



Recommendation to the  
Minister of Energy on the  
Levy for Gas Industry Co for  
the 2008/2009 Financial  
Year

March 2008







### **About the Gas Industry Co.**

The Gas Industry Co was formed to be the co-regulator under the Gas Act.

As such, its role is to:

- recommend arrangements, including rules and regulations where appropriate, which improve: the operation of gas markets; access to infrastructure; and consumer outcomes;
- administer, oversee compliance with, and review such arrangements; and
- report regularly to the Minister of Energy on the performance and present state of the New Zealand gas industry, and the achievement of Government's policy objectives for the gas sector.

### **Authorship**

This paper was prepared by Bas Walker in association with Simon Bratt of PriceWaterhouseCoopers.



# Executive summary

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Section 43ZZB of the Gas Act 1992 (the 'Act') enables Gas Industry Company Limited ('Gas Industry Co'), to recommend to the Minister of Energy that levy regulations be made requiring industry participants<sup>1</sup> to pay a levy to Gas Industry Co. The levy is to recover the estimated costs of Gas Industry Co exercising its functions as the industry body (see s43ZZC of the Act).

This paper presents recommendations on the amount, design and implementation of the levy for the financial year ending 30 June 2009. The recommendations were developed following the issuing of a Consultation Paper on the levy proposal, and consideration of submissions on that paper (see Section 3 and Appendix B). Key issues raised in submissions and considered included levy structure, cost allocation methodology, the balancing of levy revenue against levy related expenditure, the appropriateness of the proposed strategic goals, the indicative work programme for 2008/09, the quality of budgeting information, the funding of policy implementation and the presentation of these costs, and the level of the levy.

Gas Industry Co's recommendations to the Minister of Energy are that:

- the current annual Wholesale levy of 1.93 cents per GJ, to be paid on all gas purchased from producers (or from the Crown in the case of Maui gas) by the buyers of that gas, be decreased to 1.79 cents per GJ, and be calculated monthly on the buyer's total gas purchases up to and including the last day of the previous month;
- the current annual Retail levy of \$8.18 per ICP (network interconnection point) be decreased to \$7.42 per ICP, to be paid in respect of every ICP supplied by each retailer at the end of the previous month; and
- these new levies come into effect on 1 July 2008.

In aggregate, the levies are estimated to meet Gas Industry Co's levy funding requirement of \$4.446m for the 2008/09 year. This represents a decrease of \$0.397m on the levy funding requirement of \$4.843 for the 2007/08 year. The lower levy funding requirement reflects the carry-over of levy over-recoveries from previous years. It also reflects the decision to fund implementation costs of new industry arrangements from dedicated fees set under the relevant gas governance rules and regulations.

The proposed levies are slightly lower than those proposed in the Consultation Paper, resulting from a decision not to carry over any of the accumulated levy related surplus as at 30 June 2007 in light of updated financial information.

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<sup>1</sup> Industry participants are defined in the Act as including retailers, distributors, producers, pipeline or meter owners, wholesalers and major upstream buyers.

Although the levy funding requirement has reduced, Gas Industry Co's indicative total budget for 2008/09 is higher than for 2007/08 in recognition of the significant policy development and implementation activities that are proposed to be undertaken.

While the total quantum is significant, the levy amounts are not large relative to customers' annual gas bills. The following table provides an estimate of the proposal on an average gas bill if the levies are entirely passed through to customers.

User Type	Residential	Commercial	Industrial
Typical Annual Usage (GJ)	25	1000	1,000,000
Estimated Annual Gas Bill	\$780.00	\$10,500.00	\$7,000,000.00
Annual Retail Levy	\$7.42	\$7.42	\$7.42
Annual Wholesale Levy	\$0.45	\$17.90	\$17,900.00
<b>Total Annual Amount</b>	<b>\$7.87</b>	<b>\$25.32</b>	<b>\$17,907.42</b>
% of Gas Bill	1.01%	0.24%	0.26%

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# 1

## Introduction

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### 1.1 Background

Amendments to the Act introduced in 2004 provide for the co-regulation of the gas industry by the Government and an industry body. Gas Industry Co was established by the gas industry to fulfil the role of the industry body as set out in the Act. Gas Industry Co was approved as the industry body by Order in Council on 22 December 2004.

Gas Industry Co is responsible for developing and recommending gas governance arrangements, which may include rules and regulations, in a range of areas relating to the gas industry including wholesale markets and processing, transmission and distribution networks, retail market development and consumer protection. The principal source of funding for this work is through a levy on industry participants. The quantum and structure of this levy are based on Gas Industry Co's indicative work programme and budget, stakeholder consultation and analysis.

Where appropriate, Gas Industry Co may ultimately be involved in the implementation of market arrangements, and in the surveillance and enforcement of market rules. The principal source of funding for this work is through dedicated fees set under the relevant rules and regulations.

### 1.2 Overview of Paper

This paper is structured as follows:

- Section 2 explains the basis on which the levies have been determined.
- Section 3 reviews the consultation process, the issues which emerged and Gas Industry Co's position on these.
- Section 4 explains Gas Industry Co's expected costs for 2008/09 and how the 2008/09 levy revenue requirement has been derived from those costs.
- Section 5 sets out Gas Industry Co's recommendation with respect to the 2008/09 levy.

## 2 Basis for Levy Setting

This section presents the principles and methodology that have been applied to determine the 2008/09 levy.

### 2.1 Levy Setting Principles

A robust set of general principles covering levy setting have been developed by Gas Industry Co. The principles are as follows:

Principle	Description
1. Economic efficiency	<ul style="list-style-type: none"> <li>The levy structure should promote efficient market behaviour (or at least not detract from it significantly).</li> </ul>
2. Beneficiary/causer pays	<ul style="list-style-type: none"> <li>The costs of regulation development and implementation should be allocated in a way that reflects the cause of regulation (causer pays) and/or the incidence of the benefits from regulation.</li> </ul>
3. Rationality	<ul style="list-style-type: none"> <li>Where levies are to recover costs that are allocated to participant classes, there should be a relatively strong logical nexus between the participants on whom a levy is imposed and the costs being recovered through that levy.</li> </ul>
4. Simplicity	<ul style="list-style-type: none"> <li>The levy structure should not create undue transaction costs for the organisation which implements and administers it, or for the participants who must pay it;</li> <li>The levy structure should only consist of as many individual levies as are necessary to recover the costs in an efficient manner, taking account of all the other principles applying; and</li> <li>The levy structures should be transparent to industry participants.</li> </ul>
5. Equity	<ul style="list-style-type: none"> <li>Users in similar situations should pay similar amounts; and</li> <li>Competitive neutrality should be preserved, so that within a class of participants the allocation of costs should not competitively advantage one participant over another.</li> </ul>
6. Revenue sufficiency	<ul style="list-style-type: none"> <li>The levies together with other sources of revenue, such as penalty payments, need to be sufficient to recover the costs borne by the organisation collecting the levy; and</li> <li>Levy setting must nevertheless be in accordance with section 43ZZC(3) of the Act which says that the levy may be adjusted in any year to take account of under-recoveries and over-recoveries in previous years.</li> </ul>

These principles have been used to assess and determine the proposed structure and level of the 2008/09 levy.

## 2.2 Government's Policy Objectives and Strategic Goals

In October 2004, the Government issued a Government Policy Statement (GPS) on Gas Governance, which replaced the previous GPS, covering the following areas:

Industry Sector	GPS Detail
Wholesale Markets and Processing	<ul style="list-style-type: none"> <li>• The development of protocols and standards applying to wholesale gas trading, including quality standards, balancing and reconciliation.</li> <li>• The development of a secondary market for the trading of excess and shortfall quantities of gas.</li> <li>• The development of capacity trading arrangements.</li> <li>• Protocols that set reasonable terms and conditions for access to gas processing facilities.</li> </ul>
Transmission and Distribution Networks	<ul style="list-style-type: none"> <li>• The establishment of an open access regime across transmission pipelines so that gas market participants can access transmission pipelines on reasonable terms and conditions.</li> <li>• The establishment of consistent standards and protocols across distribution pipelines so that gas market participants can access distribution pipelines on reasonable terms and conditions.</li> <li>• The establishment of gas flow measurement arrangements to enable effective control and management of gas.</li> </ul>
Retail and Consumer Arrangements	<ul style="list-style-type: none"> <li>• The standardisation and upgrading of protocols relating to customer switching, so that barriers to customer switching are minimised.</li> <li>• The development of efficient and effective arrangements for the proper handling of consumer complaints.</li> <li>• The development of model contract terms and conditions between consumers and retailers.</li> </ul>

Government has indicated that a new GPS on Gas Governance will be released before the beginning of 2008/09. Inputs for levy setting, in particular the indicative 2008/09 work programme and budget, have been prepared so as to provide for matters expected to be raised in the new GPS and based on the draft issued in December 2007.

The specific matters raised in the new GPS will be taken account of in preparing the final work programme, budgets and strategic plan for 2008/09. That will occur in April/May 2008.

Considering both the existing and the expected new GPS, the strategic goals proposed for Gas Industry Co in the context of levy setting are to:

- complete the policy development phase of the existing GPS by mid 2010;

- have received Ministerial approval for a significant number of (at least six) policy recommendations for improved gas governance, and be well advanced on implementation of approved arrangements, by the beginning of 2009<sup>2</sup>; and
- have work at least underway, and in some cases substantially advanced, for meeting the requirements of the new GPS, by the end of 2008.

These will be reviewed by the Gas Industry Co Board in April and discussed with the Minister during the Strategic Plan process.

## 2.3 Work Programme

The following table presents a summary of Gas Industry Co's work programme:

Major Work Areas	Work Streams	Desired Outcomes
Work Area 1: Effective operation of the co-regulatory model	<ul style="list-style-type: none"> <li>• Corporate Services</li> <li>• Compliance and Enforcement</li> <li>• Legal</li> <li>• Co-regulatory Framework</li> </ul>	<ul style="list-style-type: none"> <li>• Gas Industry Co operates efficiently and effectively</li> <li>• Gas Industry Co complies with the accountability framework set out for it in the Gas Act, the GPS and its constitution</li> <li>• Gas Industry Co complies with best practice regulation</li> <li>• Benefits of gas governance recommendations are realised</li> </ul>
Work Area 2: Strategic Issues for the Gas Industry	<ul style="list-style-type: none"> <li>• Strategic advice on matters relating to the performance of the gas industry.</li> </ul>	<ul style="list-style-type: none"> <li>• Barriers to competition are minimised</li> <li>• The gas sector contributes to achieving the Government's goals in the NZES</li> </ul>
Work Area 3: Improvement of consumer outcomes	<ul style="list-style-type: none"> <li>• Consumer complaints scheme</li> <li>• Retail contract terms and conditions</li> <li>• Other consumer outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Consumers have access to an independent complaints resolution scheme</li> <li>• Gas is delivered to consumers in a safe, efficient, fair, reliable and environmentally sustainable manner.</li> </ul>
Work Area 4: Improvements to the retail market	<ul style="list-style-type: none"> <li>• Switching and registry</li> <li>• Downstream reconciliation</li> </ul>	<ul style="list-style-type: none"> <li>• Faster, more reliable customer switching</li> <li>• More accurate and efficient downstream reconciliation</li> </ul>

<sup>2</sup> This goal was set for the beginning of calendar year 2009 by the Board but inadvertently transposed to the financial year 2008/09 in the Consultation Paper. The appropriate date was not a matter on which any submitters specifically commented.

