



19 January 2018

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## TRUSTPOWER SUBMISSION: GIC FY2019 WORK PROGRAMME AND LEVY

### 1 Introduction and overview

1.1.1 Trustpower appreciates the opportunity to submit on the Gas Industry Company Ltd's (GIC) *FY2019 Work Programme and Levy (Consultation Paper)*.

1.1.2 The GIC's proposed work programme for FY2019 seeks to meet its strategic objectives as follows:

- a) **Provide efficient, competitive and confident gas markets** - \$819,290 in funding is sought to fund the following workstreams:
  - i. Retail Contracts Oversight Scheme;
  - ii. Gas Distribution Contracts Oversight Scheme;
  - iii. Retailer Insolvency;
  - iv. Gas quality;
  - v. Regulation and Rule Changes;
  - vi. Gas measurement; and
  - vii. Supply/demand model report.
- b) **Facilitate efficient use of, and investment in, gas infrastructure** - \$1.2m is sought to fund the following workstreams:
  - i. Gas Transmission Access;
  - ii. Wholesale Market;
  - iii. Transmission Pipeline Balancing;
  - iv. Transmission code changes and appeals;
  - v. Transmission pipeline interconnection; and
  - vi. Gas Transmission Security and Reliability.
- c) **Deliver effectively on the GIC's accountability as the gas industry body** – \$3.2m is sought to fund the following:
  - i. Downstream reconciliation

- ii. Switching and Registry;
- iii. Critical Contingency Management;
- iv. Compliance and Enforcement; and
- v. Statement of Intent and Annual Report.

d) **Develop and communicate the role of gas in meeting New Zealand's energy needs** - \$168,946 of funding is sought for the following:

- i. New Zealand Gas Story; and
- ii. Other reporting.

1.1.3 The work programme reflects the GIC's statutory market governance role under the existing rules/regulations and continuing key multi-year programmes.

1.1.4 The GIC has proposed a Levy Funding Requirement (LFR) of \$3,982,551. This is \$71,070 more than the corresponding budgeted costs for FY2018. The remainder of the work programme will be funded by market fees.

## **2 Trustpower's views**

2.1.1 Trustpower is generally supportive of the GIC's proposed work programme for FY2019 and LFR, as presented in the Consultation Paper.

2.1.2 We however encourage the GIC to continue to seek cost reductions where possible given the continued pressure on the entire industry to reduce costs to end customers.

2.1.3 We appreciate the level of detailed information on each aspect of the GIC's work programme that has been provided in the Consultation Paper, including the specific resourcing requirements, forecast/contingent activities and a link between the workstream to the strategic objectives of the GIC.

2.1.4 This will assist interested parties to obtain a good understanding of how the associated costs are to be applied and whether the various components which make up those costs are reasonable, appropriate relative to other choices, or required at all.

2.1.5 We also appreciate the GIC holding the Co-regulatory forum in November 2017 to discuss the matters covered by the Consultation Paper directly with interested parties. This provided a valuable forum for developing a reasonable understanding of the proposed work programme and associated costs. We encourage the GIC to continue holding these forums in future years as part of its broader consultation process.

2.1.6 The remainder of our submission outlines our views on the following matters for the GIC's consideration, including:

- a) Potential further enhancements to the information provided around the GIC's work programmes and levy funding requirements during future consultations;
- b) Clarifying, as part of the Gas Transmission Access workstream, how the GIC will determine that the current gas transmission access code negotiation has stalled and so a regulatory solution should be pursued; and
- c) Undertaking an independent review of information transparency in the New Zealand gas market during FY2019.

## 2.2 Potential enhancements for future consultations

- 2.2.1 We support the GIC in considering whether more detailed supporting information could be provided around its work programme and levy funding requirements during future consultation processes.
- 2.2.2 Specifically we suggest that the GIC:
- a) Provides a more detailed overview of the anticipated benefits associated with a workstream and further details of how it will contribute to meeting the relevant Strategic Objective(s)<sup>1</sup>;
  - b) Provides a breakdown of the requested funding for each workstream rather than grouping the funding requirements by Strategic Goal; and
  - c) Considers whether there is any additional information it could provide around how any existing workstreams are performing in order justify continued expenditure in this area<sup>2</sup>, i.e. an update in the consultation paper on the performance of each workstream in achieving the anticipated benefits to date.
- 2.2.3 These further improvements would better enable interested parties to:
- a) form their own opinions around whether the overall work programme represents best value for money, including by making assessments at a workstream level of the net benefit of completing the proposed work; and
  - b) monitor the success of all components of the work programme over time.

