

FY2019 Draft Work Programme And Budget Co-regulatory Forum

24 November 2017
DATE:



Agenda

- Strategic / Statutory context
- Proposed Work Programme
- Funding
- Other industry issues
- Forum discussion

FY2019 – Strategic Themes

- Technology is changing energy markets
- Gas reserves tightening
- Climate change response accelerating

- New Government's emerging policy:
 - affects all these themes
 - will add to existing context of change

Technology is changing energy markets

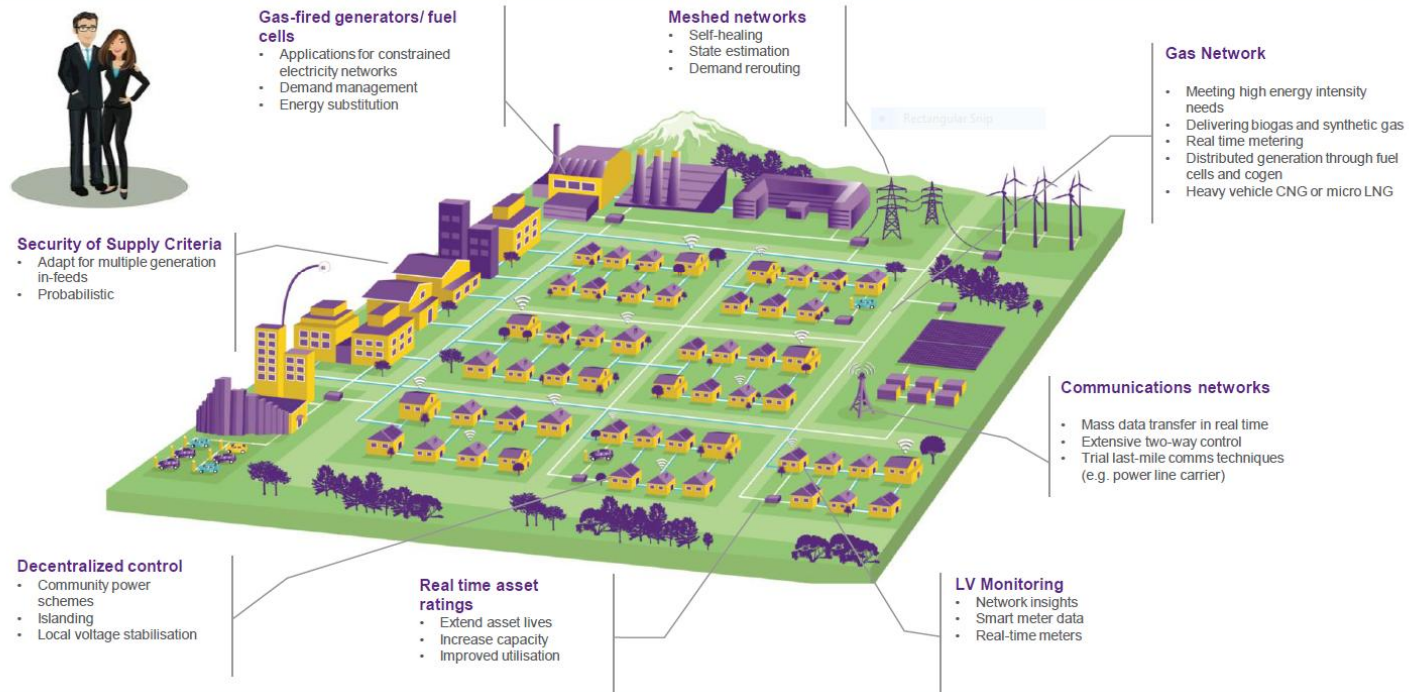
OK, SO THE EV IS DISRUPTIVE
**How long will the transition
take?**



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How gas can fit with new technology