Major Work Areas	Work Streams	Desired Outcomes
Work Area 5: Development of wholesale market arrangements	<ul style="list-style-type: none"> <li>• Wholesale market</li> <li>• Outage and contingency management</li> </ul>	<ul style="list-style-type: none"> <li>• More efficient short-term gas trading</li> <li>• Greater certainty on the physical and commercial outcomes of outage and contingency events</li> </ul>
Work Area 6: Review of infrastructure access arrangements	<ul style="list-style-type: none"> <li>• Gas Processing</li> <li>• Transmission Access</li> <li>• Upstream Reconciliation</li> <li>• Distribution Access</li> </ul>	<ul style="list-style-type: none"> <li>• More information about availability of gas processing facilities</li> <li>• Improved transmission access, including balancing and reconciliation</li> <li>• Barriers to competition are minimised</li> </ul>

Gas Industry Co's indicative work programme and budget for 2008/09 is attached as Appendix A. These have been updated from the Consultation Paper to reflect the current work status.

## 3 Consultation Process and Outcomes

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Gas Industry Co issued a Consultation Paper on 19 December 2007 for the purpose of consultation on the proposed levy and certain specific issues in relation to the levy process. Submissions on the consultation paper closed on 4 February 2008.

A list of the parties to whom Gas Industry Co sent the Consultation Paper for submissions is attached as Appendix B.

A workshop on the levy proposal was held on 17 January 2008, which was attended by representatives from:

- Contact Energy Limited ('Contact');
- Energy Direct New Zealand ('EDNZ');
- Genesis Energy Limited ('Genesis');
- Ministry of Consumer Affairs; and
- Vector Limited ('Vector').

Submissions on the Consultation Paper were received from:

- Contact;
- EDNZ;
- Genesis;
- Mighty River Power ('MRP');
- Ministry of Consumer Affairs; and
- Vector.

A summary of the issues raised in submissions is set out below.

### 3.1 Structure of the Levy

All but one of the submitters either agreed or provided no comment on the proposal not to alter the structure of the levy. MRP, however, recommended that a separate levy charged to pipeline businesses be developed.

As part of the development of the levy proposal for 2008/09, Gas Industry Co completed a review of a number of structural options for the levy, including a separate charge to pipeline owners, against the levy setting principles outlined in Section 2.

The Company concluded that, although there could be some positives in moving to a more complex levy structure, which includes a separate levy for pipeline owners, arguments for simplicity and stability strongly favour retention of the existing structure, i.e. separate per ICP retail and per GJ wholesale levies. Gas Industry Co has, therefore, made the decision to retain the existing levy structure for policy development work.

As noted above the general levy only applies to policy development work. Policy implementation is to be funded through dedicated fees, and if in any instance implementation warranted a charge on pipeline businesses that could be given effect to separately under the relevant rules or regulations.

### **3.2 Funding Policy Implementation**

Most submitters either had no comment or expressed conditional support for Gas Industry Co's policy of using dedicated fees to fund the implementation of gas governance arrangements. However Contact raised a number of concerns about the use of dedicated fees, and Genesis submitted that it did not support the use of dedicated fees to fund the implementation of gas governance arrangements.

The comments from Genesis were the most substantial. They expressed concern that as a result of using dedicated fees:

- Gas Industry Co may be vulnerable to legal challenge, due to conflicting legal opinions on whether dedicated fees are supported by the Act;
- Compliance costs will increase due to the proliferation of 'levies';
- Appropriate checks and balances, which are currently legislated for in respect of setting the annual levy, are not followed in respect of the dedicated fees; and
- Consumers and industry participants may lose information about the total cost of gas industry regulation.

Gas Industry Co reviewed the options for funding implementation costs, both development and establishment, as part of developing the 2008/09 levy proposal. This review included seeking an opinion from Crown Law which concluded that dedicated fees are supported by the Act. Gas Industry Co, therefore, does not consider possible legal challenge of dedicated fees to be a significant issue.

Based on its review, the Company's proposed general approach is that dedicated fees should be used to fund the implementation of gas governance arrangements. This approach has been adopted for the following reasons:

- Indications are that very specific cost allocation formula will apply to each implementation situation and it would be excessively complex and confusing to try to integrate those formulae into the annual regulations for the general levy;
- If dedicated fees apply, the outcome of applying the cost allocation rules to the particular situation is more evident and transparent; and
- Implementation costs will generally apply over significant periods of time (e.g. the agreement for the operation of the gas registry under the switching rules will probably have a 5 year initial term), which is incompatible with the requirement of the Act for the general levy to be set, and regulations written, separately every year.

Notwithstanding these benefits, Gas Industry Co acknowledges Genesis', and other submitters', concern that dedicated fees will result in increased compliance costs. This concern will be taken into account in designing future dedicated fee arrangements and this will include applying a significance test to funding development and establishment costs. However, Gas Industry Co considers the reality of having dedicated fees will be less complex than industry participants currently fear. For that reason, it is proposed to include information on the implementation of dedicated fees within the FY2009-2011 strategic plan in order to provide a better information base for stakeholders.

Genesis notes that in setting the general levy, the Act requires annual consultation with industry participants, plus scrutiny by the Minister and approval by Cabinet. Genesis submits that the checks in regulation and rules put forward by Gas Industry Co are inadequate.

The process for developing and implementing dedicated fees includes similar checks and balances to the development of the general levy, including the requirement to consult with affected parties and to publish information about expected costs. Gas Industry Co notes, however, that dedicated fees may be set for a multi-year period, whereas the general levy must be set and consulted on annually. The ability to set a dedicated fee for several years is an important advantage of dedicated fees, as it enables the Company to enter multi-year arrangements with service providers. Gas Industry Co, therefore, does not agree with Genesis' submission that the checks in regulations and rules put forward by the Company are inadequate.

Gas Industry Co considers that its proposed policy to use dedicated fees to fund the implementation of gas governance arrangements is appropriate. Accordingly, the 2008/09 levy has been calculated with the assumption that a proportion of the Company's costs will be recovered through dedicated fees.

Gas Industry Co notes Genesis' comment that it is important for the Company to be transparent about the total costs of its activities. Accordingly, the Company intends to publish information about its costs, both levy funded and funded through dedicated fees, once more reliable cost estimates for dedicated fees are available. This matter is discussed in more detail in Section 3.8.

### **3.3 Cost Allocation Methodology**

To calculate the wholesale and retail levy funding requirements, costs which are directly related to the wholesale or retail work areas, including staff salaries and consultancy costs, are allocated directly. Indirect costs are allocated to each work area using a cost allocation methodology.

The cost allocation methodology the Company has adopted to date has been to allocate indirect costs on a 50:50 basis to the retail and wholesale work areas. This is a simple approach and tends to even out the overall distribution of costs, which in turn dampens differential movement between the levels of the two components of the levy.

Gas Industry Co has reviewed its cost allocation methodology, and it is proposed that indirect costs should be allocated on a proportional cost basis, based on the total direct costs (salaries and consultants, but not service provider costs) of each aggregated work area.

All respondents either agreed or had no comment on the proposed change to the cost allocation methodology.

### **3.4 Balancing of Revenue against Expenditure**

Section 43ZZC of the Act indicates that over- and under-recoveries of the levy from previous years should be specifically reflected in the level of the levy over time. Gas Industry Co proposes to use any over- or under-recoveries of levy funds to stabilise the level of the levy over the medium-term. The Company will do this by preparing indicative forward estimates of expenditure and applying over- or under-recoveries so as to minimise year-to-year fluctuations in the levy.

Respondents were generally comfortable with the proposal to balance revenue against expenditure over the medium term. Vector, however, submitted that it would like to see excess funds returned at the earliest opportunity.

Gas Industry Co considers its proposed approach to balancing revenue against expenditure is appropriate.

Since the Consultation Paper was prepared, however, the Company has updated its financial projections for the current year. Accordingly, the balancing decision for 2008/09 has been reviewed against the Company's latest financial information. The conclusion from this review is that Gas

Industry Co should apply all of the over-recovered levy funds as at 30 June 2007 to the 2008/09 levy calculation, rather than just a proportion as proposed in the Consultation Paper.

This amendment reflects the Company's assessment that its remaining overall cash balances will be sufficient to accommodate the likely range for the 2007/08 and 2008/09 out-turns, and that policy development costs are likely to plateau and then reduce over the medium term.

The impact of this amendment is to reduce the levy funding requirement for 2008/09.

### **3.5 Strategic Priorities and Goals**

All but one of the submitters either supported the strategic goals proposed by Gas Industry Co or had no comment. Genesis submitted that it supports the concept of having strategic goals, but disagrees that they should be so strongly linked to the GPS.

Given the general industry support, Gas Industry Co considers that its proposed strategic goals are appropriate. Gas Industry Co notes, however, that the issue raised by Genesis about the development of strategic goals is an important issue for the Company. The Company will address this matter as part of the development of the Company's Strategic Plan for 2009 – 2011.

### **3.6 Indicative Work Programme for 2008/09**

All but one of the respondents either had no comment or generally agreed that the proposed indicative work programme for 2008/09 is appropriate for the purposes of setting the levy, while in one case reserving their position on individual work streams. Genesis, however, queried whether the right question had been asked and related its concerns with the appropriateness of the work programme back to whether the Company's strategic goals should be linked directly to the GPS. Some specific concerns about some work items were also raised by Genesis and these will also be taken account of in the Strategic Plan process.

Given the general industry support for the Company's strategic goals and work programme, Gas Industry Co considers that its proposed work programme for 2008/09 is appropriate. As noted above, the issue raised by Genesis is an important issue for the Company, which will be addressed as part of the development of the Company's Strategic Plan for 2009 – 2011.

### **3.7 Indicative Budget for 2008/09**

A range of submissions were received regarding whether the indicative budget is appropriate to the proposed work programme. Two respondents provided no comment on this matter. Contact noted that Gas Industry Co's proposed work programme is substantial, but was generally supportive of the indicative budget.

Vector indicated it did not consider that there was sufficient information provided for it to respond on this matter. Gas Industry Co is committed to operating in a transparent manner. The Consultation Paper included a summary of the Company's work programme, milestones and budget for each work stream and included comparative data about progress on each work stream to date. Gas Industry Co, however, acknowledges Vector's comment and will continue to look for ways to improve the quality of information provided to industry participants.

EDNZ expressed concern at the increased cost of compliance that Gas Industry Co is imposing on the gas industry. Gas Industry Co has advised industry participants that it will undertake thorough problem definition work for each new work stream to ensure that the Company's resources are being applied to areas that will benefit the gas industry, including consumers.

Genesis' submission queried Gas Industry Co's assumption that each major work stream would involve the development of a statement of proposal, MED approval of the preferred option, the preparation of a recommendation to the Minister, Ministerial approval and an implementation phase. This assumption is based on the Company's analysis of the steps required to develop a gas governance arrangement to the stage of implementation. As noted above, Gas Industry Co will undertake problem definition work at the commencement of each work stream. If the problem definition work concludes that there is no issue to be examined, or that there is no need for a gas governance arrangement, the steps noted above will not be undertaken.

Similarly, an issue being examined by a work stream may be resolved through an industry arrangement that does not require rules and regulations. In this situation, not all of the steps noted above would be necessary.

However, Gas Industry Co considers that until the problem definition work is concluded, it is prudent to assume the above steps will be required and to include a provision for the cost of doing this work in its budget forecasts.