## 2.3 Gas Transmission Access workstream

- 2.3.1 We support the approach adopted by the GIC of ensuring that appropriate funding is in place for establishing a single transmission code, regardless of whether this is achieved via industry agreement or a regulated access arrangement.
- 2.3.2 Trustpower's views on the appropriateness of the current process led by First Gas to establish gas transmission access via an industry agreement have been well documented, including within an open letter provided to the GIC in November 2017<sup>3</sup>.
- 2.3.3 We are not confident that an industry agreement process will deliver the desired access arrangements given the history of initiatives on transmission access (refer to Appendix A of our open letter to the GIC). As a result we are supportive of appropriate funding being made available to the GIC to progress a regulatory solution to establishing reasonable terms and conditions of access to the transmission network.
- 2.3.4 We note that the Consultation Paper refers to the GIC designing and consulting on a regulated option if the industry process has stalled. It is unclear on what basis the GIC would determine

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<sup>1</sup> We acknowledge that for existing workstreams this information has likely already been outlined within other relevant documentation but suggest it would be useful to capture this all within the relevant consultation documents. This greater level of transparency would enable interested parties to more easily assess whether they agree with the GIC's prioritisation of each workstream (as outlined in section 2.2 of the Consultation Paper) and whether funding should continue to be provided (as applicable).

<sup>2</sup> We acknowledge that the Annual Report of the GIC will capture this information but the timing of its publication means that the most up to date information on how the GIC has operated and performed, including against its Statement of Intent and against the GPS objectives and outcomes (as required by clause 43ZW of the Gas Act), is not available to stakeholders when assessing the proposed work programme and associated levy funding requirements for the next financial year. For example at the time of assessing the FY2019 work programme we only have available the Annual Report for 2016/17. This creates an information gap for stakeholders when making an assessment of the proposal.

<sup>3</sup> A copy is available via the following link: <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/gtac-assessment/open-letters/>

that the current process has “stalled” and so we encourage the GIC to further consider how it would make this assessment and provide further details to industry.

- 2.3.5 It would be unfortunate for the GIC to be unduly delayed in its determination that the current process has stalled given the importance of establishing reasonable terms and conditions for access in terms of meeting the Gas Act and Government Policy Statement Objectives.

## **2.4 Independent review of information transparency in the New Zealand Gas Market**

- 2.4.1 We suggest that during FY2019 there would be value in the GIC facilitating an independent review of the current level of information transparency in the New Zealand gas market with a view to identifying areas for improvement across the industry, including through potential new regulatory arrangements<sup>4</sup>.
- 2.4.2 Transparency of information has significant benefits in ensuring a competitive and efficient gas market through enabling more efficient decision making and reducing information asymmetries (to name a few benefits). Information transparency can also have an important role in facilitating monitoring of the development and level of competition in the gas market, along with identifying any incidents of potential market power abuse.
- 2.4.3 Given the stage in the industry’s development, we consider it is timely to undertake a comprehensive review of information transparency as it is an integral part of achieving all the Gas Act and Government Policy Statement objectives.
- 2.4.4 We note that First Gas has sought to enhance information transparency as part of the current development of the transmission access code. While we are strongly supportive of the work that First Gas has done to enhance information transparency, we continue to have reservations as to how successful some of the new information provision requirements may be in practice. For example, it is uncertain how without regulated requirements for notifying the market of gas production outages this information will always become available to the market in a timely manner.
- 2.4.5 We also note that other aspects of the gas market could also potentially benefit from greater transparency to ensure that further development of the market is not stifled as a result of asymmetric information. As a result we consider it is appropriate to consider information transparency in a broader context via an independent review
- 2.4.6 Adopting a broader context for considering information transparency will ensure that information provision requirements, along with any cost allocations, can be more efficiently and effectively targeted, including to some parties that may not be subject to the new transmission access arrangements.

As I am away on maternity leave from mid-January until the start of June 2017, if you have any questions relating to the material in this submission please contact Craig Schubauer on 021 816 830

Regards,



**FIONA WISEMAN**

**SENIOR ADVISOR, STRATEGY AND REGULATION**

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<sup>4</sup> Note that in our submission dated 9 October 2017 we recommended that the GIC (and MBIE) should consider the development of regulatory arrangements to enhance transparency of information. A copy of our submission is available via the following link: <http://gasindustry.co.nz/work-programmes/transmission-pipeline-access/developing/revised-draft-gtac/>