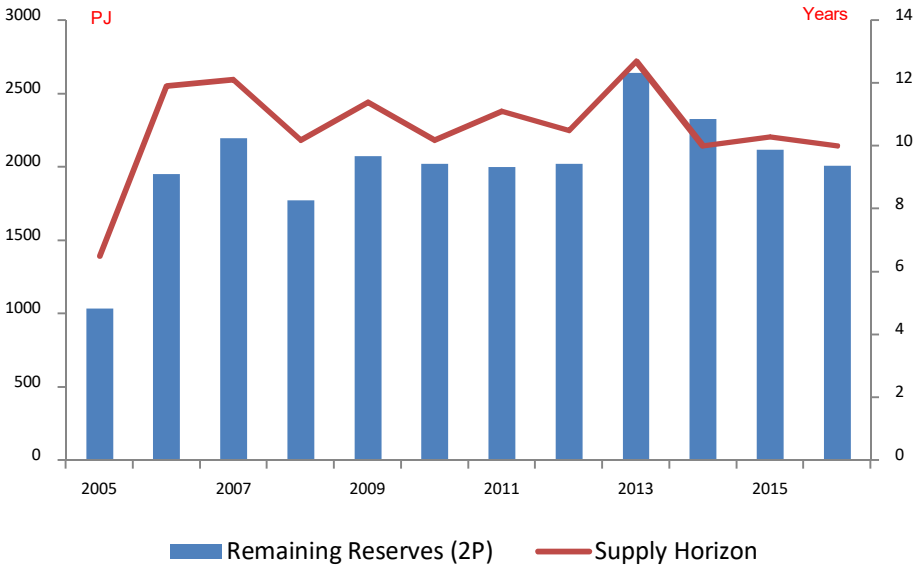
What would an integrated smart energy future look like?



Gas reserves tightening

- 2016 *Long Term Gas Supply/Demand Scenarios* (Concept Consulting) signalled market tightening and possible 'turning point'
- Low upstream investment continues (but oil price back over US\$60??)

The supply horizon is getting shorter...



Source: 2017 Energy in New Zealand
 Reserves as at 1 January 2017
 Gas reserves exclude offshore Maari field (11.4PJ) which is not connected to the market

Emerging new government policy signals further change

- Effect new Government will have on natural gas investment and demand?
- On climate policy, the Government has said it will:
 - Set a target of net zero emissions by 2050
 - Establish an independent climate commission
 - Restore an effective carbon pricing mechanism
 - Determine how to transition to 100% renewable electricity by 2035
 - Support a just transition for workers in carbon-emitting industries
- On energy policy:
 - Future of Block Offers?
 - National Policy Statement standardising regional authorities' approaches to oil/gas exploration (Labour)
 - Some things not expressly pursued in Coalition Agreements – e.g. 'deep-sea' drilling ban (Greens)?

Key Gas Industry Co messages for new Government

- Important current role for NZ gas and GIC
- Existing context of change for gas industry (cf 3 strategic themes), which new Government policy will add to
- Clarifying role of gas in transition to low carbon future is important, especially for investment

Gas Industry Co role...

- **Gas industry body** under Part 4A Gas Act; Government Policy Statement
- Co-regulator – **prefer non-regulated options; regulatory backstop**
- Principal objective (of regulation) to **ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner**
- Other objectives:
 - The facilitation and promotion of the **ongoing supply of gas** to meet New Zealand's energy needs, by providing **access to essential infrastructure and competitive market arrangements**
 - **Barriers to competition** in the gas industry are minimised
 - **Incentives for investment** in gas processing facilities, transmission, and distribution are maintained or enhanced
 - Delivered **gas costs and prices** are subject to sustained downward pressure

How Gas Industry Co will fulfil its role – Corporate Strategy



FY2019 Planning process starts early ...

October 2017	Board approves Indicative Work Programme & Budget
November	Industry initial engagement (Co-Regulatory Forum)
December	Board approves Consultation Paper for Work Programme and Levy
January 2018	Industry Submissions
February	Board approves Levy Recommendation
March	Recommendation to Minister for Levy Regulations



Proposed Work Programme

Objective 1:

Provide efficient, competitive and confident
gas markets

Retail contracts scheme	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • FY2019: Full retail contracts review • FY2020/21: Review retailers' contracts on an exceptions basis (new entrants/changed contracts) • Provide information to potential new entrant retailers regarding the gas industry 	Small consumer contracts are fair and reasonable

Distribution principles scheme	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Survey progress with executing new distribution contracts and extent of expired agreements • Review the Distribution Scheme, consider any changes or other actions required, and consult 	Distribution contracts are efficient

Retailer insolvency	Contingent activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Review retailer insolvency arrangements once new transmission arrangements implemented • Implement the retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency 	Provide a system of transition arrangements in event of insolvent gas retailer
Gas quality	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Participate in Work Safe review of Gas (Safety and Measurement) Regulations 2010 • Review industry arrangements for notifying gas quality excursions and procedures for managing gas quality incidents • Update the <i>Gas Quality Requirements and Procedures</i> document 	An efficient market structure for the provision of energy services
Gas measurement	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Annual review/update of TArMAC AMI standards document 	An efficient market structure for the provision of gas metering services

