



RECOMMENDATION

Gas Industry Co Recommendation to Minister of Energy and Resources to make Gas (Levy of Participants) Regulations 2017

Executive Summary

Pursuant to section 43ZZB of the Gas Act 1992 (the Act), Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2017, totalling \$3,911,481 on the following basis:

1. *From every gas retailer a retail levy based on one twelfth of the annual retail levy of \$6.18 for each ICP.*
2. *A wholesale levy rate of 1.236c/GJ levied on gas purchases made directly from gas producers during the previous month.*

Gas Industry Co remains principally reliant on annual levies to provide the effective governance of the downstream gas sector that Part 4A of the Act requires, and aims to do that at least cost to consumers. This Levy Recommendation delivers on this by continuing with the Company's flat-to-dropping profile over recent years in its levy funding requirement. The contents of the Levy Recommendation achieved broad support from industry stakeholders, through a robust annual consultation process. Gas Industry Co believes that the recommended levy continues to represent good value for gas consumers and the wider industry.

Key industry background is:

1. *The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Act.*
2. *Gas continues to be a key contributor to New Zealand, at around 21% of primary energy supply. Concerns 10 years ago about the 'winding' down of the dominant Maui field and the need to diversify supply have resulted in 15 currently-producing fields and around 9 years' P50 reserves.*
3. *To address that increased diversity and complexity for around 275,000 gas consumers, Gas Industry Co has developed a mix of formal rules and regulations (e.g. critical contingency management, reconciliation, switching) and non-regulated arrangements (e.g. retail contracts, distribution contracts, transmission interconnection) that are well-advanced in meeting legislative and policy objectives and outcomes for the industry.*
4. *These have contributed to the development of a healthy downstream gas market. Key indicators include:*
 - (a) *With recent new entries, there are now 10 retail gas brands owned by nine different retail companies.*
 - (b) *Nearly 99% of gas customers are connected to a network where seven or more retailers trade, demonstrating that gas retailers generally are competitive throughout the North Island.*
 - (c) *Market concentration, as measured by the Herfindahl-Herschman Index has decreased significantly in all regions since the commencement of the formal switching regime in 2009 as new retailers increase market share and incumbent retailers' share has declined.*

- (d) *Switching rates have been over 18% for more than two years. About 4,200 gas consumers switch gas supplier each month. About 84% of customer switches are completed within three business days.*
- (e) *61% of residential consumers have switched retailer at least once in the past seven years; 65% of small commercial and 79% of large commercial sites have switched at least once.*
- (f) *Average annual unaccounted-for gas (UFG) over the past year stands at about 1.0% (compared with about 2% in 2009).*

5. *Gas’s role has been changing in recent years, particularly with renewable generation replacing gas-fired generation, but with gas-fired plant continuing to play a key role in electricity security of supply. Gas freed up from baseload generation is being taken up by new gas-fired ‘peaker’ plants and the petrochemical industry.*
6. *Gas’s role will continue to change under the influence of low global oil prices reducing upstream investment; uptake of new energy technologies such as electric vehicles and solar PV; and the Government’s Nationally Determined Contribution to international climate change response measures.*

Section 1 of this paper describes the framework for this Levy Recommendation. Gas Industry Co develops its annual Levy Recommendation through a consultation process with industry participants who would pay the levy (‘levy payers’) and other stakeholders. Gas Industry Co uses this process to also develop its draft Statement of Intent, which is required to be provided to the Minister by section 43ZQ of the Act. The Minister has met with the Gas Industry Co Board each November to overview key elements of the Company proposals for the next financial year, and the Levy Recommendation and draft Statement of Intent are provided to him or her the following March following industry input, ahead of implementation of the levy regulations from 1 July.

The diagram below sets out principal steps in the combined process:



This combined process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated Total Work Programme Costs (TWPC) covering all activities to be undertaken by the industry body in FY2018. Where provided for in the relevant gas governance regulations, these activities are funded through market fees, but the majority of Gas Industry Co’s funding comes from the levy.

Gas Industry Co’s Levy Recommendation and Statement of Intent together meet statutory requirements, including administering existing gas governance regulations, and address Government and industry priorities for improved governance in other areas through the ongoing Work Programme. The Work Programme is consistent with the powers and objectives provided for Gas Industry Co and has regard to the objectives and outcomes in the April 2008 Government Policy Statement on Gas Governance (GPS). A detailed description of strategic alignment with Government policy objectives and outcomes is included as [Appendix C](#).

In performing its statutory role and in its industry consultation, the Company employs a Corporate Strategy goal – Optimise the contribution of gas to New Zealand – with its purpose being to provide effective governance and leadership for the gas industry. The Company’s

Mission – Provide good governance and leadership for the gas industry- leads to the following strategic objectives which form the remainder of the Corporate Strategy and are used to frame the proposed FY2018 Work Programme set out in this Levy Recommendation:

1. Promote efficient, competitive and confident gas markets
2. Facilitate efficient use of, and investment in, gas infrastructure
3. Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
4. Develop and communicate the role of gas in meeting New Zealand's energy needs

With the competing demands of a finite budget and a constant focus on containing costs imposed on levy payers, Gas Industry Co must prioritise the Work Programme projects. Priority projects are driven by a matrix of:

1. Statutory and policy requirements
2. Maintaining momentum on existing and committed projects; and
3. Attending to any new work that is seen as a priority by the Company and stakeholders

Gas Industry Co's aim is to deliver value in both its operational workstreams and in the provision of non-operational support services to the Company. There is continued focus on delivering cost efficiency and value for money.

Section 2 of this Levy Recommendation details the consultation process undertaken for FY2018's levy proposals, including costs, leading to this Levy Recommendation and the draft Statement of Intent. In summary, there was broad support for Gas Industry Co's Strategy, role, Work Programme and costs.

Gas Industry Co also consulted on options for the provision of additional information that would give it some ability to verify wholesale levy returns. The *Consultation Paper* suggested that transmission pipeline owners be required to provide information to Gas Industry Co to enable verification of wholesale levy returns where the open-access transmission system received gas from producers. For all other pipelines that carry gas injected by producers, the relevant gas producers would need to provide information sufficient to enable Gas Industry Co 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, this Recommendation also includes proposed drafting for the changes to future levy regulations (commencing with this year).

This Levy Recommendation (and the accompanying draft Statement of Intent) has been approved by Gas Industry Co's Board of Directors.

[Appendix A](#) sets out the proposed FY2018 Work Programme in full.

Section 3 sets out the recommended FY2018 Levy Funding Requirement, including the relevant levy methodology and levy rates for FY2018. The FY2018 Levy Funding Requirement of \$3.91m is the same as that of FY2017 (\$3.91).

[Appendix B](#) provides background financial information. In particular:

1. Gas Industry Co's Board of Directors continues to implement a policy of refunding any unutilised levy funds annually unless specific needs dictate otherwise. At its November 2016 Board meeting, the levy refund for Business as Usual for FY2016 was approved by the Board.
2. The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the 275,000 residential gas consumers would each pay only approximately \$6.48 per annum, or around 0.73% of their annual gas bill. Larger consumers pay more proportionate to their wholesale gas purchases, but the largest

consumers, who together consume the majority of supply, are active participants in consultation and have raised no objections to the levy rate.

Contents

1. FRAMEWORK FOR LEVY RECOMMENDATION	1
1.1 Introduction	1
2. CONSULTATION PROCESS AND OUTCOMES	6
2.1 Levy Consultation Process	6
2.2 Key Steps in FY2018 Consultation Process	6
3. FY2018 LEVY FUNDING	8
3.1 Levy Funding Summary	8
3.2 Levy Funding Calculation and Trends	8
3.3 Proposed Levy Methodology and Rates	10
4. RECOMMENDATION	12
APPENDIX A WORK PROGRAMME	13
APPENDIX B OTHER FINANCIAL INFORMATION	23
APPENDIX C STRATEGIC ALIGNMENT WITH GOVERNMENT POLICY OBJECTIVES AND OUTCOMES	25
ABOUT GAS INDUSTRY CO	31

1. Framework for Levy Recommendation

1.1 Introduction

The Government and the gas industry have implemented a unique co-regulatory model in which a specially established 'industry body' develops and maintains governance arrangements for consumers and other participants in gas markets. Gas Industry Co was established in 2004 to perform the role of the 'industry body' as set out in Part 4A of the Act.

Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. Gas Industry Co continues this process to also develop its draft Statement of Intent, which includes an annual Work Programme and associated levy funding requirements for the next financial year, and provides an indication of further activity through the following two years.

Gas Industry Co is responsible for developing and recommending gas governance arrangements, including rules and regulations. These arrangements cover a range of areas relating to the gas industry, including wholesale markets and processing, transmission and distribution networks, retail market development, and consumer protection.

Gas Industry Co has two main sources of funding: an industry levy and market fees. The further standing funding source is a \$2,000 p.a. fee paid by each of its shareholders.

Gas governance rules or regulations include provision to recover costs directly required to administer those arrangements ('market fees'). These cover the contractually-agreed costs of any service providers (such as the Allocation Agent and the Registry Operator) and any other expected direct costs related to the operation and monitoring of those arrangements.

Gas Industry Co must publish a formal estimate of market fees for each set of rules or regulations two months prior to the start of the new financial year. Collected market fees are applied to actual expenses incurred for each set of rules or regulations; any shortfall or excess fees must be collected or returned to the market fee payers in a year-end 'wash-up'.

The levy funds the industry body's main costs including direct workstream costs and organisational costs. Part 4A of the Act provides for a levy to be collected through annual regulations, on recommendation to the Minister by the industry body. This paper provides that recommendation for the year commencing 1 July 2017 (FY2018).

Gas Industry Co's Role

The overall purpose of Part 4A of the Act is to 'provide for the governance of the gas industry'. Gas Industry Co is required to achieve this through developing gas governance arrangements that meet the objectives of the Act and of the GPS. Under the co-regulatory model, it is required to consider regulatory and non-regulatory options; to consult with stakeholders; and to recommend any regulation to the Minister.

The principal objective of any formal gas governance arrangement is to ensure that gas is delivered to existing and new customers in a safe, efficient and reliable manner. Other industry body objectives in the Act when recommending gas governance arrangements are:

1. facilitating and promoting the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
2. minimising barriers to competition in the gas industry;
3. maintaining or enhancing incentives for investment in gas processing facilities, transmission, and distribution;
4. subjecting delivered gas costs and prices to sustained downward pressure;
5. managing risks relating to security of supply, including transport arrangements properly and efficiently; and
6. maintaining consistency with the Government's gas safety regime.

The April 2008 Government Policy Statement on Gas Governance (GPS)¹ expands the Act's principal objective to include consideration of fairness and environmental sustainability. It also sets out specific tasks or outcomes that the Government wishes Gas Industry Co and the industry to pursue, and against which it must report to the Minister.

Making Levy Regulations

As noted above, Gas Industry Co develops its annual Levy Recommendation through a consultation process with levy payers and other stakeholders. The diagram below set out principal steps in the combined process.



This process includes development of an annual Work Programme, an indication of future activity, and the resulting estimated Total Work Programme Costs covering all activities to be undertaken by the industry body in FY2018. Recent history indicates that the levy accounts for 65% to 75% of Gas Industry Co's funding.

Gas Industry Co's Levy Recommendation and Statement of Intent together meet statutory requirements, and address Government and industry priorities for improved governance in other areas through the ongoing Work Programme. The Work Programme is consistent with the powers and objective provided for Gas Industry Co and has regard to the objectives and outcomes as set out in the GPS.

Gas Industry Co's Corporate Strategy

The Board of Gas Industry Co annually reviews a Corporate Strategy that assists in the delivery of its statutory role, including by framing the proposed FY2018 Work Programme. The Company's Strategic Goal is supported by the Company's Mission and Objectives to help frame

¹ Further information can be found in Appendix C.

the Work Programme. These Objectives are further supported by a set of overarching principles underpinning how we set out to achieve them.

Strategic Goal: Optimise the contribution of gas to New Zealand

Mission: Provide good governance and leadership for the gas industry

Objectives:

1. Promote efficient, competitive and confident gas markets
2. Facilitate efficient use of, and investment in, gas infrastructure
3. Deliver effectively on Gas Industry Co's accountabilities as the gas industry body
4. Develop and communicate the role of gas in meeting New Zealand's energy needs

Principles:

Fairness; independence and impartiality; openness and transparency; responsibility; evidence-based decision making.

Process for Developing the Work Programme and Levy Recommendations

As illustrated in the process chart above, development of a given financial year's Work Programme, Levy Recommendation and Statement of Intent starts early in the preceding year to ensure appropriate consultation with stakeholders. Gas Industry Co forecasts the expected or planned end-point of current year activity to determine what further work, if any, might be necessary for each workstream in the following year, with indications forward for at least the following two years.

The following factors are then particularly considered in the process:

Statutory roles

Gas Industry Co has a number of statutory obligations that arise from the various rules and regulations that Gas Industry Co administers and specific outcomes defined by the Gas Act and GPS. Funding for obligations under rules and regulations is from a combination of market fees and levy while, funding for specific outcomes defined by the Gas Act and GPS is from the levy. Examples of matters funded by the levy are:

1. monitoring the performance of industry participants that are subject to the rules/regulations and encouraging, or enforcing, compliance as necessary;
2. monitoring and reporting on metrics arising from these processes, to increase transparency, gauge the effectiveness of the arrangements, and foster a well-informed market. For example, automating analysis and monitoring of allocation results to identify and correct errors at an earlier stage; and
3. maintaining rule-change registers by adding potential improvements whenever those are identified.

Committed and/or ongoing projects

There are a number of projects that Gas Industry Co has previously committed to or have been requested by the Minister for Energy and Resources or are regarded as important by the Company and stakeholders.

Examples include:

1. supporting the D+1² pilot scheme that has been put in place to provide retailers with the information they need to operate successfully under market-based balancing.³
2. based on the outcomes of the D+1 pilot, and once the design of the single transmission code is known, identifying changes needed to the Downstream Reconciliation Rules and any associated changes to the Allocation Agent's role and system; and
3. working with stakeholders to achieve a new, single transmission code so as to eliminate the current inefficiencies. Should that not prove possible by agreement, then preparing a recommendation for regulating terms and conditions of transmission access.

In order to ensure meaningful progress is made with such projects it is essential to programme them into the budget as a means of establishing or maintaining momentum.

Priority work

This category includes work that commands a high priority for stakeholders from the gas industry, end-users, and Government. Moreover, in many of these areas, a number of those stakeholders are supporting that programme of work by committing their own resources.

The key work stream in FY2018 (as for FY2017) will be the work on a single transmission access code. During FY2018 Gas Industry Co expects that work will either entail supporting and assisting with implementation of a contract-based code, or will focus on preparations for recommending regulations.

Gas Industry Co's levy recommendation takes into consideration feedback received on the Corporate Strategy and a Draft Work Programme at the Co-Regulatory Forum held at Gas Industry Co's offices on 22 November 2016. Forum feedback provided a number of useful discussions and suggestions but nothing major to add to, or subtract from, our proposals. We referred to these suggestions appropriately in our *Consultation Paper*.

Changing priorities

It is always possible that unplanned, unbudgeted work might need to be undertaken in any one year. The Company prefers not to budget amounts for these sorts of contingencies in order to keep the levy funding requirement at a reasonable level. However, in the event unplanned work is required to be performed, the Company will need to reassess its capacity to deliver on planned milestones as set out in the Statement of Intent.

