

Update

24 December 2010

Office closes for Christmas break

5 January 2011

Office re-opens

20 January 2011

Levy Industry Workshop

4 February 2011

Submissions on Levy Consultation close

Gas Quality

Gas Quality Issues Paper: Analysis of Submissions

In September 2010, Gas Industry Co released a paper that considered gas governance issues in relation to gas quality. Some participants believe responsibilities for gas quality are unclear, or that potential liability for gas quality issues are not well aligned to the participants best able to manage such risks. This has been a point of contention between producers, transmission companies, distributors, and retailers. Maintaining an acceptable standard of gas quality is important for the gas industry—it affects combustion performance, safety, the reliability of gas supply, and the long-term integrity of the gas transport system. Gas quality-related incidents are potentially costly and could disrupt the supply of gas to entire gas distribution networks.

The *Gas Governance Issues in Quality: Issues Paper* presented the findings of a review of industry arrangements for managing gas quality, summarised the areas where Gas Industry Co thinks further evaluation is desirable, and suggested further work. The review observed that New Zealand's arrangements for monitoring gas quality are not as prescriptive as other regimes, and proposed further investigation in a number of areas.

Gas Industry Co received nine submissions on the issues paper. We considered the submissions and have responded in an Analysis of Submissions paper. The paper identifies further work Gas Industry Co will undertake in relation to gas quality arrangements, including:

- investigating and describing the operational arrangements for managing gas quality (that is, monitoring, testing, reporting, and auditing practices);
- considering the options for improving quality monitoring, including an assessment of the costs and benefits;

- considering the options for introducing greater transparency on gas quality incidents (such as a complaints process as suggested by users), including an assessment of the costs and benefits; and
- assessing whether the efficiency loss from current contractual arrangements is likely to be significant, and whether the Ministry of Consumer Affairs analysis in respect of electricity quality may be applicable to gas.

Advice to the Associate Minister

Gas Industry Co advised the Associate Minister that we will continue to work with industry participants to improve existing arrangements by completing the work described above.

The Analysis of Submissions and advice to the Associate Minister can be found here:

<http://www.gasindustry.co.nz/work-programme/gas-quality?tab=1842>

Gas Distribution

Gas Distribution Issues Paper: Analysis of Submissions

In September 2010, Gas Industry Co released a paper that considered gas governance issues in relation to gas distribution. The *Gas Governance Issues in Gas Distribution: Issues Paper* concluded there are no issues warranting Gas Industry Co to recommend regulation, but some improvements are desirable. In particular, some distribution companies need to update their access arrangements to better align them with legislative and commercial changes. The paper proposed that we develop high-level benchmarks (principles), and continue to monitor and report progress in updating of the arrangements.

We received eight submissions on the issues paper. We considered the submissions and have responded in an Analysis of Submissions paper.

The majority of submitters supported the development of high-level distribution contract benchmarks. To progress the development of the benchmarks we intend to convene an industry meeting in February 2011. Among other matters we will also investigate several technical issues raised in submissions, with the help of a working group if necessary.

Advice to the Associate Minister

Gas Industry Co has advised the Associate Minister that we will continue to work with industry participants to improve existing distribution access arrangements.

The Analysis of Submissions and advice to the Associate Minister can be found here:

<http://www.gasindustry.co.nz/work-programme/distribution-access?tab=1843>

Interconnection

Review of transmission pipeline interconnection arrangements

Gas Industry Co has completed its review of Vector and MDL's interconnection arrangements.

To explore the possibility of a non-regulated approach to improving interconnection arrangements, Gas Industry Co issued *Transmission Pipeline Interconnection Guidelines* (the Guidelines) in February 2009. The Guidelines set out our view on the features of good interconnection practice. We hoped they would provide a useful guide to help pipeline owners develop their interconnection services.

In September 2009 we reviewed how the pipeline owners' interconnection arrangements had developed in response to the Guidelines. We reported our findings to the pipeline owners—MDL and

Vector—highlighting areas we thought could be improved. Both pipeline owners acknowledged they had further work to do.

Earlier this year each pipeline owner provided us with a draft of its revised interconnection arrangements. We have now assessed how well those revised arrangements meet the objectives of the Gas Act and the April 2008 Government Policy Statement on Gas Governance. We found that the arrangements meet most of our evaluation criteria, and commend the pipeline companies for their work in improving these arrangements.

Advice to the Associate Minister

We have recommended to the Associate Minister that regulation is unnecessary at this stage, but that Gas Industry Co will review how well the new arrangements perform in practice by evaluating the next interconnections to the Vector and MDL pipelines.

All material from the review and our advice to the Associate Minister can now be found on our website.

<http://www.gasindustry.co.nz/work-programme/interconnection?tab=1913>

Transmission Pipeline Capacity

In mid-2009 Vector announced that its pipeline from Huntly to Auckland and on to Whangarei had reached its physical capacity limit. Large end users advise us that a consequence of this capacity constraint is that the competition in the areas serviced by the pipeline is reduced. Although this situation was triggered by the shortage of capacity, and is an unanticipated consequence, the underlying cause lies in the commercial arrangements between Vector and pipeline users. This situation is of concern to Gas Industry Co because the facilitation of competitive markets is an underlying principle of the Gas Act.

Although Gas Industry Co already has work in train to look at the longer-term access arrangements on Vector's transmission pipelines, we believe the competition issues for large end users in and around Auckland requires more timely consideration. In November we issued a *Retail Competition and Transmission Capacity: Statement of Proposal* in which we analysed the situation, set out possible options to minimise barriers to competition, and identified our preferred option.

We are currently considering the 11 submissions received on the Statement of Proposal, and expect to publish an analysis of submissions before the end of February 2011.

The Statement of Proposal and submissions can be viewed here:

<http://www.gasindustry.co.nz/work-programme/transmission-pipeline-capacity?tab=1915>

2011 Levy Consultation

At its final meeting of the year on 17 December 2010, the Gas Industry Company Board approved the release of the 2011 Levy Consultation Paper. This sets the context for the proposed FY2012 levy regulations by describing the work Gas Industry Co expects to undertake and its associated cost; calculates the levy funding requirement for that year; and proposes the FY2012 levy.

The proposed levies for FY2012 are:

Retail levy of \$5.76 per annum payable on each ICP; and

Wholesale levy of 1.66 cents per GJ of gas purchased directly from gas producers.

To assist industry participants with submissions and to provide a prior indication of matters that will require consideration by Gas Industry Co,

an industry workshop will be held at Gas Industry Co's office in Wellington, from 10am to 12 noon on Thursday 20 January 2011.

The closing date for submissions is 4 February 2011.

Read more about the levy here: <http://www.gasindustry.co.nz/work-programme/gas-industry-company-levy-2012?tab=1487>

New Associate Minister

Gas Industry Co has welcomed the appointment of the Hon Hekia Parata as the new Associate Minister for Energy and Resources. The Associate Minister will have responsibilities for that part of the Gas Act governing the recommendation-making functions of the Company. After the recent December Board meeting, the Associate Minister briefly met with the Board of Directors and stated that she looks forward to working with the Board to ensure the smooth and efficient operation of the co-regulatory model. The Board welcomed Minister Parata's interest and enthusiasm in the co-regulatory model and the activities of the Company.

New Director

The recent December Board meeting was also the first meeting for new Director, Ron M Kelly. Mr Kelly is currently the Upstream International Commercial Lead for Shell Exploration NZ Limited. The Chair welcomed Mr Kelly and commented that the Board is looking forward to the 'upstream' perspective and extensive experience that he will bring to the table.