Gas Industry Co therefore considers that its indicative budget for 2008/09 is appropriate.

### **3.8 Levy Funding Requirement**

A number of submissions were received requesting that information on the Company's costs should include both policy development costs (i.e. levy funding requirement) and implementation costs (i.e. dedicated fee requirement), so that the total cost of each work stream is transparent.

Gas Industry Co agrees with these submissions. However, because implementation is still in its early stages and cost estimates are still being developed, it is difficult to currently provide an estimate of the level of dedicated fees. The Company, however, has reviewed the dedicated fees that are expected to be implemented in 2008/09 and has prepared a summary of their likely quantum. This information is summarised in the table below:

<b>Work Stream</b>	<b>Fee Description</b>	<b>Implementation Date</b>
Switching and Registry	<ul style="list-style-type: none"> <li>Capital costs associated with the development of the switching registry and the ongoing fees of the registry operator.</li> <li>Dedicated fees estimated to be in the range \$300K to \$500K in 2008/09, but some costs will also be incurred in the current financial year.</li> </ul>	<ul style="list-style-type: none"> <li>Development complete and on-going operations start March 2009</li> </ul>
Downstream Reconciliation	<ul style="list-style-type: none"> <li>The ongoing fees of the allocation agent appointed under the proposed Downstream Reconciliation rules.</li> <li>Dedicated fees estimated to be \$250K to \$350K in 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>On going operations start October 2008</li> </ul>
Outage and Contingency Management	<ul style="list-style-type: none"> <li>The costs associated with the appointment of a Critical Contingency Operator, the review by an expert adviser of the propose Outage and Contingency plans and the preparation and publication of a Communication Plan as well as ongoing fees of the Critical Contingency Operator and any industry experts.</li> <li>Dedicated fees estimated to be up to \$275k in pre-implementation phase in 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>On-going operations start June 2009</li> </ul>
Wholesale Market	<ul style="list-style-type: none"> <li>The costs recovered through the proposed wholesale market arrangements.</li> <li>Dedicated fees estimated to be \$60k in 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>March/April 2008</li> </ul>
Compliance and Enforcement	<ul style="list-style-type: none"> <li>The costs of the Rulings Panel and investigators which are recovered through dedicated fees in Switching, Downstream Reconciliation and Gas Processing rules, and the Outage and Contingency Management regulations.</li> <li>Dedicated fees estimated to be \$200K in 2008/09</li> </ul>	<ul style="list-style-type: none"> <li>October 2008 for Downstream Reconciliation component</li> </ul>
Estimated Total	<ul style="list-style-type: none"> <li>Estimated aggregate dedicated fees for 2008/09 is approximately \$1,250K.</li> </ul>	

It is important to note that the total dedicated fees quantum is an initial estimate based on current data and, therefore, should be treated with considerable caution.

Over time, the Company expects that the size of the dedicated fees component will increase as more of the Company's work streams move into the implementation phase, while the proportion of funding provided by the levy will decrease.

Better quality information about implementation costs and dedicated fees will be made available to industry participants as it is confirmed and will be included in the 2009/10 levy consultation document.

### **3.9 Proposed Levy**

A range of submissions were received on the proposed levy. Two respondents supported the proposed levy, while two respondents did not provide any comment.

Vector submitted that Gas Industry Co should assume that Methanex will commence production at its Motunui methanol plant during 2008/09. The impact of this would be an increase in the assumed wholesale gas volume projection, which would decrease the proposed wholesale levy. Gas Industry Co acknowledges that if Methanex does increase production, wholesale volumes will increase. While public statements have been made about Methanex's intentions, it remains to be seen whether they will be implemented. Gas Industry Co thus recommends a conservative approach, which is to leave the wholesale gas volume assumption at 145PJs for 2008/09.

Genesis indicated that it could not give an unequivocal response regarding the proposed levy due to the concerns it had raised regarding other aspects of the proposal, in particular the magnitude of dedicated fees. Genesis noted, however, that in principle it supports a decrease in the levy.

Gas Industry Co therefore considers that, subject to the adjustment for over-recoveries of the levy from previous years noted above, the proposed levies for 2008/09 are appropriate.

### **3.10 Conclusion**

Gas Industry Co considers that it has fulfilled its obligations to consult with industry participants on the proposed levy.

## 4 Costs, Budget and Levy

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### 4.1 Costs

In considering how to set the levy in any given financial year, in addition to the Company's obligations under the Gas Act and the GPS, Gas Industry Co must take into account the obligations on the Board under company law. The Board takes the view that each year's levy should cover all of the costs reasonably expected to be incurred by Gas Industry Co in that year.

The decrease in the levy funding requirement from \$4.843m budgeted for the current year, to \$4.446m budgeted for the 2008/09 year is largely due to:

- the carry-over of levy over-recoveries from previous years; and
- the decision to fund implementation costs from dedicated fees through gas governance rules and/or regulations.

### 4.2 Budget

Although Gas Industry Co's levy funding requirement has decreased, the Company's indicative total budget for 2008/09 is higher than for 2007/08. This reflects the significant policy development and implementation activities that are proposed to be undertaken. Actual and budget data for 2005/06 to 2008/09 is presented in the table below.

## Actual and Budget Expenditure

	2005/06 Actual	2006/07 Actual	2007/08 Budget	2008/09 Budget
<b>Effective operation of the co-regulatory model</b>				
Corporate Services	616,244	508,712	677,518	822,214
Co-regulatory Framework	-	-	-	107,823
Legal	-	-	100,000	198,490
Compliance and Enforcement	153,065	76,753	243,884	183,247
<b>Strategic Issues for the gas industry</b>	103,421	324,746	207,163	627,486
<b>Improvement of consumer outcomes</b>	162,104	122,035	198,335	251,137
<b>Improvements to the retail market</b>				
Switching and Registry	323,895	252,088	246,036	208,887
Downstream Reconciliation	139,770	285,496	229,712	192,402
<b>Development of wholesale market arrangements</b>				
Wholesale Market	509,005	368,392	457,945	307,739
Outage and Contingency Management	159,515	312,500	281,119	327,803
<b>Review of infrastructure access arrangements</b>				
Access to Gas Processing Facilities	119,562	93,508	140,663	29,597
Transmission Access	271,776	481,685	671,815	618,187
Upstream Reconciliation	-	-	-	207,015
Distribution Access	38,039	25,879	248,145	186,647
<b>Sub Total</b>	<b>2,596,396</b>	<b>2,851,794</b>	<b>3,702,335</b>	<b>4,268,674</b>
Board Costs	243,800	236,588	237,600	261,980
Overheads	659,925	547,029	603,876	496,448
<b>Total</b>	<b>3,500,121</b>	<b>3,635,410</b>	<b>4,543,811</b>	<b>5,027,102</b>

Key features of the indicative budget for 2008/09 are:

- The Corporate Services budget will increase in 2008/09 reflecting greater activity on internal report and project management activities.
- The budget for Strategic Issues for the Gas Industry is higher in 2008/09 reflecting a provision for new GPS activities.
- The budget for Improvement of Consumer Outcomes has increased in 2008/09 reflecting work in relation to the consumer complaints scheme, retail contract terms and conditions and other consumer outcomes.

- Work in relation to upstream reconciliation will commence in 2008/09. The budget for this work stream reflects the significant policy development work that is expected to be required.

### **4.3 Levy Calculation**

The following allocation methodology has been used to calculate the levy:

- Direct costs are allocated to the retail or wholesale areas of activity;
- Indirect costs are allocated between the retail and wholesale areas of activity on a proportional basis;
- Costs that will be recovered through dedicated fees are deducted from the relevant areas of activity;
- Other revenue is allocated between the retail and wholesale areas of activity on a proportional basis;
- Levy over-recoveries are allocated to the area of activity to which they relate; and
- The retail and wholesale levies are set to recover the allocated costs in each area.

Based on the above allocation methodology, the Company's levy funding requirement of \$4.446m results in the following levies.

## Levy Calculation

	Retail	2008/09 Wholesale	Total
Direct Costs	1,244,440	1,895,708	3,140,147
<i>Proportion of Direct Costs to Total Costs</i>	39.6%	60.4%	
Indirect Costs	747,800	1,139,155	1,886,955
<b>Total Work Programme Costs</b>	<b>1,992,239</b>	<b>3,034,863</b>	<b>5,027,102</b>
Deduction of Dedicated fees	(80,481)	(66,844)	(147,325)
Allocation of Other Revenue	(21,303)	(32,452)	(53,755)
Under (Over) Recovery of Levy	(34,679)	(345,075)	(379,754)
	<b>(136,463)</b>	<b>(444,371)</b>	<b>(580,834)</b>
<b>Total Levy Funding Requirement</b>	<b>1,855,777</b>	<b>2,590,492</b>	<b>4,446,268</b>
Volume Units	<i>ICPs</i>	<i>GJ</i>	
Volume	250,000	145,000,000	
Levy Unit	<i>\$/ICP</i>	<i>cent/GJ</i>	
<b>Levy Rate</b>	<b>7.42</b>	<b>1.79</b>	
<b>Projected Levy Revenue</b>	<b>1,855,777</b>	<b>2,590,492</b>	<b>4,446,268</b>

## 4.4 Conclusion

Gas Industry Co considers that the proposed levy is reasonable, having regard to the Company's Strategic Plan, Annual Report, indicative work programme and budget, the GPS objectives and outcomes, and submissions from industry participants.

## 5 Recommendation

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Gas Industry Co recommends to the Minister of Energy that levy regulations be made by the Governor-General under section 43ZZE of the Gas Act 1992 for the financial year from 1 July 2008 to 30 June 2009 requiring the payment in each month of that year:

- From every gas retailer who is an industry participant on the last day of each month a retail levy of \$7.42 per annum for each ICP for each retail customer; and
- From every person who is an industry participant on the first day of each month a wholesale levy of 1.79 cents on each gigajoule of gas purchased by the industry participant directly from gas producers during the previous month.

# Appendix A: Indicative work programme and budget for 2008/09.

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## Work Area 1: Effective Operation of the Co-regulatory Model

This strategic priority area includes the following work streams:

- Corporate Services;
- Compliance and Enforcement;
- Legal; and
- Co-regulatory Framework.

### Corporate Services Work Stream

The Gas Act imposes a number of accountability requirements on Gas Industry Co, which reflects the transparency required of an organisation with a statutory power to levy funds.

The Corporate Services work stream encompasses Gas Industry Co's statutory reporting requirements and the 'back office' functions of the company, including finance, levy development, website development, IT infrastructure, human resources, office management and other overheads. Board costs are separately identified in the budget.

### Progress to 30 June 2008

The milestones for the Corporate Services work stream encompass all the activities in relation to the statutory obligations of the Company set out in the Gas Act and Companies Act.

The Company has achieved, or is on track to achieve, all of its milestones for 2007/08. Further detail about the Company's progress against its milestones is summarised in the table below.

Actual expenditure for this work stream in 2005/06 was high, reflecting the support provided by consultants during the establishment phase of the Company. The actual spend for 2006/07 was lower than 2005/06 actual, but higher than budget, due to higher than expected levels of activity on developing the process for policy development (note, work in relation to the process for policy development is now included in a separate work stream for 2008/09 – Co-regulatory Framework). The budget for 2007/08 reflects further activity in relation to developing best practice policy development processes.

## Work Programme for 2008/09

As the milestones for the Corporate Services work stream are obligations under statute, the milestones for 2008/09 are the same as the current financial year.

