

# Analysis of Submissions on Consultation on Gas Industry Co FY2019 Work Programme and Levy

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## **Background**

In December 2017, Gas Industry Co released its *Consultation on Gas Industry Co FY2019 Work Programme and Levy (Consultation Paper)* in respect of the proposed strategy, work programme and levy for FY2019. This ensures we continue to have a programme that is the product of robust industry consultation. The *Consultation Paper* was prepared after taking into consideration feedback received at the Co-regulatory Forum held at Gas Industry Co's offices on 24 November 2017. Industry submissions were requested by 5 February 2018.

This document summarises submissions received, including providing comments in response from Gas Industry Co where appropriate. Overall, submissions were broadly supportive of Gas Industry Co's Work Programme and levy, with some useful points being raised in submissions. In particular:

1. Submissions acknowledged the significant work and associated costs expected for development of the Gas Transmission Access Code (GTAC); and
2. The *Consultation Paper* included a proposal to amend the Levy Regulations to ensure that information being provided by gas producers (pursuant to changes introduced on 1 July 2017) is adequate to verify the correctness of wholesale levies paid in relation to those supplies. Whilst some matters were raised in submissions, Gas Industry Co considers that the proposal to amend the Levy Regulations is both feasible and low-cost. Accordingly, the Recommendation will also include corresponding changes to future levy regulations (commencing with this year).

## **Parties submitting**

First Gas Limited

Genesis Energy Limited

Greymouth Gas New Zealand Limited

Nova Energy Limited

Trustpower Limited

Vector Limited

**Q1: Do you have any comments on Gas Industry Co's role or Strategy relevant to development of the Work Programme and Levy?**

<b>Submitter</b>	<b>Comment</b>	<b>Gas Industry Co Response</b>
First Gas	Not addressed in submission.	Noted.
Genesis	Not addressed in submission.	
Greymouth Gas	Not addressed in submission.	
Nova	No.	
Trustpower	Not addressed in submission.	
Vector	Satisfied with GIC's role and strategy in developing the work programme and levy. Appreciates GIC including 'new technologies' among the key challenges being faced by the gas industry.	

**Q2: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?**

<b>Submitter</b>	<b>Comment</b>	<b>Gas Industry Co Response</b>
First Gas	Found GIC's proactive and early initial engagement through the Co Reg forum valuable as provides opportunity to discuss issues for current and future years and assists industry participants' understanding of where GIC will focus its efforts. Suggest GIC provide an indicative schedule of timing for the proposed programmes of work to assist First Gas's internal planning.	<p>Gas Industry Co appreciates confirmation that the Co-regulatory Forum adds value in the process for developing the Work Programme and Levy.</p> <p>In relation to the points raised in Trustpower's submission we note that were Gas Industry Co a traditional regulator (and able to drive its Work Programme in a linear fashion), we could see the value in exploring these suggestions further, however the nature of co-regulation is that Gas Industry Co works more closely with stakeholders and the Work Programme is required to flex and adapt to their collective feedback.</p>
Genesis	Not addressed in submission.	
Greymouth Gas	Not addressed in submission.	
Nova	Believes the current settings have been shown to work and should continue.	
Trustpower	Appreciate GIC holding the Co Reg forum as it provided a valuable forum for developing a reasonable understanding of the proposed work programme and associated costs. Encourage GIC to continue these in future years.	

**Q2: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?**

	<p>Support GIC in considering whether more detailed supporting information could be provided around its work programme and levy funding requirements during future consultation processes, including:</p> <ul style="list-style-type: none"> <li>• Providing more detailed overview of anticipated benefits associated with a workstream and how it contributes to meeting the relevant Strategic Objective;</li> <li>• Providing a breakdown of requested funding for each workstream rather than grouping the funding by Strategic Goal; and</li> <li>• Considering whether there is any additional information it could provide around how any existing workstreams are performing in order to justify continued expenditure.</li> </ul>	
Vector	<p>Appreciate GIC's engagement with industry participants on its proposal prior to the release of the consultation paper at the Co Reg forum. Satisfied with the process for developing the work programme and levy. Note that the principles underpinning the process are widely accepted by the industry, contributing to the stability of the levy development process over the past few years.</p>	

**Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2019? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.**

Submitter	Comment	Gas Industry Co Response
First Gas	<p>If the GTAC is supported GIC will have particular roles to help facilitate its implementation. Recognise the level of resourcing GIC has allocated to this work in FY2018 and support the budget and resourcing allocated to complete the GTAC in FY2019.</p>	<p>Gas Industry Co agrees with capturing lessons from the GTAC process and learning from those in the future, however as this is a somewhat singular occurrence we doubt there will be another Work Programme led by an industry participant that would be of the same magnitude as the GTAC.</p>
Genesis	<p>Support the work programme identified but recommend that GIC also include a full and in-depth evaluation of the GTAC programme of work. This would be a valuable piece of work for GIC and everyone involved to feedback,</p>	

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	reflect and capture, leading to further insights from many perspectives on the areas of the programme that worked and what could have been improved. This work would be valued by all regulators, advocates, policy analysts across multiple sectors in terms of key lessons learned, what practices ought to be replicated and avoided in the future.	We note the concerns about resourcing the GTAC and are committed to ensuring that sufficient resources are assigned so as to achieve the outcomes in the timeframes indicated to date.
Greymouth Gas	Recommend that additional funding is allocated to the GTAC programme to allow for continued GIC involvement in that process, and to provide quality independent advisors and facilitators for any GIC-led process.	We note comments about how Gas Industry Co would determine that the industry process has 'stalled'. It is very clear that the process has had a high degree of momentum over the last 18 months. As result it should be obvious if the process stalls. Gas Industry Co expects it most likely that any 'stall' would be precipitated by either a key stakeholder or a significant stakeholder grouping ceasing participation in the process and would be instantly recognisable.
Nova	Under the Strategic Objective: 'Develop and communicate the role of gas in meeting NZ's energy needs' there is no specific reference to promoting the awareness of gas reserves in helping meet New Zealand's climate change objectives, particularly in reference to the target of 100% renewable electricity generation under average hydro conditions by 2035. The Gas Industry Company could consider starting to consider the implications of that target for the industry.	We note Vector's suggestion to consider the potentially disruptive impact of new technologies on the gas industry in future updates to its <i>Long Term Gas Supply and Demand Scenarios</i> and other studies. While we acknowledge this is a major issue in the electricity market, we are not seeing the same disruptive influence in gas. However we will seek further information on specific examples before making any decisions.
Trustpower	Generally supportive of the proposed work programme. Appreciate the level of detailed information on each aspect of the work programme including specific resourcing requirement, forecast/contingent activities and a link between the workstream and the strategic objectives.  In relation to the GTAC, encourage GIC to further consider how it would determine that the industry process has "stalled", and provide further details to industry.  Suggest during FY2019 GIC facilitate an independent review of the current level of information transparency in the New Zealand gas market with a view to identifying areas for improvement across the industry, including through potential new regulatory arrangements.	In relation to information transparency, we note that Gas Industry Co has always been a supporter of transparency, and considers this of even greater importance now that the emsTradepoint market has increasing relevance. While we addressed this to some degree in the 2013 review of the CCM Regulations, on reflection they did not go far enough. We will review any improvement in transparency brought about by any new transmission arrangements and will take it from there.

**Q3: Do you consider there to be any other items that should be included in the Company's intended Work Programme for FY2019? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.**

Vector	<p>Suggest GIC consider the potentially disruptive impact of new technologies on the gas industry in future updates to its <i>Long Term Gas Supply and Demand Scenarios</i> and other studies.</p> <p>Gas trading customers have indicated a desire for greater transparency in gas quality and outage information in the upstream sector, which has low visibility to market participants. Vector would support industry-led initiatives to improve transparency levels and suggest GIC could facilitate this by discussing with the relevant Government agencies potential changes to existing governance and regulatory arrangements that would contribute to improving transparency in these areas.</p>	Nova makes a good point, and we will start to consider the implications of the target, as suggested.
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**Q4: Do you consider there to be any items that should be excluded from the Company's intended Work Programme for FY2018? Please provide reasons for your response.**

Submitter	Comment	Gas Industry Co Response
First Gas	Not addressed in submission.	Noted. Gas Industry Co is focussing on GTAC as the highest-priority workstream for FY2019.
Genesis	Not addressed in submission.	
Greymouth Gas	Not addressed in submission.	
Nova	No.	
Trustpower	Not addressed in submission.	
Vector	Do not propose that any items be excluded, but encourage GIC to focus on the highest priority areas, particularly the development of the GTAC.	