Similarly, existing priorities may reduce in light of market developments. This could result in work and expenditure being reduced, deferred, or even (in rare cases) stopped.

Cost efficiency

Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of organisational support services to the Company as a whole. The Company has had a continuous focus on delivering efficiency and value for money. Since the implementation of an organisational support cost review in FY2013, we have been able to successfully maintain

² D+1 refers to a system of daily allocations on the day following. This information provides pipeline users, i.e. retailers with the information they need to be able to operate successfully with market-based balancing. The daily allocations estimate each retailer's sales for the previous day and that information, when compared with their respective purchases, provides information about their respective positions, i.e. whether they are balanced, long, or short.

³ Market-based balancing, introduced on 1 October 2015, incentivises pipeline users to self-balance where it is cost-effective for them to do so, or to face market-based prices where it is more efficient for the transmission owner to balance on their behalf. That system will remain in place at least until the implementation of a new, single-access code. Therefore, the D+1 pilot scheme needs to continue through FY2018.

downward pressure on support costs for each of the past five years⁴. We have essentially remained flat in FY2018.

As well, we have carefully considered how each line item in the Work Programme should be budgeted. Some areas are demand-driven (such as code changes and interconnection reviews) and it does not make sense to make full provision for each of these individually. Instead, we make a modest provision for these items as a group and back ourselves to manage within the global amount.

We otherwise endeavour to make maximum use of in-house resources and expertise and only outsource where that adds genuine value.

While satisfied that each workstream is justifiably included in the proposed Work Programme, Gas Industry Co will continue to assess the value of each workstream within the financial year. Should the need or priority for a given workstream decrease, resources originally earmarked for that work can be re-allocated or the funding saved, and any surplus is usually returned to levy payers at year-end under the Gas Industry Co Board's standing policy.

⁴ As per Annual Reports Financial Statements – Table of Operating Expenditure

2. Consultation Process and Outcomes

2.1 Levy Consultation Process

To better ensure a levy recommendation is accepted by the Minister, the industry body consults with stakeholders on the levy rate of amounts (section 43ZZD(2)(b)).

Gas Industry Co consults on all aspects of its Work Programme, including costs and any forward indication for subsequent requests to be included in the Statement of Intent, and engages with interested stakeholders, including gas and electricity industry participants, and major end-users who account for approximately 80% of gas consumption in New Zealand.

2.2 Key Steps in FY2018 Consultation Process

This consultation process was commenced at the annual Co-Regulatory Forum on 22 November 2015. Feedback from this Forum was generally positive, with strong support for work on the single gas transmission code. [Consultation on Gas Industry Co FY2018 Statement of Intent and Levy.](#) (*Consultation Paper*) published on 16 December 2016.

The *Consultation Paper*:

1. set out Gas Industry Co's strategic direction and supporting rationale;
2. described the work that Gas Industry Co would undertake in FY2018 and the estimated costs to carry out this work;
3. outlined the calculation and amount of the Levy Funding Requirement for FY2018; and
4. proposed levy rates for FY2018.
5. as a result of significant under-submission of volumes of gas in levy returns, proposed that future levy regulations be amended so as to require wholesale levy payers to provide additional information to GIC to allow it to better assess the accuracy of returns .

The *Consultation Paper* included a proposed Work Programme attached as [Appendix A](#). In summary, this largely continues the FY2017 Programme, focussing on our core market governance role under existing rules and regulations and continuing our key multi-year workstreams aimed at further improving governance arrangements. This position reflects the significant progress made over recent years in substantially addressing the goals set for Gas Industry Co and the industry in the Act and the GPS.

We anticipate that FY2018 will see:

1. either acceptance of a new, single transmission code agreed by the TSO and customers and a move to implementation, or a need for regulatory support to implement a single transmission access scheme to replace the current, inefficient scheme based on two separate codes;
2. a high-level review of the status of distribution contracts and consideration of whether the distribution principles scheme is meeting its objectives or a different approach needed;
3. narrowly-focussed review of the CCM Regulations to assess what, if any, changes are required as a result of changes to transmission arrangements; and

4. assess downstream reconciliation rules against the new, single code (or proposed regulations) and identify required changes..

The *Consultation Paper* indicated a Total Work Programme Cost and a Levy Funding Requirement the same as that of FY2017.

The *Consultation Paper* was sent to stakeholders and published on the Company's website. Formal submissions on the Consultation Paper were received from Genesis Energy, First Gas, Powerco, Shell New Zealand (2011), and Vector.

All submissions and an [Analysis of Submissions](#) are published on Gas Industry Co's website. In summary, there was broad support for Gas Industry Co's Strategy, role, Work Programme and costs and strong support for the GTAC work in particular.

Gas Industry Co also consulted on options for the provision of additional information that would give it some ability to verify wholesale levy returns. The *Consultation Paper* suggested that transmission pipeline owners be required to provide information to Gas Industry Co to enable verification of wholesale levy returns where the open-access transmission system received gas from producers. For all other pipelines that carry gas injected by producers, the relevant gas producers would need to provide information sufficient to enable Gas Industry Co 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, this Recommendation also includes proposed drafting for the changes to future levy regulations (commencing with this year).

3. FY2018 Levy Funding

3.1 Levy Funding Summary

The costs corresponding to the Work Programme (set out in Appendix A) and supporting this Levy Recommendation are broken down in the following tables and the relevant levy methodology and levy rates are then distilled. In summary:

1. the recommended FY2018 Levy Funding Requirement of \$3.91m is the same as the figure for FY2017 (\$3.91m). We have managed to hold costs at the same level while absorbing market increases.
2. Total Work Programme Costs have decreased from FY2017. This relates to lower estimates for market fees.
3. The levy methodology used in previous years remains appropriate.
4. The retail levy rate has decreased from that of FY2017. This reflects a lesser focus in this area and the calculations also take into account a higher number of ICPs. The wholesale levy shows a small increase from FY2017. While the gas volume assumption is the same, considerably more work is anticipated in this area.

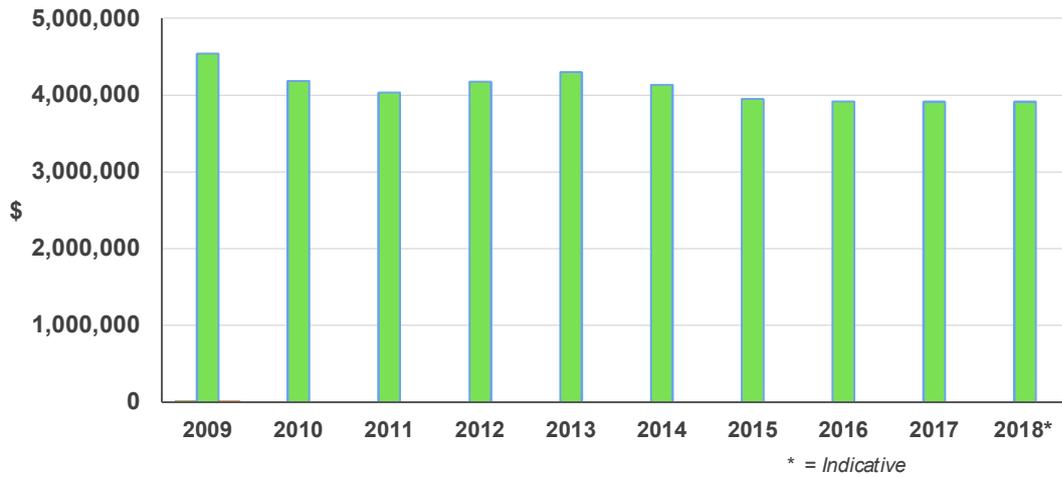
3.2 Levy Funding Calculation and Trends

Table 1 following provides details of the levy funding calculation.