Regulation and rule changes — DR	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Keep the D+1 pilot scheme running pending new Tx arrangements • Once new Tx arrangements known, refine D+1 model → pilot mk II • If required, amend Downstream Reconciliation Rules following pilot • Subject to Ministerial approval, develop, test and implement the supporting systems 	Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities

Regulation and rule changes — CCM	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Once new transmission arrangements identified, review CCM arrangements for any required changes • Consult on options and address any other matters (e.g. contingency pricing) • Recommend amendments and implement as required 	Sound arrangements for the management of critical gas contingencies

	Forecast activities FY2019-21	Gas Act / GPS Reference
Supply/demand report	<ul style="list-style-type: none"> • FY2019: update the supply/demand report • Review every two years 	Good information is publicly available on the performance and present state of the gas sector

Objective 2:

Facilitate efficient use of, and investment in,
gas infrastructure

Transmission access and pricing	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Oversee implementation of new Transmission Access code <p>OR</p> <ul style="list-style-type: none"> • Draft and consult on Transmission Access regulations 	<p>Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions</p>

Transmission pipeline balancing	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Consider if further work on balancing required in light of new Transmission Access arrangements 	<p>An efficient market structure for the provision of pipeline services</p>

	Forecast activities FY2019-21	Gas Act / GPS Reference
Transmission code changes	<ul style="list-style-type: none"> Perform agreed role in relation to proposed code changes (the proposed new Transmission Access code provides that code changes are subject to GIC recommendation) 	Gas governance arrangements ... are monitored by Gas Industry Co for ongoing relevance and effectiveness

	Forecast activities FY2019-21	Gas Act / GPS Reference
Transmission pipeline interconnection	<ul style="list-style-type: none"> Review interconnections as required Address any concerns regarding reasonable access Review new transmission system owner's interconnection arrangements, once developed 	Gas industry participants and new entrants are able to access transmission pipelines on reasonable terms and conditions

Wholesale market	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Monitor wholesale market activity and developments • Ensure that market information is provided to Gas Industry Co in a timely fashion to support this monitoring 	Efficient arrangements for the short-term trading of gas

Gas transmission security and reliability	Contingent activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Continue to monitor asset management plans and publicly report significant developments 	<p>Ensure that gas is delivered in a safe, efficient, reliable, and environmentally sustainable manner</p> <p>Have all parties properly and efficiently manage risks relating to security of supply, including transport arrangements</p> <p>Good information publicly available on the performance and present state of the gas sector</p>

Objective 3:

Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

	Forecast activities FY2019-21	Gas Act / GPS Reference
Downstream reconciliation	<ul style="list-style-type: none"> • Monitor Allocation Agent • Assess ongoing performance of the Rules • Monitor allocation results • Commission performance and event audits as required • Make determinations under the Rules as required 	To establish a set of uniform processes that enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities

	Forecast activities FY2019-21	Gas Act / GPS Reference
Switching & registry	<ul style="list-style-type: none"> • Monitor Registry Operator • Assess the ongoing performance of the Switching Rules • Monitor and report on switching statistics • Commission performance and event audits as required • Make determinations under the Switching Rules as required 	To establish a set of gas switching and registry arrangements that will enable consumers to switch efficiently and satisfactorily between competing retailers

Critical contingency management	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Monitor Critical Contingency Operator • Assess ongoing performance of the Regulations • Appoint/monitor experts as required • Monitor exercises and events as required • Administer contingency pool as required • Process applications for designations and renewals 	<p>To achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply</p>

Compliance & enforcement	Forecast activities FY2019-21	Gas Act / GPS Reference
	<ul style="list-style-type: none"> • Perform Market Administrator role • Assess ongoing performance of the Compliance Regulations • Assist Investigator and Rulings Panel as required • Monitor compliance trends for indications of regulatory inefficiency 	<p>To provide an efficient, low-cost monitoring and enforcement regime for gas governance rules and regulations</p>

Statutory reporting

Forecast activities FY2019-21

- Publish Statement of Intent to meet statutory timeframes. Provide to Minister for comment prior to publication
- Publish Annual Report; meet requirements for tabling in Parliament
- Publish quarterly reports to the Minister

