

26 March 2014

Hon Simon Bridges  
Minister of Energy and Resources  
Parliament Buildings  
Wellington

Dear Minister

**Draft Statement of Intent FY2015-2017, and Levy Recommendation FY2015**

At your November 2013 meeting with the Gas Industry Co Board, and at your recent meeting with myself and CEO Steve Bielby, we briefed you on key downstream gas industry issues and on our work proposals for our FY2015 year, which we are required by the Gas Act 1992 to develop in consultation with the industry. I now enclose our:

- **Draft Statement of Intent (SOI) for your review and any comments you may have on it<sup>1</sup>.** This sets out Gas Industry Co's strategic priorities and work programme for our financial years 2015 to 2017 (1 July 2014 to 30 June 2017 inclusive).
- **Gas Industry Co's recommendation that the annual regulations be made on the industry levy (Levy Recommendation) for the financial year 2015 (1 July 2104 to 30 June 2015)<sup>2</sup>.** The levy is to recover the principal costs of Gas Industry Co exercising its functions as the industry body (the levy meets around two-thirds of our total annual costs, with the remaining third met by market fees paid to Gas Industry Co directly by industry participants for services under gas governance rules and regulations). One of your roles is to review and, if satisfied, accept the recommendation for the creation of annual levy funding regulations.

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<sup>1</sup> Section 43ZT of the Gas Act 1992 sets out a process under which Gas Industry Co provides a Statement of Intent to the Minister for comment, and for the industry body to consider any comments from the Minister prior to providing the Minister with a final Statement of Intent.

<sup>2</sup> Under section 43ZZB of the Gas Act 1992, Gas Industry Co may recommend to the Minister of Energy and Resources that regulations be made requiring industry participants to pay a levy to Gas Industry Co.

In essence, these two documents provide Gas Industry Co with the tools it needs to deliver robust outcomes for gas consumers and the wider downstream gas industry, and to otherwise fulfil our mandate as the industry body for the coming year and beyond.

The SOI and Levy Recommendation have been approved by the Gas Industry Co Board for presentation to you, following industry consultation. I would highlight a high level of acceptance from industry stakeholders for the proposals, and that the levy requirement has reduced again this year. Further details on those matters follow.

### **Industry Consultation Process**

The SOI and Levy Recommendation were developed after consulting with stakeholders on strategic priorities; developing a work programme and budget that addressed these priorities; issuing a formal Statement of Proposal; and considering submissions on that paper. Overall, there was solid industry supported for the proposed work programme and the estimated costs for achieving the objectives set out in the SOI.

The two key priorities are:

- Administering and meeting our responsibilities under existing gas governance arrangements (regulatory and non-regulatory);
- Progressing multi-year projects to which Gas Industry Co has previously committed and which are supported by our stakeholders. Especially important for us here is our continued efforts to examine options for addressing transmission capacity issues through the GTIP initiative.

### **Statement of Intent**

Gas Industry Co is required by the Gas Act to publish each year an SOI containing certain information, including the nature and scope of its intended operations. We are interested in receiving your comments on the draft SOI for FY2015-2017, which presents a work programme addressing three strategic objectives:

- Build efficient, competitive, and confident gas markets.
- Facilitate efficient use of, and timely investment in, gas infrastructure.
- Deliver effectively on Gas Industry Co's accountabilities as the industry body.

The work programme has been developed having regard to the objectives and outcomes that have been set for Gas Industry Co within the Gas Act and the April 2008 Government Policy Statement on Gas Governance (GPS), as well as the need to meet various statutory accountabilities, such as monitoring and administering existing governance arrangements or reporting requirements under the Gas Act and Companies Act.

The multi-year scope of the Statement of Intent recognises that policy development requires comprehensive consultation and that the results of consultation provide the opportunity for continuous improvements in policy thinking. The end-point of any given policy workstream may be regulations, or it may be a non-regulatory, market-based solution.

## **Levy Recommendation**

The Levy Recommendation is accordingly structured to fund the following activities:

- Meeting Gas Industry Co's statutory accountabilities (including administration of existing gas governance arrangements).
- Progressing the GTIP and improvements to the CCM Regulations.
- Completing ongoing workstreams previously agreed with industry stakeholders, or initiated by Ministerial request.

We have continued to apply discipline to our costs to ensure that we continue to deliver value for money in our operations. Our levy funding requirement for FY2014 was lower than for FY2013, and we have continued that trend into FY2015 with reductions of 2.9% and 18% respectively in the proposed retail and wholesale levies.

## **Conclusion**

Gas Industry Co accordingly recommends that:

- the retail levy for FY2014 be set at \$5.73 per ICP (retail customer); and
- the wholesale levy for FY2014 be set at 1.33 cents per gigajoule of gas purchased from a gas producer.

This would amount to an estimated \$6.06 (plus GST) per year for the average gas-using household. In the context of an average annual household gas bill of \$850, the levy comprises less than 1% of the domestic customer's annual gas costs.

We are confident that the proposed Statement of Intent and the associated Levy Recommendation provide us with what we need to deliver robust outcomes for gas consumers and the wider gas industry, and to otherwise ensure we can fulfil our mandate as the industry body.

We look forward to your consideration of these matters.

Yours sincerely,



**Rt Hon James B Bolger, ONZ  
Chair**

Copy: Simon Lawrence, MBIE