Strategic Objective (Components of each objective can be found in Appendix A)	TWPC \$	Indicative Market Fees		Levy Funding Requirement	
		\$		\$	
		Wholesale	Retail	Wholesale	Retail
Strategic Objective 1: Promote efficient, competitive and confident gas markets	804,669				804,669
Strategic Objective 2: Facilitate efficient use of and investment in, gas infrastructure	1,240,384			1,240,384	
Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body	3,171,496	567,000	904,000	734,308	966,188
Strategic Objective 4: Develop and communicate the role of gas in meeting New Zealand's energy needs	165,931			83,808	82,123
TOTAL	5,382,481		1,471,000		3,911,481

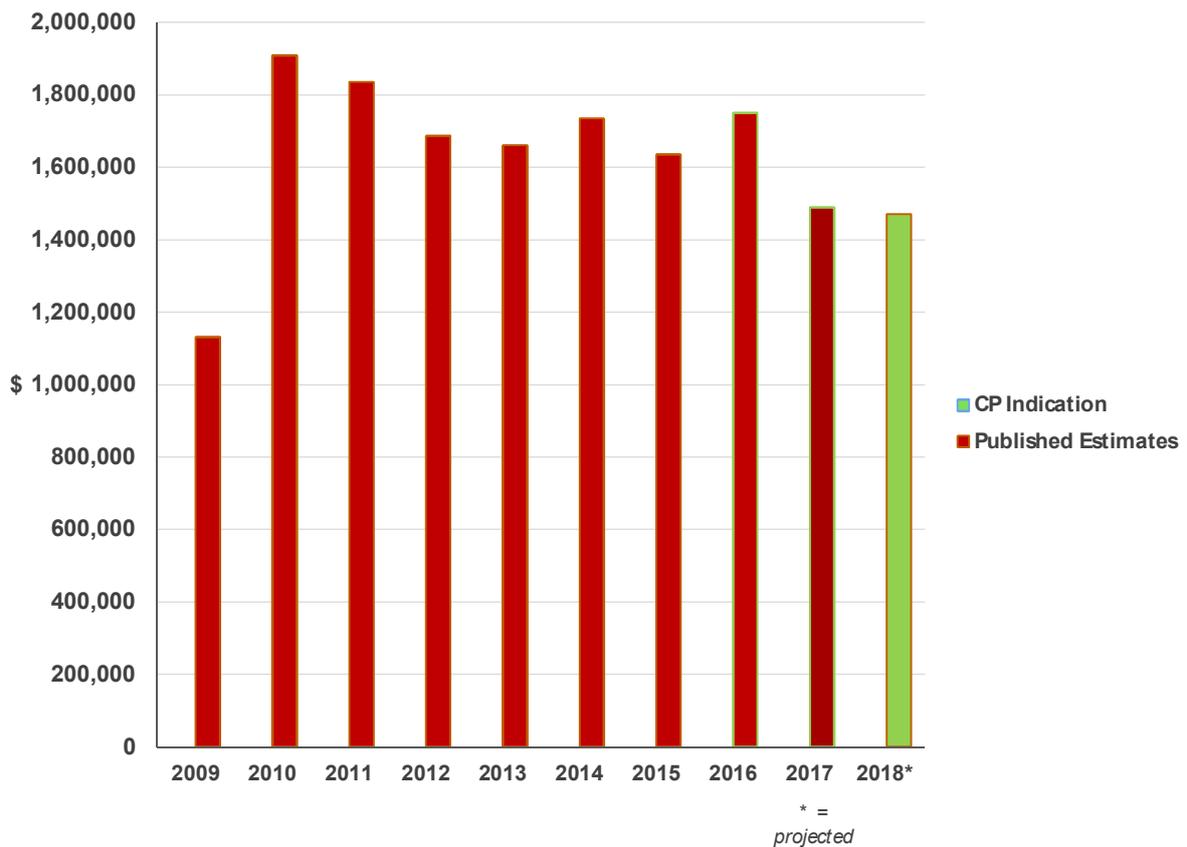
The following chart shows the Levy Funding Requirement has been dropping over time (actual levy for FY2009-16, forecast for FY2017 and recommended for FY2018).

Levy Funding Requirement

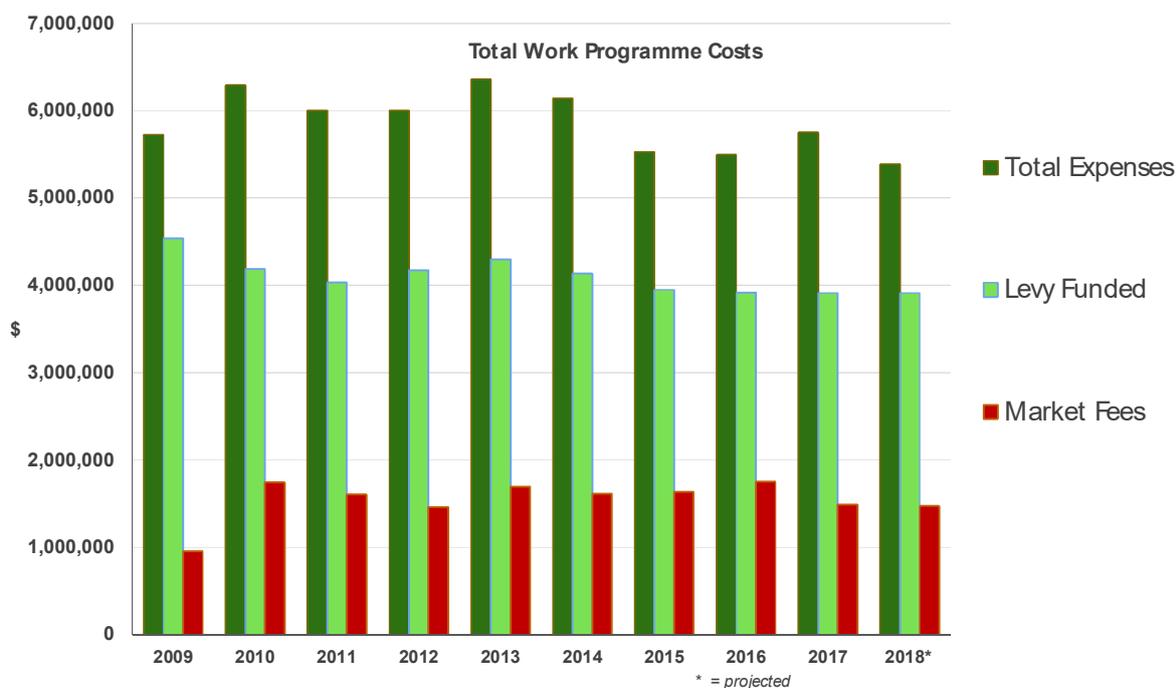


The following chart shows published market fee estimates to FY2017 and the *Consultation Paper* indication for FY2018.

Market Fees



Based on the combination of the FY2018 Levy Recommendation and indicative market fees in the charts above, Total Work Programme Costs are expected to be \$5,382,481 for FY2018, as against \$5,749,060 in FY2017.



3.3 Proposed Levy Methodology and Rates

Gas Industry Co's existing levy methodology:

1. Is based on a 'beneficiary pays' approach and a set of Levy Principles (Principles) that were developed in consultation with stakeholders and endorsed by the Gas Industry Co Board. In summary, those Principles are economic efficiency, rationality, simplicity, equity, and revenue sufficiency. The full Principles are available on Gas Industry Co's website.
2. Has two components: a wholesale component based on energy quantities of gas and a retail component that is apportioned based on ICP market shares. These components are derived according to the cost allocated to each part of the annual work programme. In years when the Work Programme focusses on retail issues, such as FY2016, the retail levy rate will increase while the wholesale levy will decrease. The converse is true when the focus shifts to the wholesale workstream (such as for FY2018)

The levy methodology has been in place since 2006, including through annual consultations, with only minor refinements and no new issues raised. Gas Industry Co considers it remains fit-for-purpose for FY2018 except for amending the regulations to require the provision of additional third party information to Gas Industry Co so that it can verify wholesale levy returns.