Gas Act / GPS Reference

Meet reporting requirements of the Gas Act and GPS and report on the performance and present state of the gas industry

Objective 4:

Develop and communicate the role of gas in meeting New Zealand's energy needs

New Zealand Gas Story

Forecast activities FY2019-21

- Maintain the currency of the New Zealand Gas Story as new information comes to hand
- Continue seminars and other communications for interested stakeholders

Gas Act / GPS Reference

Good information is publicly available on the performance and present state of the gas sector

Other reporting

Forecast activities FY2019-21

- Compliance reporting
- Industry performance measures
- Switching statistics
- Other state and performance reporting

Gas Act / GPS Reference

Good information is publicly available on the performance and present state of the gas sector

Funding

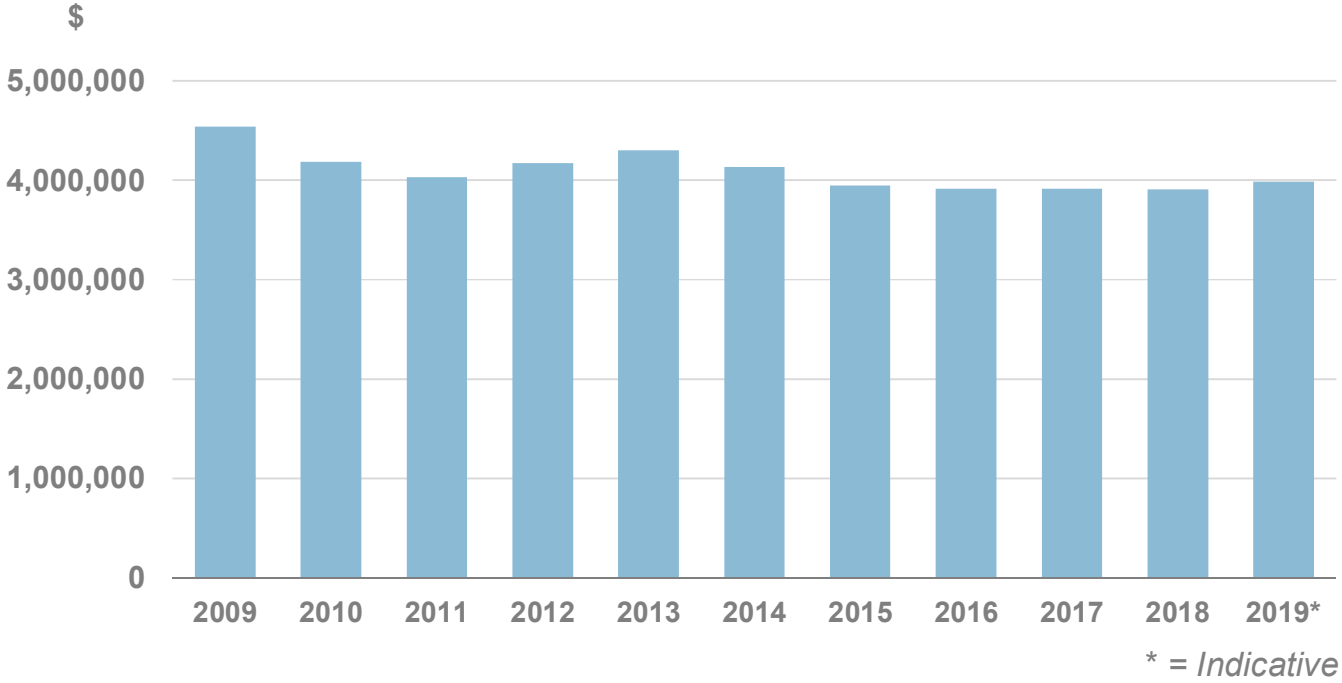
Two main sources of funding: Market fees and Levy

- Market fees:
 - Provided for in gas governance rules and regulations;
 - Cover costs of service providers, and other direct costs;
 - Formal estimate of market fees published two months before the beginning of the financial year, so placeholder included in FY2019 budget;
 - GIC required to wash-up at year end and either invoices any under-recovery, or provides credits for over-recoveries.
- Levy:
 - Covers direct cost of workstreams and non-operational expenditure;
 - Two components of the levy: wholesale and retail;
 - Wholesale levy paid by industry participants on purchases from gas producers;
 - Retail levy paid on number of ACTIVE-CONTRACTED ICPs in the registry;
 - Wholesale/retail component of levy apportioned according to costs allocated to work programme;
 - GIC Board policy is to return any over recovery and/or underspend.