**Q5: We are particularly interested in industry comment on the forecast gas volumes – do stakeholders consider the projection reasonable? If not, what would they consider an appropriate gas volume estimate to be?**

<b>Submitter</b>	<b>Comment</b>	<b>Gas Industry Co Response</b>
First Gas	Not addressed in submission.	Gas Industry Co confirms that it will use the forecast provided in the <i>Consultation Paper</i> for the calculation of the wholesale levy rate.
Genesis	Not addressed in submission.	
Greymouth	Not addressed in submission.	
Nova	The estimate of gas volumes for FY2019 is reasonable.	
Trustpower	Not addressed in submission.	
Vector	Consider GIC's forecast gas volumes to be reasonable for levy setting purposes for FY2019.	

**Q6: Do you have any comment on the proposed levy for FY2019?**

<b>Submitter</b>	<b>Comment</b>	<b>Gas Industry Co Response</b>
First Gas	Comfortable that GIC has kept its resourcing and budgetary requirements to an acceptable level. Agree it is appropriate to increase levies and fees in periods where there is heightened activity and resource requirements. Flat to dropping profile across last 5 years reflected a steady work programme. FY2019 sees a more extensive work programme than prior years (including GTAC). To achieve this GIC requires greater resourcing and funding. In supporting the increase in levies, appreciate that GIC has considered carefully their requirements. Anticipate that while resourcing and project funding may be refined during the year, the increase in levies will be shown to have been necessary and levy funds will not need to be refunded.	Gas Industry Co thanks submitters for their feedback on the proposed levy for FY2019, especially the recognition that the large GTAC workstream has necessitated a small increase in levies in FY2019.
Genesis	Not addressed in submission.	
Greymouth Gas	Not addressed in submission.	

**Q6: Do you have any comment on the proposed levy for FY2019?**

Nova	Comfortable with the proposed levy.	
Trustpower	<p>Generally supportive of the levy but encourage GIC to continue to seek cost reductions where possible given the continued pressure on the entire industry to reduce costs to end customers. The level of detail provide in relation to the work programme will assist parties to understand how the costs are to be applied and whether they are reasonable, appropriate relative to other choices, or not required at all.</p> <p>In relation to the GTAC, support the approach of ensuring that appropriate funding is in place regardless of whether achieved via industry agreement or a regulated arrangement. Not confident that the industry agreement process will deliver the desired arrangements.</p> <p>Supportive of appropriate funding being made available to GIC to progress a regulatory solution to establish reasonable terms and conditions of access to the transmission network.</p>	
Vector	<p>Consider the proposed levy for FY2019 to be within reasonable levels in the context of GIC's flat levy profile over the past few years.</p> <p>Appreciate the restraint exercised by GIC in setting budget levels during this period.</p>	

**Q7: Wholesale Levy Assurance - Do you have any comment on the proposed amendments?**

<b>Submitter</b>	<b>Comment</b>	<b>Gas Industry Co Response</b>
First Gas	Not addressed in submission.	<p>Gas Industry Co notes the feedback from submitters regarding the proposed amendments to the Regulations.</p> <p>Gas Industry Co will liaise with Industry and MBIE on the proposed drafting changes, which will not extend the reporting requirements beyond those parties already impacted.</p>
Genesis	Not addressed in submission.	
Greymouth Gas	<p>Support the principle underlying the changes, however recommend GIC convene an industry workshop before finalising regulations to enable the industry and GIC to understand what is achievable, resulting in clear regulations. In particular, the following should be considered:</p>	

**Q7: Wholesale Levy Assurance - Do you have any comment on the proposed amendments?**

	<ul style="list-style-type: none"> <li>• Requirements should treat all participants equally and should not result in excessive disclosures (eg requiring disclosure of all gas sales on all pipelines would include mass market customers, which is presumably not intended by may be inferred from current drafting); and</li> <li>• First Gas' current invoicing timings create levy compliance issues for its customers. Recommend taking this into account in new regulations.</li> </ul>	
Nova	Supports accurate reporting of gas volumes and believes that the proposed changes may be workable. Would like to see the detail of the changes, together with having an opportunity to prepare a pro-forma return based on the proposed new regulations before it is finalised.	
Trustpower	Not addressed in submission.	
Vector	Recommend that amendments to the Regulations require wholesale levy returns to include any sale of gas that: 1) is not for "own use", and 2) is part of a sales and purchase agreement.	