Applying the above levy methodology to derive the levy rates for FY2018:

1. As shown in Table 1 above, the LFR is \$3,911,481.
2. Also referring to Table 1 above:
 - (a) Strategic Objective 1 is entirely levy-funded and has a retail levy component of \$804,669.
 - (b) Strategic Objective 2 is entirely levy-funded and has a wholesale levy component of \$1,240,384.
 - (c) Strategic Objective 3 has a retail levy component of \$966,188 and a wholesale levy component of \$734,308. The balance of work for this objective is funded through market fees of \$904,000 (retail component) and \$567,000 (wholesale component) giving TWPC of \$3,171,496.

(d) Strategic Objective 4 is split as to \$82,123 for the retail levy component and \$83,808 for the wholesale levy component giving a total of \$165,931.

3. The resulting total retail levy component is \$1,699,500 (\$1,854,560 FY2017) and total wholesale levy component is \$2,211,981 (\$2,058,500 FY2017). The levy components reflect a greater focus in the wholesale area with significant work expected in the gas transmission single code workstream.

In summary:

1. The GTIP work will continue as a single gas transmission code following First Gas Limited's acquisition of the Vector and Maui pipelines. It is expected that this process will be made easier by ownership of both pipelines by one entity. This work is covered by the wholesale levy.
2. Ongoing projects in the retail space include the D+1 pilot programme that will need to continue at least until the outcome of the single gas transmission code project is known. At that point it will become clear whether D+1 continues to be required (in which case that will need to be incorporated into the Downstream Reconciliation Rules) or whether a different approach is needed.
3. The wholesale levy rate has been calculated using an assumption of 179PJ (179,000,000GJ) of gas consumption during the year (FY2017 179PJ).
4. The retail levy rate is calculated using the current number of ACTIVE-CONTRACTED entries in the gas registry of 275,000 (FY2016 268,000).

This results in the following levy rates:

1. Wholesale levy – 1.236c/GJ (up from 1.15c/GJ in FY2017, a 7.48% increase)
2. Retail levy - \$6.18/ICP per annum (down from \$6.92/ICP in FY2017, a 10.69% decrease).

Table 2 below captures the key elements of the above description in tabular form.

	2017/18 (\$)		
	Retail	Wholesale	Total
Direct costs	1,067,420	1,367,573	2,434,993
Indirect costs	632,080	844,408	1,476,488
Total levy funding requirement	1,699,500	2,211,981	3,911,481
Basis of apportionment	Per ICP	Per GJ	
Number	275,000	179,000,000	
Levy rate	\$6.18/ICP	1.236c/GJ	

4. Recommendation

Pursuant to section 43ZZB of the Gas Act 1992 (the Act), Gas Industry Co recommends to the Minister of Energy and Resources that regulations be made to require industry participants to pay levies to the industry body in respect of the year commencing 1 July 2017, totalling \$3,911,481, on the following basis:

1. From every gas retailer who is an industry participant on the last day of each month, a retail levy based on one twelfth of the annual retail levy of \$6.18 for each ICP for each retail customer.
2. From every industry participant on the first day of each month, a wholesale levy rate of 1.236c /GJ based on gas purchases made directly from gas producers during the previous month.

Recommended drafting changes

Gas Industry Co also recommends that the following changes be made to the drafting of future Levy Regulations, beginning with the regulations for the year commencing 1 July 2017:

1. Amend the drafting to:
 - (a) require the transmission pipeline owner to provide Gas Industry Co with specific information available to the transmission pipeline owner to verify returns for the wholesale gas levy submitted under regulation 7(1) of the Levy Regulations
 - (b) require gas producers to provide Gas Industry Co with specific information available to gas producers to verify returns for the wholesale gas levy submitted under regulation 7(1) of the Levy Regulations
2. Require the information in paragraph 1 to be provided within specific timeframes to enable Gas Industry Co to verify monthly returns submitted under regulation 7(1) of the Levy Regulations.

Appendix A Work Programme

A.1 Strategic Objective 1: Promote efficient, competitive, and confident gas markets

A.1.1 Retail Gas Contracts Oversight Scheme (Retail Scheme)

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme that assesses retailers' posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the most recent full review in FY2016 having shown 'substantial' compliance. Full reviews are undertaken at three-yearly intervals with the next one scheduled for FY2019.

Forecast activities FY2018

1. Review contracts on an exceptions basis (e.g. new-entrant retailers).
2. Publish compliance levels for such reviews.
3. Provide information to assist new entrant retailers to understand governance processes and their obligations.

Resources

This work will require 0.1 FTE to oversee any assessment work and to liaise with retailers on possible amendments and future assessments. A modest external budget is additionally provided for the Independent Assessor.

A.1.2 Gas Distribution Contracts Oversight Scheme (Distribution Scheme)

In 2012, Gas Industry Co established the Distribution Scheme, under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. Over recent years, distributors have developed new agreements in consultation with their customers. The second assessment by an Independent Assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. Checks with retailers and distributors in FY2015 and FY2016 identified that incremental changes continue to be made. In addition, the practice is to make those incremental changes available to retailers that have executed earlier versions of the distribution contracts.

Forecast activities FY2018

1. Continue to assess progress with executing new distribution contracts consistent with the Distribution Scheme principles.
2. Review the Distribution Scheme, consider any changes or other actions required, and report.
3. Consider any activity in respect of non-open access LPG networks in light of FY2017 findings.

Resources

This work will require 0.05 FTE for considering whether the scheme requires any amendment in light of the fact that many retailers are operating with out-of-date, or expired, contracts. Any formal evaluations, if required, will be contracted out to an Independent Assessor.

A.1.3 Retailer insolvency

Following a request from the Minister, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted the Company's advice that the best solution is an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements in May 2015. With the framework set, it is not expected that any routine activity will be required in FY2018 beyond that already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations for reports under those rules). Once the shape of the new transmission access arrangements becomes clear it might be necessary to make amendments to related aspects of the drafting instructions, those changes being regarded as minor.

Contingent activities FY2018

1. Implement the new retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency.
2. Make any necessary amendment to the drafting instructions once new transmission arrangements are known.

Resources

Insolvency-related activities addressed by re-prioritisation in the event of a retailer insolvency. Amending drafting instructions not specifically provided for as this is expected to be very low-level activity.

A.1.4 Gas quality

This workstream originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believe responsibilities are unclear, or not well aligned with liabilities. In FY2015, the Company published a *Gas Quality Requirements and Procedures document* aimed at clarifying current arrangements and making them accessible. An update will be prepared in early 2017. We will continue to oversee industry-led work in this area, and will consider whether further action is required arising from that update.

Forecast activities FY2018

1. Oversee industry-led work on gas quality.
2. Determine actions to address any remaining gas quality issues.
3. Update the Requirements and Procedures document as required.

Resources

For budgeting purposes, this workstream is assumed to require 0.1 FTE.

A.1.5 Regulation and rule changes

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

The last eighteen months involved an intensive period of reviewing aspects of the daily allocation process and developing improvements, including the provision of tools to assist shippers to better manage their daily balancing positions. This work will continue into FY2018, steered by the progress in developing the new Gas Transmission Access Code (GTAC), which will dictate any required changes to regulatory arrangements.

Forecast activities FY2018

Downstream Reconciliation

1. Keep the D+1 Pilot Scheme running and consider/implement any worthwhile refinements.
2. Once the new GTAC is identified, develop any required changes to the Downstream Reconciliation Rules and consult.
3. Subject to submissions, make a recommendation to the Minister to amend the Downstream Reconciliation Rules.
4. Subject to Ministerial approval, develop, test and implement the supporting systems.