Reflecting the growing scope and scale of the company, industry participants have called for greater transparency around the organisation's activities. In addition, the Company has identified the need to improve internal reporting and project management practices. To address these requirements, additional budget for a Corporate Services Manager, who will focus on internal reporting and project management, has been included in the 2008/09 budget.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
<b>2005/06</b>	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved	N/A	\$616,244
	Regular reporting to industry	Quarterly reports (July, October, January, April)	Achieved – Newsletters sent bi-monthly		
	Liaison with industry	Hold briefing day (August 2005)  Regular meetings with CEO's and regulatory officers (two per annum)	Achieved – Industry seminar held in December 2005, numerous meetings with industry participants held during the year		
<b>2006/07</b>	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved	\$465,700	\$508,712
	Prepare annual report	Annual report for 2006/07 to Minister by September 2006	Achieved		
	Prepare strategic plan	Strategic plan for 2008 – 2010 to the Minister by June 2007	Achieved		
	Develop and consult on levy	Recommendation on 2007/08 levy to the Minister by May 2007	Achieved		
<b>2007/08</b>	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter	Achieved to date	\$677,518	

Period	Activity	Milestones	Progress	Budget	Actual
	2008/09 Levy	2008/09 Levy Recommendation to Minister by 31 March 2008.	On track		
	Annual Report	Annual Report to Minister by 30 September 2007.	Achieved		
	AGM	Hold AGM by 31 December 2007.	Achieved		
	Prepare 2010 – 2012 Strategic Plan	Strategic Plan to Minister by 31 May 2008.	On track		
<b>2008/09</b>	Prepare quarterly reports to the Minister	Provide quarterly reports to the Minister within 60 days of the end of each quarter		\$822,214	
	2009/10 Levy	2008/09 Levy Recommendation to Minister by 31 March 2009.			
	Annual Report	Annual Report to Minister by 30 September 2008.			
	AGM	Hold AGM by 31 December 2008.			
	Prepare 2011 – 2013 Strategic Plan	Strategic Plan to Minister by 31 May 2009.			

## Compliance and Enforcement Work Stream

In addition to developing gas governance arrangements, Gas Industry Co needs to ensure that there are systems in place to ensure the new arrangements are complied with and can be enforced. Accordingly, the Compliance and Enforcement work stream has been created, which sits across all Gas Industry Co's gas governance initiatives.

### Progress to 30 June 2008

This work stream, which was initially part of the Switching and Registry work stream, was split out in the 2007/08 Work Programme as it ties into a number of work streams.

Gas Industry Co had originally planned to implement the compliance regime to support the proposed switching rules based on a central gas registry, which was expected to be the first gas governance arrangement to 'go live'.

However, as an amendment to the Gas Act was required, this work stream was held in abeyance for some time. This explains the difference between the budget and actual expenditure for this work stream in 2006/07.

The current financial year has seen a compliance regime proposed for six of Gas Industry Co's proposed arrangements. These new compliance arrangements build on the compliance regime proposed in the switching rules, which Gas Industry Co recommended to the Minister in May 2007.

It now appears that switching will not be the first new gas governance arrangement implemented by Gas Industry Co. The compliance regime is now likely to be needed to support the new downstream reconciliation arrangements, which are anticipated to 'go live' on 1 October 2008.

To implement the compliance regime for the new governance arrangements, Gas Industry Co needs to develop procedures for the Rulings Panel and appoint a Market Administrator (most likely from within Gas Industry Co staff), the Rulings Panel and Investigators.

The proposed wholesale market arrangement envisages the Rulings Panel will be used by the agreement of parties for any disputes.

Some implementation work is expected to take place in the 2007/08 year. This is the reason for the rise in expenditure in the current budget.

### **Work Programme for 2008/09**

The milestones and budget for 2008/09 provide for the compliance regime to be amended to include other gas governance arrangements developed by Gas Industry Co. It is important to note that the budgeted numbers for 2008/09 include design establishment and market administration costs, but not the fees for the Rulings Panel members and Investigators.

#### **Milestones and Budget: Progress to Date and Indicative Work Programme**

<b>Period</b>	<b>Activity</b>	<b>Milestones</b>	<b>Progress</b>	<b>Budget</b>	<b>Actual</b>
<b>2005/06</b>	Develop compliance regime to support new arrangements	As required, develop compliance and enforcement mechanisms for new gas governance arrangements.	Achieved at a later date	N/A	\$153,065

Period	Activity	Milestones	Progress	Budget	Actual
2006/07	Develop compliance regime to support new arrangements	As required, develop compliance and enforcement mechanisms for new gas governance arrangements.	Achieved – Recommended compliance arrangements for switching	\$192,400	\$76,753
2007/08	Investigate compliance and enforcement requirements of new gas governance arrangements.	As required, compliance and enforcement requirements for new gas governance arrangements investigated.	Achieved – Compliance regimes developed to support new arrangements including downstream reconciliation, gas processing, wholesale market, outage and contingency management and transmission access.	\$243,884	
	Implement compliance regime to support new switching arrangements.	Compliance regime in place within three months of central gas registry "Go Live" date.	Not Completed – Registry 'go live' date delayed until 1 March 2009. Implementation now planned to coincide with 'go live' date for downstream reconciliation arrangements and wholesale market		
2008/09	Implement compliance arrangements	Compliance arrangements gazetted by 1 July 2008 Compliance regime 'go live' by 1 October 2008		\$183,247	
	Amend compliance regime	As required, regime amended to support new gas governance arrangements, such as switching.			

## Legal Services Work Stream

The legal services work stream provides internal, non-work stream related, legal advice and company secretarial services to the organisation.

To date, this work stream has been included within the corporate services work stream. The decision was made to split out internal legal services to provide greater transparency.

### Work Programme for 2008/09

Gas Industry Co's experience to date of the regulatory and statutory processes it is required to follow has highlighted that a number of substantive legal issues can (and do) arise. This saw the Company make three different proposals to the Minister to amend the Gas Act in the previous financial year. External legal support has also been required in respect of matters involving shareholders and the Board. Provision has been made in the Work Programme and Budget for 2008/09 for a number of issues to arise that require substantive external legal advice and significant liaison with Officials.

In addition, provision has also been made to review the Company's constitution, as proposed by a shareholder at the Company's AGM.

#### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Legal Advice	As required, advice to Gas Industry Co Review the Company's constitution by December 2008		\$198,490	

### Co-regulatory Framework Work Stream

The policy development framework in the Gas Act is complex and Gas Industry Co has received a number of submissions on its process for implementing gas governance arrangements. The Company is constantly reviewing its processes to ensure their efficiency, internal consistency and compliance with best regulatory practice.

In the current year, Gas Industry Co has undertaken an internal review of the policy development stages, cost benefit analysis, cost allocation principles and inter-governmental approval processes.

### Work Programme for 2008/09

In the 2008/09 year, Gas Industry Co will continue the reviews currently underway and will publish guidelines on a number of matters that are of interest to stakeholders, such as:

- Cost benefit analysis;
- Cost allocation;
- Consultation policy; and
- General framework for levy setting.

## Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Establishment of general framework for policy implementation (including approach to cost benefit, cost allocation and consultation). Develop guidelines for annual levy.	Publish guidelines on the general framework for policy implementation (including approach to cost benefit, cost allocation and consultation) by December 2009. Publish guidelines on the annual levy by December 2009.		107,823	

## Work Area 2: Strategic Issues for the Gas Industry

Gas Industry Co is obliged to report to the Minister of Energy on:

- the performance and present state of the gas industry; and
- Gas Industry Co's performance and achievement of its objectives.

Industry participants have advised the Company that they would like Gas Industry Co to undertake a higher level of problem definition analysis, planning and review work, before development commences on new gas governance arrangements.

In addition, the Government has now adopted a new policy framework in the NZES, which has significant implications for the gas industry, and is about to issue a new GPS on gas governance.

In view of these factors, Gas Industry Co has created a new work stream to encompass all the activities Gas Industry Co does in relation to strategic issues for the gas industry.

### Progress to 30 June 2008

Gas Industry Co completed a baseline performance review of the gas sector in December 2006, which was not included in the 2006/07 budget. This explains the variance between the budget and actual expenditure figures in 2006/07. This review suggested ongoing monitoring of different sectors of the gas industry once gas governance arrangements were completed and new information became available.

In addition, the Company's experience to date is that numerous other strategic matters arise throughout the year – the two most relevant examples include submissions on the draft NZES and the review of part 4 of the Commerce Act – which require Gas Industry Co input.

## Work Programme for 2008/09

Provision has again been made in the work programme for 2008/09, for the Company to participate in the 'strategic debate' on matters affecting the gas industry.

In addition, Gas Industry Co understands that the release of a new GPS on gas governance, which supports the Government's stated aim of a low emission energy future, will set out a number of areas of action for the Company that promote the Government's recently announced policy objectives for the energy sector.

The budget for the 2008/09 year allows for work to explore the issues raised by the new GPS. This is consistent with requests from industry participants that the Company spend more time up front on 'problem definition'.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Strategic Advice	As required, provide advice to Minister on strategic issues affecting the gas industry.	Achieved – Advice to Board on Strategic Issues Report.	N/A	\$103,421
2006/07	Baseline performance review	Complete baseline performance review by September 2006.	Achieved – Baseline performance review provided to Minister in December 2006.	\$72,500	\$324,746
2007/08	Strategic Advice	As required, provide advice to Minister on strategic issues affecting the gas industry.	On Track.	\$207,163	
2008/09	Strategic Advice on new GPS matter	As required, provide advice to Minister on strategic issues affecting the gas industry		\$627,486	

## Work Area 3: Improving Consumer Outcomes

A key expectation of the Minister of Energy, and Government, of the co-regulatory model is that it delivers improved outcomes for gas consumers. The Minister has the power to directly regulate on a range of consumer issues under the Gas Act and has requested advice from Gas Industry Co on a number of these matters.

This work stream includes activities in relation to:

- consumer complaints scheme;

- retail contract terms and conditions; and
- other consumer outcomes.

### **Progress to 30 June 2008**

The first two recommendations Gas Industry Co made to the Minister related to the areas of consumer complaints (early 2005) and retail model contracts (June 2006).

These were followed by recommendations on low fixed charges, increased transparency of invoices and disconnection practices. However, progress in implementing these arrangements has been less than satisfactory due to complexities arising from the need for joint governance of a combined electricity and gas complaints scheme and the inability to achieve industry agreement on increased standardisation of disconnection practices or on amendments to the Electricity and Gas Code of Practice within the expected timeframes. This has resulted in a revised approach to these matters.

Gas Industry Co's milestones for 2007/08 provided for recommendations to the Minister on disconnection issues by April 2008 and the investigation of any consumer issues requested by the Minister within nine months of the request.

Gas Industry Co reported to the Minister in November 2007 that it had been unable to achieve industry agreement on disconnection arrangements and proposed, as an alternative, to consider a regulatory solution as part of a wider investigation into contractual arrangements in the retail sector (including a review of its earlier recommendation that the EGCC Code of practice could act as a benchmark contract for the terms of supply between retailers and consumers).

### **Work Programme for 2008/09**

The focus of this work stream over 2008/09 will be to:

- work with the Electricity Commission on a joint governance approach to the approval and monitoring of a multi-fuel dispute resolution scheme;
- reconsider its recommendation on model contracts in the light of difficulties experienced in progressing code of practice changes and making the code mandatory;
- review the contractual arrangements for metering, distribution and energy services to ascertain whether consumer needs are being met by the various providers; and
- work with other government agencies to improve the quality of information available to consumers about their energy choices.