Projected FY2019 expenditure

Levy Funding Requirement		Market Fees		TWPC
\$3.98m		\$1.44m (placeholder)		\$5,423,720
Slight increase from \$3.91m in FY2018	+	Market fees estimated in April 2018	=	Slight increase from \$5.38m in FY2018

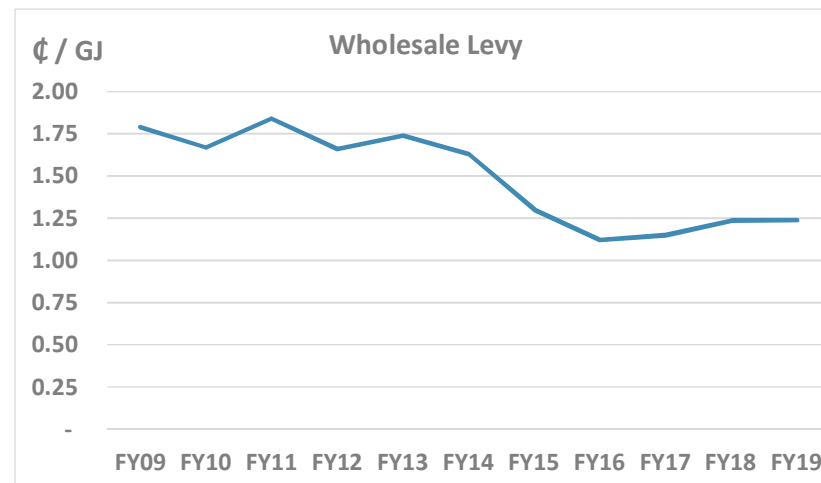
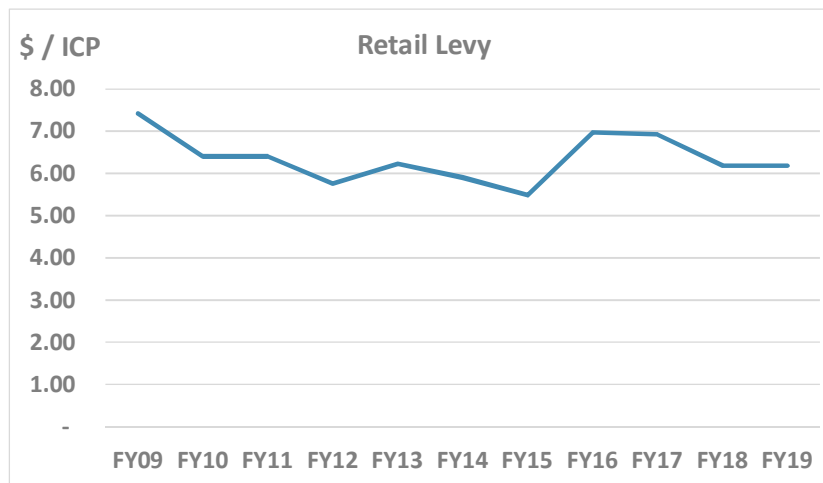
Levy Funding Requirement



Comparison of FY2018 and FY2019

	FY2018 (published)	FY2019 (indicative)
Levy Revenue/Funding requirement ('000)	\$3,911	\$3,983
Wholesale volume estimate (PJ)	179	182
Wholesale Levy (c/GJ)	1.236	1.2374
Retail Levy (\$/ICP)	6.18	6.18

Prior year levies



Levy returns

- FY2018 levy regulations introduced requirement for more information:
 - Wholesale levy payers – no change
 - Transmission owner – required to provide nomination information (proxy for sales)
 - Gas producers – required to provide schedule of sales by purchaser (points not covered by Tx noms)
- Information was provided but didn't meet the need:
 - At receipt points where trading is allowed, nominations may not reflect purchases from producers
 - At receipt points not operated by gas producers, noms may not reflect purchases from producers
- FY2018 approach doesn't provide all information needed to verify returns from wholesale levy payers
- Proposed change:
 - Wholesale levy payers provide information as at present
 - Gas producers provide schedule of sales by purchaser
 - Proposal will be part of levy consultation

In a nutshell:

- Some strategic challenges ahead for the sector
- There is a potential fork in road, depending on outcome of GTAC evaluation
- Work programme still appropriate and continues existing workstreams
- Have retained similar levels of levy rates



Thank you