

Gas Industry Co - 2011 Industry Levy Workshop 20 January 2011

New Chief Executive, Steve Bielby, welcomed industry participants and stakeholders to the workshop.

The key points from the consultation paper were summarised as:

- The Board has instigated a new policy to return the over-recovery of levy payments as soon as practicable after the annual accounts are received at the Company's AGM.
- This policy was implemented with respect to the FY2010 year-end surplus, which saw approximately \$1.5m returned to levy payers.
- This new policy should remove/reduce high variability in the levy and seeks to promote a more stable, transparent levy.
- As GIC transitions from a focus on policy development to more clearly defined administrative roles, it is expected that operating costs will stabilise or decline over the medium to long term.
- The Board has confirmed cost reductions of \$940,000 from FY2011.

GIC considers the proposed work programme for FY2012 aligns well with the industry's priorities as expressed at the Co-regulatory Forum in November 2010.

Attendees were invited to ask questions or comment on the levy proposal and the work programme. The following issues were discussed:

Issue	Comments	GIC Response
Daily Allocation (D+1)	Timeframe for work-stream was discussed. Can delivery dates (SOP by Dec 11 / Advice to Minister by Feb 12) be moved forward?	A discussion paper on this issue will be out before the end of the current FY. Further work will depend on the response to that paper – if a gas governance arrangement needs to be developed, then that work might take until around December 2011 to complete.
Demand Forecasting (DF)	Many industry participants do some form of DF themselves – will this be useful to GIC? Is this to be at the pipeline or national level?	This work-stream is at a very early stage; comments from participants on how it might develop are welcome. The Board is interested in determining what role GIC may have in DF and how this relates to promoting any new investment decisions.

Issue	Comments	GIC Response
Upstream Reconciliation	Query about where this sits given relationship to Balancing, D+1, and Downstream Reconciliation. A clear demarcation of upstream and downstream is needed for this work.	This work is based on consultation undertaken soon after GIC's formation. Downstream Reconciliation was identified as a priority; as that has been addressed, we now move to Upstream. If discussion with the industry reveals no issue to be addressed, then resources will be re-prioritised to other areas.
MPOC Changes	What is expected here?	Several change requests are expected in relation to Balancing. Much of the GIC work on this will be done in-house, thus reducing the need for any external consultancy expenditure and leading to a lower cost for the work-stream.
Time spent on Balancing issue	Concern was expressed that money/time was spent on this issue for no result ('treading water').	It is hoped, and GIC believes it to be the case, that GIC's focus on this issue has helped the industry in refining its understanding of Balancing. This has led to improvements and a vast reduction in balancing costs across the industry
Gas Quality	The Co-regulatory Forum identified this in the top 4 of priorities. An issue of gas quality that causes a major outage to a network, such as Auckland, is a major risk to the industry's reputation. There is a significant 'public interest' aspect to this matter. It is difficult to determine responsibility for gas quality (regulations point to retailers, but physical control of quality lies with producers and transmission operators).	Submissions on the Gas Quality Issues Paper show that some participants are very concerned about this matter, while others seem to be unaware of any problems. GIC is looking at the need for better incident reporting and to confirm that testing is being undertaken and those processes are regularly audited. GIC noted one participant's

Issue	Comments	GIC Response
	Contractual remedies may not always work as gas can be within the Specification and yet still cause problems (due to fluctuations etc).	<p>view that early warning of gas composition changes (even if within Specification) would be beneficial.</p> <p>GIC noted that this matter raises the ability for the Company to seek and gather information on industry issues (see next item).</p>
Investigative powers	Can GIC work more closely with Commerce Commission and obtain information through that agency? Concerns were expressed about possible commercially sensitive information being available to a GIC Board that includes competitors for industry participants that may have supplied the information.	GIC (and other industry specific bodies) was established to address gaps in the Commerce Commission's mandate to regulate markets. It is possible under the Gas Act for GIC to ask for regulations to be made so that it can gather information to settle a 'particular issue'. Mechanisms/processes would be found to meet concerns over confidentiality.

Next steps:

- Submissions on consultation paper are due 4 February 2011.
- Following analysis of submissions, a levy recommendation will be reviews by the GIC Board in March.
- GIC recommendation for levy regulations for FY2012 will be submitted to the Associate Minister at the end of March.