The budget has been increased in 2008/09 to reflect the increase in activity in the work programme.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Consumer Complaints – Incorporation of land owner/occupier disputes in disputes scheme	Recommendation of expanded scheme to Minister for Approval by December 2005 Implementation of Scheme by April 2006	Not Achieved – There were delays in finalising amendments to the Scheme relating to land access for electricity lines companies	N/A	\$162,104
	Retail Model Contracts: Research retail contract issues and design retail model contract guidelines Consult on proposed new arrangements and analyse submissions	Complete report on retail contract issues and develop guidelines and model contract arrangements by August 2005 Complete consultation and report on preferred arrangements by November 2005	Achieved at a later date. Report to Board in October 2005 Consultation paper released in November 2005 Recommendation to Minister made in May 2006		
2006/07	Develop consumer issues report	Issue consultation paper on consumer issues by September 2006	Not required – as Gas Industry Co provided advice on a range of consumer issues in June 2006.	\$125,093	\$122,035
	Prepare consumer issues recommendations report	Consumer issues report to the Minister by December 2006	Not achieved – Further advice on disconnection due in December 2006. This milestone was not met (see below).		
2007/08	Develop new disconnection/reconnection arrangements.	If required, provide a recommendation to the Minister on disconnection arrangements by April 2008.	Not Completed - In November 2007 Gas Industry Co advised the Minister that it did not recommend separate arrangements for disconnection, but would consider this issue as part of wider review of consumer contract arrangements.	\$198,355	

Period	Activity	Milestones	Progress	Budget	Actual
	Consumer issues investigation.	If required, provide a recommendation to the Minister on consumer issues within nine months of request.	In progress – following delays in implementing retail model contracts and other matters, investigation is being undertaken on alternative ways to improve consumer outcomes.		
		Hold consumer forum by June 2008.	Completed - Consumer forum held on September 25, 2007.		
<b>2008/09</b>	Ensure all gas consumers have access to a dispute resolution service free of charge	Joint approval of a multi-fuel dispute resolution service by December 2008		\$251,137	
	Ensure all gas consumers are protected by benchmark terms and conditions	Advise Minister on revised approach (if required) by August 2008			
	Ensure the current “unbundled” arrangements for the supply of gas are meeting gas consumers needs	Problem definition and issues review paper released for consultation by August 2008			
	Ensure gas consumers have the information they require to make informed choices about their energy retailer and fuel type	Hold discussions with the EC, MED and the EGCC regarding information disclosure by March 2009.			

#### Work Area 4: Improvements to the Retail Market

The primary discipline on retail prices is competition amongst retailers. Therefore, a focus for the Company over the past two years has been the development of retail market systems to promote competition. This work is expected to come to fruition in the coming financial year with the implementation of new governance arrangements for switching customers and the allocation of downstream gas quantities.

## Switching and Registry Work Stream

The purpose of this work stream is to encourage retail competition, through the development of efficient and effective switching arrangements.

### Progress to 30 June 2008

Following extensive analysis, development and consultation, Gas Industry Co made recommendations to the Minister in May 2007 for rules to give effect to the proposed switching arrangements and regulations to enforce those rules.

The implementation of the proposed switching arrangements, however, required an amendment to s43G(2) of the Gas Act to enable the proposed rules to be mandatory on all industry participants. This amendment was made in September 2007.

At the time of preparing this work programme, it is not clear when the Minister will be in a position to approve the proposed rules, as MED officials have raised issues in relation to elements of the rules (in particular the funding of the registry) which might require amendments to the switching rules and a further round of consultation.

Gas Industry Co had anticipated that it would take approximately nine months from approval of the rules to implementation. However, once a detailed implementation plan had been developed, this was extended, on the advice of industry participants, to twelve months. Assuming the rules are gazetted by March 2008, the 'go live' date for the gas registry (the central feature of the new switching arrangements) is now March 2009.

### Work Programme for 2008/09

The focus of this work stream for 2008/09 will be on the development and implementation of the proposed central gas registry.

#### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Design scope and functionality of appropriate registry for gas customer switching	Complete industry consultation on scope and functionality by August 2005	Partially Achieved – Three consultation papers on new switching arrangements for retail customers released in 2005/06.	N/A	\$323,895
	Appoint service provider to advise on registry solutions and evaluate proposals	Recommendations on preferred registry solution by October 2005	Not Achieved		

Period	Activity	Milestones	Progress	Budget	Actual
	Design rules and protocols for operation of registry arrangements and implement	Completed rules and registry function established by February 2006	Not Achieved		
<b>2006/07</b>	Develop registry and compliance arrangements	Issue proposal on switching and registry arrangements by September 2006	Achieved – Issued statement of proposal on switching and compliance in August 2006	\$247,502	\$252,088
	Prepare recommendations on new arrangements	Recommendation on registry arrangements to Minister by December 2006	Achieved at a later date – Issued recommendations to the Minister on switching and compliance in May 2007		
	Implement central registry and associated compliance regime, if required	Registry system to 'go live' by June 2007	Not achieved – Awaiting amendment of the Gas Act		
<b>2007/08</b>	Implement switching arrangements.	Appoint Registry Service Provider within three months of Switching Rules being gazetted.	On track  Preferred registry operator to be appointed by March 2008  The Switching Rules were gazetted in February 2008	\$246,036	
<b>2008/09</b>	Implement switching arrangements	Commence registry development by October 2008  Complete registry establishment by January 2009  Registry 'go live' on March 2009		\$208,887	

## Downstream Reconciliation Work Stream

Efficient gas markets require a system to allocate and reconcile the various quantities of gas being injected, transported and delivered to industry participants.

The focus of this work stream is on downstream allocation and reconciliation arrangements, which requires the identification of the quantities of gas delivered by each upstream shipper which ships gas

to a gas gate and the quantities received (and used) at that gas gate by each retailer which delivers gas to customers on the distribution network downstream of the gas gate.

### Progress to 30 June 2008

The original milestones for this work stream were based on the assumption that existing industry codes could be used as a basis for new arrangements. Following analysis and industry consultation this approach was revised. Instead, it was decided a regulatory solution would be required and that it was appropriate to progress the development of downstream reconciliation separately from upstream reconciliation. This has created some slippage in timeframes.

Gas Industry Co released a statement of proposal for new downstream reconciliation rules in September 2007. Submissions have now been received and are being analysed.

If Gas Industry Co needs to consult further on the proposed arrangements as a result of either submissions analysis or the MED review process, the go live date of October 2008 may not be achievable. If this turns out to be the case, the preferred option is to 'go live' with reconciliation on the same date as for switching arrangements, i.e. March 2009.

### Work Programme for 2008/09

The work programme for 2008/09 has been prepared on the assumption that the proposed arrangements are approved by the Minister and gazetted in sufficient time to achieve a 'go live' date of October 2008. The most significant piece of work required by Gas Industry Co to implement the new arrangements is the appointment of the Allocation Agent.

In order to meet the proposed milestones, the appointment of the Allocation Agent will need to be run in parallel with the gazetting of the new rules.

#### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review existing gas flow measurement arrangements and issues relating to gas flow inhibiting competition	Report to Gas Industry Co Board by December 2005	Achieved at a later date – Consultation paper released in June 2006	N/A	\$139,770
2006/07	Implement short-term reconciliation fixes	Revised gas transfer code and reconciliation code operational by September 2006	Not applicable – policy approach revised	\$266,942	\$285,496

Period	Activity	Milestones	Progress	Budget	Actual
	Develop proposal on long-term reconciliation arrangements	Issue consultation document on proposed reconciliation arrangements by December 2006	Achieved at a later date – consultation paper issues in January 2007		
	Prepare recommendation on reconciliation arrangements	Recommendation on arrangements to the Minister by June 2007	Not achieved – recommendation delayed by requirement to undertake further consultation		
<b>2007/08</b>	Development of new downstream reconciliation arrangements.	Provide recommendation to Minister on downstream reconciliation arrangements by December 2007.	Possibly delayed – issued statement of proposal in September 2007. Recommendation now expected in Quarter 1 2008.	\$229,712	
	Implement new downstream reconciliation arrangements.	Implementation of new downstream reconciliation arrangements by October 2008.	On Track – expect to establish team to oversee implementation of downstream reconciliation rules by 31 March 2008.		
<b>2008/09</b>	Implement new downstream reconciliation arrangements	Downstream reconciliation rules gazetted by July 2008 Appointment of allocation agent by August 2008 New downstream reconciliation arrangements 'go live' by October 2008		\$192,402	

## Work Area 5: Development of Wholesale Market Arrangements

This strategic priority now includes the following work streams:

- Wholesale Market; and
- Outage and Contingency Management.

## Wholesale Market Work Stream

Gas Industry Co is taking an incremental approach to the improvement of the efficiency of the wholesale market. The initial focus of this work stream has been on the development of more efficient arrangements for the trading of gas in the short-term.

### Progress to 30 June 2008

The Gas Industry Co has focused on two initiatives to improve the short-term trading of gas. They were:

- Standard contract; and
- IT platform for trading gas.

Gas Industry Co has developed and published, in April 2007, a standard contract for the short-term trading of gas. The purpose of the standard contract is to remove a significant barrier identified in an industry survey, which was the transaction costs of negotiating a separate contract for each tranche of short-term gas traded.

During 2006/07, Gas Industry Co issued two discussion papers and developed at a high level its preferred platform design. At the beginning of the 2007/08 year the Gas Industry Co gave an interim report to the Minister on its proposed design noting the features which were still under development. In addition the Minister was advised of the Board's preference to run a market for the trial period principally because the costs of implementing a trial were similar to the costs of a further round of consultation on the detailed design.

The Minister approved the Company's preferred approach in December 2007. A functional specification for an IT platform has now been developed and, through an RFP process, a preferred provider selected to develop the trading platform. Progress has also been made on drafting the market rules and supporting contracts for the platform. Although originally scheduled for the current quarter, it is now expected that the 'go live' for the platform will be the first quarter of 2008.

The complexity of issues throughout this work stream has meant that Gas Industry Co did not progress matters as quickly as originally forecast. This is reflected in the significant variance between budget and actual expenditure for this work stream in 2006/07. The 2007/08 budget includes the expected direct costs of the wholesale market design, but does not include the software development costs. The Board has decided that these costs will be funded out of the general levy. This means that this work stream may go over budget in the current year.

## Work Programme for 2008/09

The focus of this work stream for 2008/09 will be on administering, monitoring and evaluating the proposed voluntary wholesale market trading platform. It is envisaged that once the platform is in operation, a number of rule changes will be required to meet the needs of platform users and ensure the efficient and effective operation of the market.