Critical Contingency Management (CCM)

1. Review contingency pricing and imbalance arrangements.
2. Consult and work with stakeholders on any improvements to these arrangements.
3. Once the new GTAC is identified, review CCM arrangements for any required changes.
4. Consult and work with stakeholders to ensure alignment with final GTAC.
5. Recommend amendments and implement as required.

Resources

In respect of downstream reconciliation, this workstream will require a significant amount of internal resource of 1 to 1.5 FTE in FY2018 to keep the D+1 pilot running successfully and, once the direction of the new GTAC is known, commence working with industry working groups and the Allocation Agent to design the necessary rules changes, and to address implementation and transition issues.

The CCM review will be comparatively less resource intensive, but does involve a reasonably contentious issue and, due to being regulations rather than rules, requires a longer process. We expect it will require 0.5 FTE in FY2018.

A.1.6 Gas measurement

High level work to review the current contracting arrangements between metering equipment providers and retailers as well as consider the outlook for the introduction of gas smart metering technology is expected to be completed in FY2017. Current indications are that there will be little, if any, work required in FY2018 in this area.

Contingent activities FY2018

1. Develop any future activity required in light of the findings from the initial review which commenced in FY2016.

Resources

A minor budget provision has been provided for the workstream in FY2018 along with 0.05 FTE. If not required, those resources will be redirected.

A.1.7 Supply/Demand model

As part of the GTIP work, Gas Industry Co commissioned the first dedicated study on gas supply and demand and the most recent update was published in October 2016 as *Long Term Gas Supply and Demand Scenarios Report* (Concept Consulting, 2016). It is clear that the contribution of the report is significant, and it is worth ensuring it is updated bi-annually.

Forecast Activities FY2018

1. Review and update the *Report* every two years after first publication.

Resources

As the work for this is outsourced there will only be a modest requirement of 0.1 FTE for contract administration, stakeholder liaison and communication. Typically the work spans two financial years, so the update scheduled to be published in FY2019 will commence in late-FY2018.

A.2 Strategic Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

A.2.1 Gas transmission access

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

During FY2017 Gas Industry Co consulted on its Gas Transmission Access Single Code Options Paper – Part 1 (SCOP1), aimed at establishing a problem definition and regulatory objective to underpin the reform of the access arrangements. SCOP 1 also described how Gas Industry Co and First Gas would co-lead the reform process. First Gas subsequently set out some possible pathways towards the new arrangements in a SCOP2 document. Submissions on SCOP2 were analysed by Gas Industry Co with a resulting workshop held at the end of February 2017 to discuss stakeholder views and the next steps. We expect FY2018 will see considerable activity in this area, including the analysis of detailed design proposals.

Forecast activities FY2018

1. Work with First Gas and stakeholders on detailed design of single new transmission code.
2. Assess detailed design against Gas Act & GPS objectives and outcomes.
3. Draft regulations if backstop required (address any shortcomings)
4. Move to recommend/implement regulation if industry process stalls.

Resources

At a minimum, this will require 1.5 FTE across the year, but there will likely also be periods where additional resources are required. Accordingly, we are budgeting an internal requirement of 1.75 FTE.

A.2.2 Wholesale market

The emsTradepoint market (eTp) has now been in operation for over three years and has increased in both membership and volume over that time. We note that the GPS seeks an outcome of 'Efficient arrangements for the short-term trading of gas' and eTp makes a transparent contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date.

Gas Industry Co intends to continue to monitor activity and developments in the Wholesale Market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

Forecast activities FY2018

1. Monitor activity and developments
2. Ensure that market information is delivered in a timely fashion to support this monitoring.

Resources

This workstream is expected to require 0.1 FTE as the work will be at a low level except for a concentrated period of time when preparing the post-implementation review of MBB.

A.2.3 Transmission pipeline balancing

Market-based balancing (MBB) was implemented in FY2016 and Gas Industry Co has published an interim review that points to a number of areas of improvement. However, those improvements have required improved information availability – the D+1 Pilot Programme plus daily cash-out information delivered on business days – as well as greater attention by shippers and welded parties. The transmission access work will need to determine a set of balancing arrangements for the new single code and Gas Industry Co will be monitoring those developments.

Forecast activities FY2018

Work with stakeholders on balancing-related matters and incorporate findings from MBB review to enhance efficiency where warranted.

Resources

This workstream has connections with a number of other workstreams. Accordingly, although no specific allocation of external resources has been made for the workstream, any requirement for external advice will need to come from a pool that has been set aside for balancing, interconnection, and code changes.

A.2.4 Transmission code changes and appeals

Under a Memorandum of Understanding with the owner of the Maui pipeline, Gas Industry Co has a role in processing MPOC change requests on an 'as required' basis. In addition, the Company is invited to submit on change requests under the VTC.

Forecast activities FY2018

1. Perform agreed role in relation to proposed MPOC changes.
2. Make submissions on proposed changes to the VTC where appropriate.
3. Review above once single code adopted.

Resources

Although there has been significant activity in this area in recent years, given the focus on balancing through that period, it is likely that there will be little, or no activity in this area in FY2018 as the focus will be on the new code. Accordingly, the resource requirement will be provided from the shared pool for balancing, interconnection and code changes.

A.2.5 Transmission Pipeline Interconnection

Gas Industry Co has established *Interconnection Guidelines (Guidelines)* that set out our expectations with regard to transmission system owners' policies and procedures for connecting to their pipelines. We have previously commissioned independent reviews of new interconnections and, in recent years, these have shown that the Guidelines have been adopted by the transmission system owners.

Given this, we do not consider that formal reviews of each new interconnection are required. We will monitor interconnections at a high level and expect that any issues will be brought to our attention.

Forecast activities FY2018

1. Review interconnections as required.
2. Address any concerns regarding reasonable access.
3. Amend the *Guidelines* if needed.

Resources

There is no specific provision for this work as there is no forward information on the rate of new connections. However, given the sporadic nature of interconnections and the small amount of work required to undertake high-level monitoring, it is considered unnecessary to make a specific allowance. If required, external advice will be provisioned from a pool shared with balancing and code changes.

A.2.6 Gas transmission security and reliability

Gas Industry Co undertook a review of existing information and requirements associated with gas transmission security and reliability in FY2016/17. These are found in several locations, span responsibilities of several regulators, and can be difficult to bring together and interpret.

Our findings were that existing information and arrangements give significant assurance about both standards and performance. However, it is possible that further work may be required around provision of information and oversight of significant transmission investments. The latter falls clearly within the jurisdictions of the Commerce Commission and Worksafe, but might be relevant to Gas Industry Co's powers, including to recommend regulations that require expansions, upgrades or service quality improvements. Gas Industry Co will undertake an update review of this area in early 2017.

A.2.7 Contingent activities FY2018

1. Consider outcomes of the Commerce Commission's work relevant to gas transmission disclosure and whether any further improvements are appropriate/necessary to achieve relevant objectives/outcomes of the Gas Act and GPS.
2. In the unlikely event that agreed arrangements are not achieved or existing regulatory arrangements are inadequate, consider need for additional governance arrangements.

Resources

There is no specific provision for this work in FY2018, as the most likely scenario is agreed disclosures and major transmission investments are relatively rare. It is accordingly considered that this can be fitted within the available resources, or priorities adjusted.

A.3 Strategic Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

There are various functions that the industry body is required to perform either under the Gas Act or under gas governance rules or regulations. The activities associated with these are described in this section.

A.3.1 Downstream reconciliation

The purpose of the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) is to 'establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities'. Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and other Rules. Gas Industry Co monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and/or the Allocation Agent.

The Reconciliation Rules have been instrumental in reducing the level of unaccounted for gas (UFG) at the final allocation stage. This is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date.

Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of \$2.5 million per annum.

Forecast activities FY2018

1. Monitor Allocation Agent.
2. Assess ongoing performance of the Rules.
3. Monitor allocation results.
4. Commission performance and event audits as required.
5. Make determinations under the Rules as required.

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to be continuing to run the pilot scheme for D+1 allocations until that is either overtaken by changes to the Reconciliation Rules or a better solution identified. These are discussed further in the 'Regulation and Rule Changes' section.

Resources

Because allocation is a complex, bottom-up process involving large amounts of data, significant resources are required for this workstream. The need to run and monitor the D+1 Pilot Scheme has caused us to reassess the requirements and, for planning purposes, it is assumed that this workstream will require a full FTE. The Allocation Agent is funded from market fees.

A.3.2 Switching and registry

The Gas (Switching Arrangements) Rules 2008 (Switching Rules) have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

Introduction of the Switching Rules tripled the rate of switching and the trend over the past six years has been increasing annual rates of customer switching.

Forecast activities FY2018

1. Monitor Registry Operator.
2. Assess ongoing performance of the Switching Rules.
3. Monitor and report on switching statistics.
4. Make determinations under the Rules as required.

In addition, changes to the Switching Rules in September 2015 introduced the requirement for the industry body to arrange performance audits of registry participants. Baseline audits of retailers commenced in FY2016 and should be completed in the FY2017 year. Audits of distributors will follow in FY2017-FY2018.

Resources

Although this was previously resource-intensive, particularly in the first year of operation, administering the Switching Rules is now more of a routine activity (outside of any activities related to changes to the Rules – addressed later in the Work Programme narrative). Gas Industry Co has allowed for 0.25 FTE internally. The service provider is funded from market fees under the Rules.

A.3.3 Critical contingency management

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) is to 'achieve the effective management of critical gas outages and other security of

supply contingencies without compromising long-term security of supply'. The nature of the gas system means that it is not possible to turn off customers remotely as is done in the electricity industry. Accordingly, to manage a reduction in gas supplies it is necessary to instruct consumers themselves to turn off their gas-using equipment and that, in turn, requires regulatory backing. These Regulations provide for the appointment of a Critical Contingency Operator (CCO) and that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated four times since they came into full effect in 2010, with one of those being the five-day outage as a result of a break in the Maui pipeline in October 2011.

Forecast activities for FY2018

1. Monitor the CCO.
2. Assess ongoing performance of the CCM Regulations.
3. Appoint/monitor experts as required.
4. Monitor exercises and events as required.
5. Administer contingency pool as required.
6. Process applications for designations and/or renewals for critical care, essential services, critical processing, and electricity supply as required.

Resources

The CCO function is performed by a service provider funded through market fees, which also include funding for one annual contingency event. Gas Industry Co considers that its 'business as usual' arrangements will require approximately 0.2 FTE. However, that may be subject to increase depending on the rate and type of applications and renewals received for priority designations. Given that gas critical contingencies are relatively rare events, Gas Industry Co does not budget internal resources to cover those. Rather, should a critical contingency eventuate, we will re-prioritise resources to meet our obligations under the CCM Regulations for the period concerned.

A.3.4 Compliance and enforcement

The Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules/regulations breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's Quarterly Performance Reports demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various rules and regulations.

Forecast activities FY2018

1. Perform the Market Administrator role.
2. Assess ongoing performance of the Compliance Regulations.
3. Assist the Investigator and Rulings Panel as required.
4. Monitor compliance trends for indications of regulatory inefficiency.

Resources

Each of the Investigator and Rulings Panel is engaged and funded by market fees as provided for in the Compliance Regulations. The Market Administrator role is undertaken by Gas Industry Co and, based on recent experience, is approximately 0.2 FTE. However, that level could rise in the event of any significant or complex material breaches. Once matters are referred for investigation or referred to the Rulings Panel, the input from Gas Industry Co will increase, potentially substantially, in significant and complex cases. Accordingly, the overall resources required in this area are almost entirely demand-driven. Based on the low level of enforcement activity over the past several years, we do not budget for any increased level of activity.

A.3.5 Statement of Intent and Annual Report

The Gas Act requires that the industry body provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent are required to be submitted to the Minister for comment prior to being finalised and published.

Forecast activities FY2018

1. Prepare and publish the Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication.
2. Prepare and publish the Annual Report; meet requirements for tabling in Parliament.

Resources

This work is predominantly carried out internally utilising staff resources from across the Company. External printing costs and some design work is required, although the first of these is controlled by shorter print runs and increased use of email and website communication.

A.4 Strategic Objective 4: Develop and communicate the role of gas in meeting New Zealand's energy needs

A.4.1 New Zealand Gas Story

During FY2013 Gas Industry Co published the first *New Zealand Gas Story*. It is intended that this document is updated at least annually to ensure the information is current and topical. The first annual update was issued during FY2014 with a fifth published in FY2017. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to better understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the *New Zealand Gas Story* through such other channels as its website, the Company's annual and quarterly reports, and presentations to various stakeholder groups. The latter has been highly successful over the past three years with a large number of stakeholders having attended presentations in Wellington, Auckland, and Taranaki.

Forecast activities FY2018

1. Maintain the currency of the *New Zealand Gas Story* as new information comes to hand.
2. Continue Gas Story seminars and other communications for interested stakeholders as required.

Resources

This work is predominantly carried out internally utilising staff from the Communications Team. Other staff resources from across the Company may be called upon from time to time. A small degree of specialist external input has been engaged for particular aspects of the document, such as gas pricing.

A.4.2 Other reporting

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through a number of publications including Quarterly Reports, Switching Statistics and Industry Performance Measures.

Gas Industry Co has also commissioned reports focussing on particular aspects of the industry, such as the *Consumer Energy Options Report* (Concept Consulting, 2012/2016); *Commercialisation issues, opportunities and challenges in the event of substantive gas-rich exploration success in New Zealand* (Woodward Partners, 2013); and *Possible Commercialisation Options for New Gas Discoveries* (Concept Consulting, 2015). Further occasional reports will be published, and existing reports updated, where of value to the industry. Gas Industry Co will also continue to update gas supply/demand scenarios every two years with the next update due in FY2019.

Forecast activities FY2018

1. Continue to prepare/publish Quarterly Reports, Switching Statistics and Industry Performance Measures, Compliance reporting.
2. Other 'state and performance reporting'.
3. Commission occasional reports, and update existing reports where of value to industry.

Resources

This work is predominantly carried out internally, utilising staff from the Communications Team. Other staff resources from across the Company are called upon from time to time when required.

Appendix B Other Financial Information

This Appendix provides further background on two aspects of Gas Industry Co's finances, namely:

1. the Company's Reserves and Board policy for refunding any surplus resulting from over-collection and/or budget underspend.
2. impact on Consumers

The Company's audited annual Financial Statements are included in its Annual Reports and forecast Financial Statements are included in its annual Statements of Intent). Both can be accessed on the Company's website at Annual Reports and Statements of Intent.

Gas Industry Co Reserves and Refund Policy

B.1 Gas Industry Co's equity balance is made up of three components:

1. Industry Advances Reserve;
2. Industry Amortisation Reserve; and
3. Retained Earnings (comprising shareholder fees).

The **Industry Advances Reserve** contains surplus funds from any net over-collection of levies or/and budget underspend from previous years. Gas Industry Co has determined that it should refund unutilised levies as soon as the annual accounts have been received by shareholders at the Annual Meeting. This also has some similarity with the wash-up arrangements collected under Market Fees. This policy encourages a predictable and stable levy by removing from the levy calculations any variability resulting from a fluctuating level of reserves.

