell	No	
First Gas	No	
Genesis	No	

Vector	Do not propose that any items be excluded but encourage GIC to focus on development of GTAC and supporting arrangements such as balancing. Also welcome GIC's proposal not to do any significant work around measurement following GIC's review of current contracting arrangements between gas metering service provider and retailers and introduction of gas smart metering technology.	
Powerco	No	

Q5: We are particularly interest 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?

Submitter	Comment	GIC Response
MGUG	No comment	Gas Industry Co confirms that it will use the forecast provided in the <i>Consultation Paper</i> for the calculation of the wholesale levy rate.
Shell	No comment	
First Gas	No	
Genesis	No	
Vector	Consider forecast gas volumes to be reasonable.	
Powerco	Yes	

Q6: Do you have any comment on the proposed levy for FY2018?

Submitter	Comment	GIC Response
MGUG	Broadly supportive	Gas Industry Co thanks submitters for their feedback on the proposed levy budget and rates.
Shell	No	
First Gas	No	

Genesis	No	Notwithstanding the positive submissions, Gas Industry Co has further reviewed the numbers and identified some small savings that would reduce the levy funding requirement to the same level as FY2017. The savings are primarily from support costs and do not affect any of the priority workstreams.
Vector	Consider proposed FY2018 levy to be within reasonable levels in context of GIC's flat-to-dropping profile over last four years.	
Powerco	Setting of levy seems reasonable and we commend the GIC for maintaining downward pressure on costs to ensure only a slight increase in the total levy is proposed for this year.	

Q7: Wholesale Levy Assurance - Do you have any comment on the options proposed?

Submitter	Comment	GIC Response
MGUG	None	<p>Gas Industry Co carefully considered the feedback from submitters regarding the provision of supplementary information for purposes of levy assurance.</p> <p>The suggestion of changing the payers of wholesale levies from initial purchasers of gas, from gas producers to the gas producers themselves, has the attraction of simplicity. However, given that gas producers derive little benefit from the activities of Gas Industry Co (as most of its work is in the mid-stream and downstream parts of the industry), it is difficult to make a case for either 'user pays' or 'beneficiary pays' with gas producers.</p> <p>By requesting data on transmission nominations from the pipeline, Gas Industry Co receives information that reflects purchasers' volumes at those receipt points and that should be readily available from the transmission owner's system as we understand it provides that information to producers already.</p> <p>We note the caveats in the Shell submission and consider those are can be addressed:</p> <ol style="list-style-type: none"> 1. Regarding the accuracy of volumes we accept that whatever accuracy is currently used to underpin gas sales is sufficient for Gas Industry Co to use in checking levy returns.
Shell	Have reservation in relation to hybrid option as follow – Shell would only be able to provide a schedule of sales of its gas prior to gas treatment. They cannot accurately determine the proportion of that energy that is received into pipeline for gas wholesaling process. They may also be prevented from making such disclosures under confidentiality provisions of contracts. If GIC does implement hybrid option, Shell ask that GIC confirm that monthly schedule of sale by produces is simply a tabulation of the amount in GJ invoices to each customer for relevant period at relevant delivery point, irrespective of quality – without adjustment; a producer will not be responsible for the statements provided by their co-venturer(s); statements will not be required until last day of the month following the month of gas flow.	
First Gas	FG prefers a simple solution proportionate to problem being addressed and recommended an alternative option that saw the wholesale levy charged directly to producers. Recognise that hybrid option does address some of concerns raised by previous submitters, it still seems to be a complex solution to the problem with a number of drawbacks. Notwithstanding this, FG are willing to work with GIC to ensure the option can be implemented as soon as practicable. Suggest a change	

	be made to hybrid option where it refers to 'Maui receipt points' to refer to it as 'transmission receipt points' to reflect change in pipeline ownership and future proof the approach.	<p>2. There should be no impediment to making disclosures, even if that runs counter to contractual confidentiality provisions, as the Regulations will override the confidentiality obligations (and contracts normally have an express carve-out for disclosure required by law). The Levy Regulations, as drafted, limit GIC's use of information supplied under those regulations to collection of the levy. That limitation, together with the fact that information provided by producers will only be relevant to determine the accuracy of a counterparty's levy return, should alleviate producers' concerns.</p> <p>3. The indicated timing – supply of information on the last day of the month following gas flow – matches the timing that was proposed in the <i>Consultation Paper</i>. Gas Industry Co will be using this information to check returns, not for invoicing, so the timing is not crucial.</p> <p>In summary, Gas Industry Co confirms that it will recommend amendment to the Levy Regulations to mandate supply of information in line with the proposal in the <i>Consultation Paper</i>.</p>
Genesis	No	
Vector	Support proposed hybrid option as it incorporates elements of options 1 and 3 previously consulted on. Hybrid option is a significant improvement on GIC's initial preferred option (3) as it ensures that process for calculating wholesale levy remains simple and low-cost and that parties best placed to provide necessary information are the ones required to do so. Encourage GIC to keep this process simple for the reporting parties.	
Powerco	No	