The work programme anticipates an evaluation of the effectiveness of the trial market 6 to 9 months after its inception. Following that review, a formal recommendation will be made to the Minister about whether it should be continued. If it is decided that the platform should continue, a number of amendments to the platform may be requested. The budget assumes that no major amendments will be required.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review of issues and report to Gas Industry Co on matters associated with: Balancing and reconciliation Current and potential future wholesale trading in the New Zealand gas market Current and potential future capacity trading arrangements	Initial scoping report completed and presented to Gas Industry Co Board by November 2005	Achieved at a later date Report on wholesale market trading released for consultation in March 2006 Balancing and capacity trading were addressed in Transmission Access Report released in June 2006	N/A	\$509,005
2006/07	Develop detailed wholesale market trading arrangements, including any changes to gas specification	Issue discussion paper by September 2006	Achieved	\$620,819	\$386,392
		Revise arrangements to take account of industry feedback and issue discussion paper by December 2006	Achieved		
		Report to the Minister by December 2006	Achieved – Minister advised of preferred approach to short-term wholesale gas market trading		

Period	Activity	Milestones	Progress	Budget	Actual
		Development of trading platform and detailed arrangements by March 2007	Partially achieved – some details such as trading location need to be finalised		
		Prepare recommendation on wholesale market by June 2007	Achieved at a later date – report to the Minister issued in August 2007 on proposed design and intention to hold a trial.		
<b>2007/08</b>	Implement wholesale market arrangements.	Appoint platform provider by 30 November 2007.  Platform “Go live” by June 2008.	Delayed – Expect appointment to be completed by March 2008.  Preferred platform provider for trial selected in September 2007. Service provider contract and market rules are currently being finalised.  Expected start of trial is Quarter 2 2008.	\$457,945	
<b>2008/09</b>	Administer, monitor and evaluate wholesale market platform	Report to the Minister on the outcomes of “trial” market within 12 months of platform commencement.		\$307,739	
	Examine other aspects of the efficiency of the medium and longer term wholesale gas market	Scope work and appoint consultants by March 2009.  Release “Issues paper” for industry consultation by August 2009			

## Outage and Contingency Management Work Stream

In 2005/06, industry participants requested that Gas Industry Co review the arrangements for managing contingency events, as these are currently the subject of a voluntary industry agreement.

## **Progress to 30 June 2008**

In July 2006 the Company issued a discussion paper on issues arising from the current NGOCP arrangements. The original proposal was in essence to convert NGOCP into rules made under Gas Act. In response to submissions Gas Industry Co revised its approach from codifying NGOCP to developing a completely new set of arrangements.

In August 2007, Gas Industry Co released a statement of proposal providing for new regulations. The consultation on this statement of proposal largely confirmed the central concepts of the revised approach, but raised a number of detailed design matters that need to be worked through with industry participants.

Gas Industry Co anticipates refining the regulations and releasing them for a further round of consultation before the end of the 2007 calendar year. Consequently, it is not expected that the Company will meet its Strategic Plan milestones for this work stream. Gas Industry Co estimates that this work stream is running approximately 12 months behind the original scheduled dates due to the ongoing complexities.

In 2006/07 (and potentially in 2007/08), the Company under budgeted for this work stream. Accordingly, the Company has increased the budget in 2008/09 to address this.

## **Work Programme for 2008/09**

The Work Programme for 2008/09 will be primarily focused on implementing the new arrangements. This will include:

- Creation of an implementation plan and timetable;
- Appointing the "critical contingency operator";
- Arranging and holding industry seminars and/or training to introduce the new systems;
- Co-ordinating the handover between the existing NGOCP and the replacement arrangements;
- Managing any change processes as required in the light of experience with the new arrangements;  
and
- Oversight of the new arrangements including incident reports.

The external budget for this work stream is the same as forecast for implementation last year

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Investigate issues in relation to security of supply and gas outage contingency plans	Report to Gas Industry Co board on issues by September 2005	Not Achieved in Plan year – Board received report in July 2006	N/A	\$159,515
2006/07	Develop contingency plan proposal	Issue proposal on gas outage contingency plan for consultation by September 2006	Partially achieved – consultation paper was issued in July 2006, but industry feedback indicated a revised approach was needed	\$191,059	\$312,500
	Develop recommendation on contingency arrangements	Recommendation to the Minister by March 2007	Not achieved – statement of proposal was issued in August 2007 with recommendation to the Minister expected in November 2007		
2007/08	Develop new contingency management arrangements.	Recommendation to Minister on new contingency management arrangements by November 2007.	Not completed – undertaking a further round of consultation on the proposed arrangements. Recommendation now expected in June 2008.	\$281,119	
	Implement new contingency management arrangements.	Implement industry arrangements, including Rules and/or Regulations where required to create sound contingency management arrangements by June 2008.	Not expected to be completed – now anticipate that the regulations will be gazetted by December 2008.		
2008/09	Implement new outage and contingency management arrangements	Regulations gazetted by December 2008 Appointing Service providers by February 2009 New arrangements 'go live' by June 2009		\$327,803	

## **Work Area 6: Review of Infrastructure Access Arrangements**

The Company is required to recommend governance arrangements to ensure that industry participants and new entrants can access key infrastructure on reasonable terms and conditions.

This strategic priority includes the following work streams:

- Access to Gas Processing Facilities;
- Transmission Access;
- Upstream Reconciliation; and
- Distribution Access.

### **Access to Gas Processing Facilities Work Stream**

The purpose of this work stream is to ensure that industry participants have reasonable access gas processing facilities.

#### **Progress to 30 June 2008**

Following extensive analysis of the need for protocols for access to gas processing facilities, Gas Industry Co made a recommendation to the Minister that:

- facility owners be invited to sign up to an industry arrangement to disclose annually the technical specifications of their processing plants as well as indicative forecasts of spare capacity; and
- if agreement could not be obtained, Gas Industry Co would make a further recommendation to the Minister to regulate for disclosure.

In his reply of 14 March 2007, the Minister advised Gas Industry Co: ‘... if universal acceptance of the scheme is not forthcoming by mid-2007, I shall expect a formal recommendation from you to regulate for the supply of this information.’

Gas Industry Co wrote to the relevant industry participants in April 2007, with a deadline of 30 June 2007, seeking agreement to the proposed information disclosure measures. Despite earlier consultation feedback and receipt of a number of informal positive responses, no industry participants had signed up to the proposed arrangements by the 30 June deadline. The Company believes it gave the industry all possible time for the sign up to occur.

Gas Industry Co has, therefore, developed information disclosure rules and released a statement of proposal in September 2007. It is anticipated that a recommendation to the Minister for rules will be made in February 2008, with the rules likely to be gazetted in June/July 2008.

## Work Programme for 2008/09

The 2008/09 year will focus on implementation of the new information disclosure arrangements. The Budget assumes that all parties comply with the new arrangements and that minimal time will be needed from Gas Industry Co staff.

The information collected will be collated and published on the Gas Industry Co's website.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Review access arrangements for gas processing facilities	Review access arrangements for gas processing facilities	Achieved	N/A	\$119,562
2006/07	Develop proposed access arrangements for gas processing facilities	Issue proposal on access for consultation by September 2006	Achieved	\$126,319	\$93,508
	Prepare recommendation on access to gas processing facilities	Recommendation on access rules, if required, by December 2006	Achieved – recommendation was for implementation of industry arrangement		
		Implementation by June 2007	Not achieved – facility owners have not responded within timeframes		
2007/08	Implement voluntary arrangements (industry agreement). OR Investigate regulatory disclosure.	Publish collated information disclosure by November 2007. OR Recommendation to Minister by November 2007.	Not achieved - Industry agreement not reached.  Issues statement of proposal for rules in September 2007  Recommendation to Minister for rules now expected to be made by February 2008	\$140,663	
2008/09	Collect disclosed information.	Publish collated information by August 2008		\$29,597	

## Transmission Access Work Stream

The purpose of this work stream is to develop consistent terms and conditions for access, including balancing arrangements, across transmission networks.

### Progress to 30 June 2008

Gas Industry Co issued a consultation paper on the transmission access framework in October 2007, which included draft transmission access regulations and draft compliance regulations. These regulations will form the foundation of the transmission access framework within which transmission system owners will develop their operating codes.

In parallel with the development of an access framework, Vector has been developing the VTC.

In addition, Gas Industry Co agreed to undertake certain operational roles under MPOC – principally to oversee change requests. In June 2006, Gas Industry Co and MDL signed a Memorandum of Understanding clarifying the principles and processes by which this role would be performed. Gas Industry Co is yet to receive a formal rule change request from an industry participant. However, change requests are expected before the end of the 07/08 year.

### Work Programme for 2008/09

It is expected that the Transmission Access Regulations will come into effect towards the end of 2008. Transmission system owners will then have a prescribed period of time within which to amend their operating codes to make them compliant with the regulations.

Effective balancing of transmission pipelines remains a concern of Gas Industry Co. To clarify the issues, a review of the MPOC and VTC balancing regimes will be completed, and an issues paper released for consultation, before the end of 2008.

#### Milestones and Budget: Progress to Date and Indicative Work Programme.

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Analysis high-level issues	Analysis high-level issues	Achieved	N/A	\$271,776
2006/07	Undertake detailed issues review	Issue discussion paper on transmission pipeline access review by September 2006	Achieved – discussion paper issued in June 2006	\$594,640	\$481,685
	Report findings of issues review	Report to the Minister on the outcomes of the issues review by December 2006	Achieved – in October 2006		
	Prepare proposal on access to transmission pipelines	Issue consultation document on proposed recommendation by March 2007	Achieved in part – consultation documents issued in October 2006 and March 2007		

Period	Activity	Milestones	Progress	Budget	Actual
2007/08	Balancing	Release balancing review issues paper for industry consultation by 31 October 2007  Release balancing review options paper for industry consultation by 31 January 2008	Deferred – due to MDL Commercial Operator instigating a series of workshops following the Maui pipeline overpressure incidents of December 2006 and January 2007.	\$671,815	
	Access Framework	Report to Minister on preferred access framework by 31 August  Recommendation to Minister on access framework for transmission governance by April 2008	Achieved  Not Achieved – industry views and legal issues are complicating factors. Expect recommendation to Minister in March 2009.		
	MPOC rule change requests	Timely processing of MPOC rule change requests	On track – Rule change proposals expected.		
2008/09	Review balancing operations on Vector and Maui pipelines.	Release balancing review issues paper for industry consultation by October 2008		\$618,187	
	MPOC and VTC code change facilitation and general oversight of the implementation of the new access framework	As required throughout 08/09			

## Upstream Reconciliation Work Stream

### Progress to 30 June 2008

Now that matters in relation to downstream reconciliation are at the statement of proposal stage, it is timely to consider what changes, if any, are required to upstream reconciliation processes. Some initial work is underway to document these 'title tracking' processes. Discussion with key participants in the process will follow.

## Work Programme for 2008/09

An issues paper will be developed by October 2008. If changes are considered to be necessary, the issues paper would be followed by an options paper in which alternative arrangements would be canvassed.

### Milestones and Budget: Progress to Date and Indicative Work Programme

Period	Activity	Milestones	Progress	Budget	Actual
2008/09	Review issues	Release an upstream reconciliation issues paper by October 2008.		\$207,015	

## Distribution Contracts Work Stream

### Progress to 30 June 2008

With the Minister's agreement, Gas Industry Co made a decision to defer work on access arrangements for distribution pipelines until a final determination was made by the Commerce Commission on its terms of control for certain gas distribution networks owned by Vector and Powerco. In October 2007, the Commission released its final authorisation for price control of Vector and Powerco for consultation. As such, Gas Industry Co has now begun to scope its review (taking into account the Commission's findings) and is on track to meet the milestone set out in the strategic plan. This work was anticipated when the planning for the 2006/07 budget was prepared, hence the increase in the budget for this year.

Gas Industry Co believes that there may be synergies in connecting this work with its analysis of retail contracts. This will be examined once the issues paper has been completed.

### Work Programme for 2008/09

It is assumed for the purposes of the Work Programme that Gas Industry Co will have completed the 'problem definition' phase of its policy process (i.e. will have released the distribution issues review for consultation and received submissions from industry participants) by June 2008.

