

# Government Policy Statement on Gas Governance

Hon Pete Hodgson  
Minister of Energy

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## Introduction

The gas sector has a critical role to play in achieving the Government's objective of a sustainable and efficient energy future and higher economic growth rates.

This statement sets out the Government's policy for gas industry objectives, governance and rules relating to the wholesaling, processing, transmission, distribution and retailing of gas.

Other related documents are the Sustainable Development Programme of Action<sup>1</sup>, the National Energy Efficiency and Conservation Strategy<sup>2</sup>, the Climate Change Work Programme<sup>3</sup> and the Government Policy Statement on Electricity Governance.

The Government's policies and procedures for gas exploration and development are set out in the Crown Minerals Act and the Minerals Programme for Petroleum. The Minerals Programme for Petroleum is currently being reviewed and will set out the Government's exploration and development policies moving forward.

The Government's gas safety regime is currently being progressed through an Energy Safe Review Bill. This Bill will set out obligations and enforcement provisions for safety of consumers and the public (including gas detection), gas quality, and measurement of gas supplied to consumers. Workplace safety is addressed through the Health and Safety in Employment Act."

This statement replaces the "*Government Policy Statement: Development of New Zealand's Gas Industry*" of March 2003.

## Background

- 1 In March 2003 the Government released its policy for the development of New Zealand's gas industry, and its expectations for industry action. The Government invited the gas industry to establish a governance structure and a work programme to deliver on those expectations. The Government Policy Statement (GPS) stated that the Government favoured industry-led solutions where possible, but is prepared to use regulatory solutions where necessary.

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<sup>1</sup> <http://www.mfe.govt.nz/publications/sus-dev/sus-dev-programme-of-action-jan03.html>

<sup>2</sup> <http://www.eeca.govt.nz/default2.asp>

<sup>3</sup> <http://www.climatechange.govt.nz/sp/consultation/confirmed-policy.htm>

- 2 The gas industry has advised the Government that it requires some form of regulatory backing to achieve the Government's objectives and outcomes for the gas sector.
- 3 The Government, in co-operation with the industry, intends to implement a co-regulatory model of governance to ensure that the objectives of the Government are met.

### **Government's policy objective and outcomes for the gas industry**

- 4 The Government's overall policy objective for the gas industry is:

*"To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable, and environmentally sustainable manner."*

- 5 Consistent with this overall objective, the Government is seeking the following specific outcomes:
  - a) 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;
  - b) Energy and other resources are used efficiently;
  - c) Barriers to competition in the gas industry are minimised to the long-term benefit of end-users;
  - d) Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;
  - e) The full costs of producing and transporting gas are signalled to consumers;
  - f) Delivered gas costs and prices are subject to sustained downward pressure;
  - g) The quality of gas services and in particular trade-offs between quality and price, as far as possible, reflect customers' preferences;
  - h) Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties;
  - i) Consistency with the Government's gas safety regime is maintained; and
  - j) The gas sector contributes to achieving the Government's climate change objectives by minimising gas losses and promoting demand-side management and energy efficiency.

## **Governance**

- 6 To meet the policy objective and outcomes the Government invites the industry to establish an industry body in a co-regulatory governance setting. If an industry body is not established or if the industry body does not deliver the expected industry outcomes, the government will establish a Crown regulatory authority.
- 7 The recently amended Gas Act 1992 allows the Minister of Energy to recommend the approval of an industry body to recommend regulations and rules in the areas of wholesaling, processing, transmission and distribution of gas. For an industry body to be approved it must:
  - a) be broadly inclusive of industry participants (membership is not compulsory);
  - b) have a governance board with a majority of independent members including an independent Chair;
  - c) satisfy the Minister that it is capable of delivering outcomes that meet the Government's objectives for the gas industry;
  - d) have governing rules with objectives consistent with the Government's objectives for the industry body's recommendations on the wholesaling, processing, transmission, distribution and retailing of gas; and
  - e) allow all industry participants, except service providers appointed under any gas governance regulation, to become members of the industry body.
- 8 The Government invites the gas industry to form an industry body that meets the above criteria, and submit it to the Minister for approval no later than 31 October 2004.

## **Industry - led solutions**

- 9 The Government expects the industry body to develop and submit to the Minister of Energy for approval proposed arrangements, including regulations and rules where appropriate, providing for effective industry arrangements in the following areas.

### ***Wholesale Markets and Processing***

- The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.
- The development of a secondary market for the trading of excess and shortfall quantities of gas.
- The development of capacity trading arrangements.
- Protocols that set reasonable terms and conditions for access to gas processing facilities.

### ***Transmission and Distribution Networks***

- The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions.
- The establishment of consistent standards and protocols across distribution pipelines so that gas market participants can access distribution pipelines on reasonable terms and conditions.
- The establishment of gas flow measurement arrangements to enable effective control and management of gas.

### ***Retail and Consumer Arrangements***

10 The recently amended Gas Act allows the Government to directly regulate for retail and consumer issues, to ensure effective outcomes for consumers.

11 The Minister of Energy invites the industry body to recommend arrangements, including regulations and rules where appropriate, in the following areas:

- The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.
- The development of efficient and effective arrangements for the proper handling of consumer complaints.
- The development of model contract terms and conditions between consumers and retailers.

### **Government oversight**

12 The Government will monitor the progress of the industry body in developing the arrangements, including regulations and rules where appropriate, outlined under industry - led solutions above. The industry body should develop a comprehensive process and timeline for progressing and finalising these arrangements and report to the Minister of Energy each quarter on progress.

13 Proposed arrangements, including regulations and rules where appropriate, covering the following are to be submitted for approval by 31 March 2005:

- The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions.
- The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.

14 Proposed arrangements, including regulations and rules where appropriate, covering the following are to be submitted for approval by 31 August 2005:

- The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.
- The development of efficient and effective arrangements for the proper handling of consumer complaints.
- The development of model contract terms and conditions between consumers and retailers.

15 All other arrangements listed under "Industry-led solutions" should be submitted for approval by December 2005".