The first such refund, at the end of FY2010, was made to levy payers in November 2011, amounting to approximately \$1.5 million. The surplus at the end of FY2011 amounted to approximately \$364,000. This was retained during FY2012 to meet the costs of an expanded Work Programme (GTIP) and other unfunded workstreams (CCM Regulations review). As some of this fund was required to meet those costs, the remainder of this reserve amount – around \$288,000 – was returned to levy payers in December 2012. The reserve at the end of FY2013 was approximately \$509,000, which was returned to levy payers in December 2013. The reserve at the end of FY2014 was approximately \$562,000 which was refunded to levy payers in December 2014. The reserve at the end of FY2015 of \$383,000 was refunded to levy payers during FY2016. The FY2016 reserve of \$858,000 has had the 'business as usual' portion of \$332,000 refunded. The balance relates to historic levies underpaid by Greymouth Gas and will be refunded in due course to correct corresponding overpayments by other industry participants.

Retained earnings are the accumulation of the shareholders' annual fees, set aside as a reserve against future contingencies and do not impact on the levy calculation. The current balance is approximately \$676,000.

Small impact on consumers

The impact of the levy on gas consumers is relatively small, particularly households. Assuming the levy is entirely passed through, the 75,000 residential gas consumers would each pay only approximately \$6.48 per annum, or around 0.73% of their annual gas bill. Larger consumers pay more proportionate to their wholesale gas purchases but the largest consumers, who together consume around the majority of supply, are active participants in consultation and have raised no objections.

Appendix C Strategic Alignment with Government Policy Objectives and Outcomes

Gas Industry Co’s Strategic Objectives— delivering effectively on the Company’s accountabilities as the industry body; building and communicating the New Zealand gas story; facilitating efficient use of, and investment in, gas infrastructure; and promoting efficient, competitive, and confident gas markets —stretch across all of the Company’s objectives and are aligned with the objectives and outcomes contained in the Gas Act and GPS. The Company’s diverse workstreams all help the Company move toward meeting those objectives and outcomes.

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner	<ul style="list-style-type: none"> The full costs of producing and transporting gas are signalled to consumers the quality of gas services, where those services include a trade-off between quality and price, reflect consumers’ preferences as far as possible The gas sector contributes to achieving the Government’s climate change objectives ... by minimising gas losses and promoting demand-side management and energy efficiency 	<ul style="list-style-type: none"> Providing small consumers with an effective complaints process Ensure retail contracts adequately protect the long-term interests of small consumers 	<ul style="list-style-type: none"> Created the Retail Contracts Oversight Scheme in 2010. It provides assurance that standard retail contracts protect small consumers’ long-term interests. Carried out assessments in 2010, 2011, 2012 and 2015. Considered that further LPG regulation is not currently needed (FY2015) 	<ul style="list-style-type: none"> Assisting new entrant retailers Continue to work with Utilities Disputes to identify and address any systemic issues raised by gas consumers Monitor the LPG market to determine if current non-regulatory arrangements are satisfactory 	<ul style="list-style-type: none"> Next full Retail Contracts Oversight Scheme assessment will occur in FY2019 Work with industry on new transmission code and be prepared to regulate if agreement cannot be achieved.

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
	<ul style="list-style-type: none"> Energy and other resources used to deliver gas to consumers are used efficiently 			<ul style="list-style-type: none"> Work with industry on new transmission code and be prepared to regulate if agreement cannot be achieved. 	
<p>Facilitate and promote the ongoing supply of gas to meet New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements</p>		<ul style="list-style-type: none"> Provide efficient arrangements for short-term gas trading Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of upstream gas quantities 	<ul style="list-style-type: none"> A private company created a gas trading market in 2013 D+1 implemented in December 2015 to assist the more efficient arrangements for balancing gas introduced in late-2015. 	<ul style="list-style-type: none"> Refinement of D+1 and, depending on the form of the new single transmission code, begin the process to introduce D+1 rules into the Downstream Reconciliation Rules 	<ul style="list-style-type: none"> Depending on the form of the proposed new single transmission code, changes to the Downstream Reconciliation Rules may be required in FY2018/9 to give effect to D+1. Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
Minimise barriers to competition in the gas industry	<ul style="list-style-type: none"> • Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users 	<ul style="list-style-type: none"> • Enable accurate, efficient, and timely arrangements for the allocation and reconciliation of downstream gas quantities • Minimise barriers to customer switching • Ensure gas governance arrangements are supported by appropriate compliance and dispute resolution processes 	<ul style="list-style-type: none"> • Recommended the Gas (Downstream Reconciliation) Rules 2008; ongoing administration through the allocation agent • Recommended the Gas (Switching Arrangements) Rules 2008 • Recommended the Gas Governance (Compliance) Regulations 2008; ongoing administration through Market Administrator, Independent Investigator, and Rulings Panel • Post-implementation review of market-based balancing. 	<ul style="list-style-type: none"> • Refinement of D+1 • Wholesale market monitoring • Determine the extent to which GIC should support Powerswitch • Continuing Market Administrator work • Continue involvement in the development of a new gas transmission code and be prepared to regulate if agreement cannot be achieved. 	<ul style="list-style-type: none"> • Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market • Continue involvement in the development of a new gas transmission code and be prepared to regulate if agreement cannot be achieved.

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
			<ul style="list-style-type: none"> Continued involvement in the development of a new gas transmission code 		
Maintain or enhance incentives for investment in gas processing facilities, transmission, and distribution		<ul style="list-style-type: none"> Provide an efficient market structure for the provision of gas metering, pipeline, and energy services 	<ul style="list-style-type: none"> Addressed in multiple workstreams, including switching, downstream reconciliation, and single gas transmission code Revoked Gas Processing Information Disclosure Rules in 2014 		
Subject delivered gas costs to sustained downward pressure	<ul style="list-style-type: none"> The full costs of producing and transporting gas are signalled to consumers and the quality of gas services, where those services include a trade-off between quality and price, reflect consumers' preferences as far as possible 	<ul style="list-style-type: none"> Minimise barriers to customer switching Provide efficient arrangements for short-term gas trading 	<ul style="list-style-type: none"> Recommended the Gas (Switching Arrangements) Rules 2008 A private company created a gas trading market in 2013 to replace the Company's trading platform 	<ul style="list-style-type: none"> Determine the extent to which GIC should support Powerswitch Continue to publish monthly switching statistics 	<ul style="list-style-type: none"> Reviewing the efficiency of short-term gas trading and whether gas governance arrangements could improve the market

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements		<ul style="list-style-type: none"> Produce sound arrangements for the management of critical gas contingencies 	<ul style="list-style-type: none"> Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process Gas Transmission Security and Reliability Issues Paper released in April 2016 	<ul style="list-style-type: none"> Working closely with the Commerce Commission to ensure that security and reliability are adequately reported on 	
Maintain consistency with the Government's gas safety regime		<ul style="list-style-type: none"> Produce sound arrangements for the management of critical gas contingencies Provide public information on the performance and state of the gas sector 	<ul style="list-style-type: none"> Recommended the Gas Governance (Critical Contingency Management) Regulations 2008; continuing to address this through the CCM designation process 	<ul style="list-style-type: none"> Working closely with the Commerce Commission to ensure that security and reliability are adequately reported on Ensure new gas transmission code is consistent with the Government's gas safety regime 	<ul style="list-style-type: none"> Transmission code convergence work

Gas Act (and Gas Industry Co Constitution) objectives	GPS objectives	GPS outcomes	What have we done?	FY2018 Work Programme	Future work areas
			<ul style="list-style-type: none"> The Company publishes the <i>New Zealand Gas Story</i> annually in addition to information available through Company Quarterly and Annual Reports and other publications Gas Transmission Security and Reliability Issues Paper released in April 2016 		

ABOUT GAS INDUSTRY CO

Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
 - the operation of gas markets;
 - access to infrastructure; and
 - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

Gas Industry Co's corporate strategy is to 'optimise the contribution of gas to New Zealand'.