Assuming that Gas Industry Co believes there is a case for regulatory intervention, it is expected the work stream will follow the process developed from our experience across other initiatives. Broadly that consists of a high level discussion paper(s) on the options to meet the identified problems, then the release of a statement of proposal setting out the detailed arrangements and finally a recommendation to the Minister. Learning from our experience to date, we have also built into the internal planning process time for another round of consultation following the statement of proposal.

Given the expected work programme for this work stream, it is expected to be a significant area of expenditure in 2008/09.

**Milestones and Budget: Progress to Date and Indicative Work Programme**

Period	Activity	Milestones	Progress	Budget	Actual
2005/06	Research distribution contract issues and design guidelines and model contracts	Complete report on distribution contract issues and develop guidelines and model contract arrangements by October 2005	Not Achieved – work stream deferred due to resource constraints and related Commerce Commission work in this area.	N/A	\$30,039
	Consult on proposed new arrangements and analyse submissions	Complete consultation and report on preferred arrangements by March 2006			
2006/07	Research distribution contract issues and design guidelines and model contracts	Complete report on distribution contract issues and develop guidelines and model contract arrangements	Not Achieved – work stream deferred until related Commerce Commission work in this area is completed.	\$71,186	\$25,879
2007/08	Review current distribution contract arrangements.	Release distribution contracts issues discussion paper for industry consultation by April 2008.	Delayed – Expanded context to include consumer issues. Consumer issues consultation paper now expected in July 2008.	\$248,145	
2008/09	Prepare recommendation on distribution contract arrangements	Release discussion paper on distribution pipelines by August 2008. Release statement of proposal on distribution contracts by April 2009. Recommendation to Minister on distribution pipelines by December 2009.		\$186,647	

# Appendix B – Consultation Information: Parties consulted and Summary of Submissions

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## Parties Consulted

Age Concern	Commercial Chambers	Energy Link Ltd
AGL	Commerce Commission	Exergi
Arete Limited	Concept Consulting	Fletcher Building Ltd
Auckland Gas Company	Consumers Institute	Four Winds Communication
Austral Pacific Energy	Contact Energy Ltd	Gas Association of New Zealand
Bay of Plenty Electricity	Craftware Computing Ltd	Gas Net
Bell Gully	Degussa Peroxide Ltd	Genesis Energy
BRG	E-Gas	Greymouth Gas NZ Ltd
Bridge Petroleum	Electricity and Gas Complaints Commission	Greymouth Petroleum
Carter Holt Harvey	Electricity Commission	Greypower
Castalia	Energy Direct NZ	Heinz Watties Ltd
Clifford Chance Law Office	Energy Efficiency and Conservation Authority	HP Consulting & Integration
J H Vernon Consultancy	New Zealand Oil and Gas Ltd	PEPANZ

Kensington Swan	New Zealand Refining Co Ltd	Powerco Ltd
LECG	Neil Walbran Consulting Ltd	Pricewaterhouse Coopers
Loyalty NZ Ltd	New Zealand Steel	RBZ Energy Ltd
LPG Association of New Zealand	NGC Metering Ltd	Russell McVeagh
Major Electricity Users Group	Norske Skog Tasman Ltd	Shell (Petroleum Mining) Ltd
Marsh Limited	Nova Gas Ltd	Shell Todd Oil Services Ltd
Maui Development Ltd	NZ Water and Wastes Association	Simpson Grierson
M-Co	NZX	Stigley & Co
Methanex New Zealand	O-I New Zealand Ltd	Strata Energy Consulting
Mighty River Power	OMV New Zealand Ltd	Swift Energy Ltd
Ministry of Civil Defence and Emergency Management	On Gas Industrial & Commercial	Tap Oil Ltd
Ministry of Consumer Affairs	Origin Energy NZ	Tatua Co-op Dairy
Ministry of Economic Development	Pan Pac Forest Products Ltd	Tetenburg & Associates
Ministry of Research, Science & Technology	Parliament	The Australian Gas Light Company
Multigas (NZ) Ltd	Parsons Brinkerhoff Associates	Thorndon Chambers
National Council of Women	Penshaws Ltd	Todd Energy Ltd
Transpower	Wanganui Gas Ltd	Westech Energy
Vector Ltd		

## Submissions Received

- Vector Limited (Ewan Gebbie)
- Contact Energy Limited (Jan de Bruin)
- Energy Direct NZ (Jim Raybould)
- Mighty River Power (Robert Allen)
- Ministry of Consumer Affairs (Evelyn Cole)
- Genesis Energy (John A Carnegie)

## Summary of Submissions

The summary below analyses the responses to each of the questions posed in the Consultation Paper.

<b>General issues raised</b>	
<b>Summary of responses:</b> The most prevalent general comment (3 respondents) is that the quality of the underlying information provided, although better than previously still needs to be improved. Areas for improvement are identified. One respondent has cautioned that Gas Industry Co should be prepared to change milestones if that improves the eventual outcomes. One respondent has flagged the need to publish information on dedicated fees along with information on the levy.	
<b>Responses from Individual Respondents:</b>	
<b>Respondent</b>	<b>Comments</b>
Vector Limited	Vector believes there is further scope to improve the quality of the information provided. A key risk for GIC will be in achieving an appropriate balance between meeting milestones and achieving quality

	<p>outcomes that provide the most appropriate solutions to achieving the GPS, ie GIC should be prepared to alter milestones if this will improve outcomes.</p> <p>Vector repeats its support for public release of issues discussed, noted and agreed at GIC Board meetings.</p>
Contact Energy	None
Energy Direct NZ	None
Mighty River Power	<p>Pleased with the provision of additional budgetary information, especially budgeted v actual figures for the 2006/07 period. However, we consider that further financial information would be useful in levy proposals. Still harbour concerns that would be allayed by further transparency of information that makes up the levy. Further information would be particularly sought for;</p> <ul style="list-style-type: none"> <li>• A detailed budget that includes specific costs broken down beyond work stream level ie to income expense group categories;</li> <li>• Sensitivity analysis on how budgeted figures would fluctuate given changes in key factors.</li> </ul>
Ministry of Consumer Affairs	<p>Supports measures that ensure and maintain delivered gas costs and prices are subject to sustained downward pressure. ... however there is a concern that dedicated fees are not included in the final levy figure and if they are passed directly to consumers will increase the cost of gas. The Ministry of Consumer Affairs strongly recommends that this issue is discussed in the final paper.</p>
Genesis Energy	<p>Quality of information has improved this year but deficiencies remain. Submission points to where further improvement should be made. Two areas are identified in particular and they are:</p> <ul style="list-style-type: none"> <li>• Estimated outturn should be provided for the current financial year so that the information is more up to date and it is easier to see where costs are likely to be carried forward a year. Estimated outturn information is particularly important given the limited number of data points available for comparison at this stage of the Gas Industry Co's life</li> <li>• Budget and actual figures should be broken down to the level of milestones within work streams to match the work</li> </ul>

	programme information, and this would then provide more appropriate information on cost-per-output.
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<b>Q1: Do you agree with the proposal not to alter the structure of the levy for the 2007/08 financial year?</b>	
<b>Summary of responses:</b> All but one (five) of the respondents either have no comment or support the proposal not to alter the structure of the levy. One respondent opposes the proposal and wants a separate charge to pipeline businesses to be included.	
<b>Responses from Individual Respondents:</b>	
<b>Respondent</b>	<b>Comments</b>
Vector Limited	Agrees with the proposal not to alter the structure of the levy
Contact Energy	Contact agrees with the proposal not to alter retail levy structure.
Energy Direct	Yes. However we should have only one annual levy change and not multiple changes as work streams are completed and initiated.
Mighty River Power	No. Mighty River power believes the levy should be altered to include a charge to Gas Pipeline Businesses (GPBs) including both transmission and distribution. The 2008/09 budget values show a total of over \$1.3 million of costs associated with distribution and transmission access – more than 28% of the total funding requirement. In its current form the funding levy allocates these costs to the Retail and Wholesale Work programme costs. These costs are not being allocated to the parties which are causing them. These same parties also have the capability of reducing the costs being incurred by the GIC.  GPBs should be faced with the costs attributable to distribution and transmission access. This would incentivise the GPBs to reduce these costs and ultimately benefit the consumer.
Ministry of Consumer Affairs	No comment
Genesis Energy	Yes.

**Q2: Do you agree with the proposed policy for funding the implementation of gas governance arrangements?**

**Summary of responses:** Five respondents either have no comment or have expressed conditional support for the policy of dedicated fees for implementation. Where the support is conditional substantial comments are included. One respondent is opposed to dedicated fees.

**Responses from Individual Respondents:**

Respondent	Comments
Vector Limited	<p>7 paragraphs of comment but key comments as follows. Vector considers that responsibility for the decision on how to most appropriately recover costs from consumers, either via the general levy or dedicated fees, should rest with GIC as opposed to individual industry participants. Vector considers that, where dedicated fees are employed, there is likely to be an expectation for GIC to demonstrate corresponding reductions in its general levy. This would generally be indicative of the expected life cycles of GIC’s work streams following implementation.</p> <p>Vector believes that the aggregate effect should be that consumers do not face significant increases in total levies payable to GIC where the corresponding benefits have not been clearly identified.</p> <p>Further comment by GIC on this issue of how, where or when dedicated fees will apply would have been useful as part of the GIC’s consultation paper as this would better enable all stakeholders to more accurately establish whether GIC’s funding requirements for the coming year are reasonable.</p>
Contact Energy	<p>There are many issues with having dedicated fees and levies separate from the general GIC levy. First, implementation logistics will be difficult to manage. Secondly, there is no simplicity or stability for customers in that the levy could go up or down in the course of the year. Thirdly, costs to serve customers will increase as there will be more implementation costs, including extra advertisements to advise customers (possibly multiple times per year) as well as extra involvement from staff to implement the changes and to provide customer support. For these reasons we also consider that dedicated fees could go against the GIC’s levy principle 4: Simplicity - that the levy structure should not create undue transaction costs for the organisation which implements and administers it, or for the participants who must pay for it.</p>

	<p>Where dedicated fees are instituted by GIC we suggest that it builds anticipated (or past) dedicated fees into the levy itself rather than having separate amounts pop up unpredictably throughout the next 2 or 3 year period.</p> <p>In addition Contact suggests that the notification period for the levy, and for dedicated fees, should be at least six weeks, to allow Contact to give 30 days notice to its retail customers and factoring in the time required for implementation.</p>
Energy Direct	<p>WGL agrees that the implementation costs of projects such as the establishment of the central registry should be individually identified. We do however have some concerns regarding the application of separate levies for the individual projects. In the case of EDNZ we will show the individual levies for the implementation projects on our customers accounts.</p>
Mighty River Power	<p>No comment.</p>
Ministry of Consumer Affairs	<p>No comment</p>
Genesis Energy	<p>No. Supported by detailed comment in the front of the submission which is summarised as follows.</p> <p>The current levy consultation highlights a number of concerns with dedicated fees which are as follows;</p> <ul style="list-style-type: none"> <li>• Loss of information on total costs: As costs are carved out of the general levy and into a series of special levies, consumers and industry participants lose information about gas regulation.</li> <li>• Proliferation of levies: The flipside of the flexibility that appeals to GIC is the potential costs to retailers (and ultimately consumers) of multiple levy changes throughout the year.</li> <li>• Loss of appropriate checks on the power to levy: The regulations and rules put forward by GIC to date do not mirror the checks that are found in the Act for the annual levy. In Genesis' view the checks in the regulations and rules put</li> </ul>

	<p>forward by GIC are inadequate and create an unacceptable risk of levy volatility and growth.</p> <ul style="list-style-type: none"> <li>• Vulnerability to legal challenge: In particular Genesis is concerned with the risk that participants may seek to use the Courts to test their obligation to pay special levies. This could have destabilising effect on the sector.</li> </ul> <p>In the light of these concerns, Genesis Energy has serious reservations about the Gas Industry Co's use of special levies and believes there are good policy reasons for revisiting this approach. It is also at odds with the approach adopted by the Electricity Commission.</p> <p>If Gas Industry Co is determined to proceed with special levies, Genesis suggests that at a minimum the Gas Industry Co should include full information on special levies when consulting on the general levy, only change the special levies on the date that the general levy changes, and place appropriate checks within each set of rules and regulations on the special levy setting process.</p>
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<b>Q3: Do you agree with the proposed indirect cost allocation methodology?</b>	
<b>Summary of responses:</b> All respondents either have no comment or agree with the proposal.	
<b>Responses from Individual Respondents:</b>	
<b>Respondent</b>	<b>Comments</b>
Vector Limited	Vector believes that the proposed indirect cost allocation methodology is appropriate.
Contact Energy	Contact agrees with the proposed indirect cost allocation methodology
Energy Direct	Yes

Mighty River Power	No comment.
Ministry of Consumer Affairs	No comment
Genesis Energy	Yes.

**Q4: Do you agree with the proposed approach to balancing levy revenue against relevant expenditure, over several years?**

**Summary of responses:** All but one (five) respondents either have no comment or agree with the proposal, conditional upon some clarification of implementation. One respondent believes that excess revenue should be returned to those paying the levy more quickly.

**Responses from Individual Respondents:**

<b>Respondent</b>	<b>Comments</b>
Vector Limited	<p>Vector is not clear that the “balancing” approach proposed by GIC is appropriate. In theory Vector believes that any over recoveries of the levy should be returned to those paying the Levy (ie consumers) at the earliest opportunity. However in practice this may not be practical and a simple accrual process may be appropriate.</p> <p>Vector also believes GIC has a responsibility to accurately forecast both its revenues and costs for future years. Vector considers that greater emphasis should be placed on such an approach as opposed to simply over recovering Levy payments which may or may not be required.</p>
Contact Energy	Contact agrees with the proposed approach to balancing levy revenue against relevant expenditure over several years as this supports the move towards trying to achieve stability and simplicity, which we consider to be in the best interests of all involved.
Energy Direct	Yes
Might River Power	Might River Power does not disagree with the GIC’s policy to stabilise the levies over the medium term, however we would like further clarification of the process on how this will be achieved.

	<p>With respect to including previous surpluses in the 2008/09 proposal, it appears that an arbitrary figure (\$200,000) has been used with no information on how the “proportion” was derived. Furthermore, indications from budget figures show that there will be a large surplus again in the 2007/08 year. This surplus is excluded from 2008/09 levy setting – “it is assumed that no surplus will be made over the current financial year”.</p> <p>Mighty River Power would like to see the GIC provide more information as to how surplus/deficit funding levels are to be managed over the short-medium term. Mighty River Power also believes, in the interests of end consumers, that the GIC should be wary of holding surplus funds for any longer than necessary as this is effectively using current consumers to subsidise future consumers.</p>
Ministry of Consumer Affairs	No comment
Genesis Energy	Yes.

**Q5: Do you agree that the strategic goals proposed are an appropriate basis for providing work programme and cost inputs for levy setting?**

**Summary of responses:** All but one (five) of the respondents either have no comment or agree with the proposed strategic goals. One respondent agrees with the concept but disagrees that the goals should be directly based on the GPS

**Responses from Individual Respondents:**

<b>Respondent</b>	<b>Comments</b>
Vector Limited	Vector agrees that the strategic goals proposed by GIC generally appear to be appropriate.
Contact Energy	Contact is generally very supportive of the GIC’s strategic goals and we consider its proposed work programme to be very thorough, covering a comprehensive range of issues. We will be particularly interested in the outcomes that come out of Work Area 2: Strategic Issues for the Gas Industry.

	We do however have some concern that one of the goals in Retail and Consumer Arrangements is that the GIC should develop model contract terms and conditions between consumers and retailers. Contact consider that there are more efficient ways of delivering on this (GPS) requirement, eg setting principles of what should be included in retail terms and conditions, and we note that the EGCC Consumer Code of Practice already sets out principles.
Energy Direct	Yes, but we do have some concerns regarding some of the work streams.
Might River Power	No comment
Ministry of Consumer Affairs	No comment
Genesis Energy	<p>No. Genesis Energy agrees that it is appropriate to base Gas Industry Co's work programme on a set of strategic priorities and goals, but does not agree with the statement that "...strategic priorities are essentially set by .. the GPS". While this is a reasonable reflection of the way that the Gas Industry Company has operated, Genesis Energy believes that a better approach to setting priorities could be developed.</p> <p>Priority setting should be changed so that the regulatory agenda can reflect a balance between government and industry priorities. A tiered approach is suggested so that Tier 1 is strategic priorities set by GIC but influenced by the gas GPS; tier 2 comprises matters that are in the GPS but are not aligned with the GIC strategic priorities and are thus given a lower priority; and tier 3 covers matters that relate to the regulatory powers in Part 4A of the Gas Act but are not aligned with either the gas GPS or GIC's strategic priorities and are thus given the lowest priority.</p>

**Q6: Do you agree that the work programme set out in the Consultation Paper is appropriate to achieving the objectives, outcomes and tasks set in the GPS?**

**Summary of responses:** All but one of the respondents (five) either have no comment or generally agree that the proposed work programme is appropriate, while in one case reserving position on individual work streams. One respondent queries whether the right

question has been asked, and relates the question of work programme appropriateness back to the setting of strategic goals. There are also reservations about specific work streams.

**Responses from Individual Respondents:**

<b>Respondent</b>	<b>Comments</b>
Vector Limited	Vector agrees that the work programme appears appropriate. Vector would like to continue to emphasise that the New Zealand gas industry is relatively small and has an inability to absorb costs that are not essential to the operation of its relevant markets. Vector believes that GIC should be cognisant of this fact when deciding upon the appropriate level of resources required by it to deliver solutions to the GPS objectives, as these should generally be in line with the size and needs of the industry.
Contact Energy	Contact is concerned that GIC should be adequately resourced to deliver on its challenging work programme. We wonder if adding additional resource for information gathering and analysis would be useful.
Energy Direct	In general yes, however like all participants we will take our own position on each of the work streams.
Mighty River Power	No comment
Ministry of Consumer Affairs	No comment
Genesis Energy	Genesis Energy does not accept that this is the right question – especially with respect to “tasks” set out in the gas GPS. Instead, the GIC should be asking whether the work programme is appropriate to achieving the GIC’s strategic objectives. However, as the GIC is for the present equating its priorities to the items in the gas GPS, then these two questions are very similar.

**Q7: Do you agree that the indicated budgets are appropriate to the proposed work programme?**

**Summary of responses:** There is no consistent trend in the answers to this question. Two respondents have no comment, one

respondent is concerned about the adequacy of funding, one respondent states that insufficient information has been provided to make a judgement, one respondent has general concerns about the increasing cost of compliance and one respondent queries the whole basis for estimating budgets.

**Responses from Individual Respondents:**

<b>Respondent</b>	<b>Comments</b>
Vector Limited	Vector is unable to comment in response to this question based upon the level of information provided. Vector notes that in previous submissions received from other industry participants, comment has been received by GIC suggesting that detailed information on project out-turns and estimates of any benefits derived would be useful for determining future budgets. Vector believes that this would be useful for the purposes of establishing the entire costs of a project over its life cycle. This would also enable industry stakeholders to better identify the costs of a project and how these have varied from the forecasts provided by GIC.
Contact Energy	Contact considers that the GIC work programme is substantial and the draft gas GPS adds further additional work streams. The GIC should ensure that it is appropriately resourced to deliver on all of these work streams.
Energy Direct	EDNZ is concerned at the increasing cost of compliance that the GIC is imposing on the gas industry.
Mighty River Power	No comment
Ministry of Consumer Affairs	No comment
Genesis Energy	<p>Budget estimates are based on the assumption that each major work stream will, "involve development of a statement of proposal, MED approval, a recommendation to the Minister, Ministerial approval and an implementation phase".</p> <p>Genesis Energy makes the observation that these steps are not required if the GIC concludes that the optimal approach does not involve regulations or rules.</p> <p>Genesis Energy has found Appendix Two to be a far more useful summary than the information in Section 5.5. The summary could be further improved by adding an estimated outturn for the current year and by breaking the budget down to the level of "milestones".</p>

Specific comments are that removal of the prescribed transition period for transmission access could reduce the levy requirement for that work stream in 2008/09. Also the allocation of \$400,000 for new issues arising from the revised gas GPS suggests that each issue will be reasonably heavily resourced. Some prioritisation of these issues would avoid having to complete all items in one year.

**Q8: Do you agree with the calculation of the funding requirements in the Consultation paper, including the allocation of costs between the wholesale and retail work programmes and the carrying over of some of the accumulated surplus?**

**Summary of responses:** Respondents have either not commented or agreed with the calculation per se. However, in some cases there are reservations about the assumptions underlying the calculations which are dealt with in the answers to other questions.

**Responses from Individual Respondents:**

<b>Respondent</b>	<b>Comments</b>
Vector Limited	Please refer to Vector's previous response to Q4.
Contact Energy	We agree, given the split outs as noted in the consultation paper.
Energy Direct	Yes
Mighty River Power	No comment
Ministry of Consumer Affairs	No comment
Genesis Energy	Yes

**Q9: Do you agree that it is appropriate to decrease the levy for 2008/09 to the levels sets out in the Consultation Paper given the requirements of the indicated work programme and Gas Industry Co's statutory obligations?**

<b>Summary of responses:</b> Four respondents either have no comment or agree with the proposed levy levels, in one case with reservations. One respondent declines to give an unequivocal view because of concerns raised in response to other questions. One respondent would like the wholesale levy to be further reduced to reflect increased estimates of gas quantities.	
<b>Responses from Individual Respondents:</b>	
<b>Respondent</b>	<b>Comments</b>
Vector Limited	As mentioned earlier, Vector understands it may be reasonable for GIC to assume that Methanex is likely to increase production at its Motunui methanol plant during both the 2007/08 and 2008/09 financial years.....would be useful for GIC to investigate this further and factor it into their levy calculations for the corresponding period. This may have the effect of reducing the wholesale levy further whilst meeting the funding requirements of GIC.
Contact Energy	At this time Contact does not have any significant concerns about GIC decreasing its levy for the 2008/09 period. We note however, that much of the levy decrease is due to the introduction of dedicated fees and we do have some concerns with regard to the GIC using dedicated fees.
Energy Direct	Yes, however GIC has to recognise that this levy will only form part of the charges that this retailer will show as the costs that it is incurring from the GIC.
Mighty River Power	No comment
Ministry of Consumer Affairs	No comment
Genesis Energy	In the light of the answers to other questions, Genesis Energy cannot give an unequivocal answer to this question. Also because no estimate is provided for the magnitude of "dedicated fees", there is no guarantee that Gas Industry Co's funding is actually decreasing. However, in principle Genesis Energy is happy to support a decrease in the general levy.

