

QUARTERLY REPORT

Quarter ended 30 June 2018

Welcome to Gas Industry Co's June 2018 Quarterly Report.

Gas Industry Co records its appreciation to the Minister of Energy and Resources for her support in the levy process which led to the finalisation of our levy and work programme for the year ahead.

The 2018 Levy Regulations came into force on 1 July 2018, the same date as the publication of our 2019-2021 Statement of Intent. Both these documents are available on our website. Gas Industry Co thanks all stakeholders who participated in the consultation process.

During the quarter, Gas Industry Co, First Gas and industry stakeholders continued work on the design for a single gas transmission access code (GTAC) to replace the existing Maui Pipeline Operating Code (MPOC) and the Vector Transmission Code (VTC).

In May, Gas Industry Co released its final assessment of First Gas's proposed GTAC.

A prerequisite for that code to come into force is an assessment by Gas Industry Co that the GTAC is materially better than the existing arrangements when assessed against the objectives and outcomes in the Gas Act and Government Policy Statement on Gas Governance (GPS). We concluded that it did not meet that threshold and accordingly were unable to recommend it.

However, there was general stakeholder consensus that it would be useful for the industry to re-engage to address the key issues identified by Gas Industry Co's final assessment and industry submissions. A significant part of the work to date has been undertaken in a series of workshops which have been used to debate and develop the material prepared by First Gas. Stakeholders noted that the workshops have been a useful forum and were satisfied they should be the way of progressing industry engagement on the currently identified GTAC issues.

A number of stakeholders had also requested that Gas Industry Co appoint an independent facilitator to run future GTAC workshops to ensure independence from any of the GTAC parties. Gas Industry Co agreed to this request on the basis that facilitation of robust and effective industry engagement was consistent with Gas Industry Co's role and objectives; and that the appointment of a facilitator preserves Gas Industry Co's independence, in the context of its role in assessing future GTAC proposals that may be put forward. In June, an independent facilitator was subsequently appointed.

Gas Industry Co continues to support the GTAC work, and we recognise the constructive engagement and significant investment that First Gas, industry participants, and stakeholders have put into the development of a new code to date.

Gas Industry Co's [Quarterly Industry Performance Measures](#) report for the period ended June 2018 has also been published. The report provides an update on the performance measures that Gas Industry Co monitors on a regular basis. The purpose of those measures is to track the performance of the Gas (Switching Arrangements) Rules 2008, the Gas (Downstream Reconciliation) Rules 2008, and the Gas Governance (Critical Contingency Management) Regulations 2008, both in terms of activity related to these governance arrangements and the competitive outcomes that they foster.

The report also tracks transmission pipeline balancing measures, as a means of informing Gas Industry Co's work on this issue. The full report is available on our website, highlights of which include:

- There are about 3,700 not withdrawn switches completed per month, which translates to an annual churn rate of about 15.8 percent.
- So far in 2018, about 74 percent of customer switches have been completed within three business days.
- 65 percent of residential consumer sites have switched retailer at least once in the past eight years; 67 percent of small commercial and 55 percent of large commercial sites have switched at least once.
- Over 99 percent of gas customers are connected to a gate where seven or more retailers trade, suggesting that the gas retail sector is generally competitive throughout the North Island.
- Average annual unaccounted-for gas (UFG) over the past year stands at about 1.1 percent (compared with about 2 percent in 2009 when the gas registry went live).
- Genesis is the largest retailer by customer share. Nova has the largest share of commercial and industrial customers.
- Nova is the largest retailer by volume market share.

We are happy to report that good progress continues to be made in achieving the objectives and outcomes for Gas Industry Co and the industry in Part 4A of the Gas Act, and the GPS, through the Work Programme included in the Company's Statement of Intent. An updated summary of our work is included on page three.

Nga mihi nui.

Andrew Knight
Chief Executive

Workstream developments during the quarter are summarised in this Quarterly Report. Further details of the developments have generally been reported previously through Gas Industry Co's periodic News Bulletins and are available on our website www.gasindustry.co.nz.

PROGRESS TOWARDS OBJECTIVES AND OUTCOMES

1 APRIL – 30 JUNE 2018

This section provides an update of progress towards objectives and outcomes for Gas Industry Co the gas industry body, as set out in the Gas Act 1992 and the April 2008 Government Policy Statement on Gas Governance, particularly as implemented through the Company's FY2018-2020 Statement of Intent.

Objective 1: Promote efficient, competitive and confident gas markets			
Project	Rationale	Activity	Status
Retail Gas Contracts Oversight Scheme	<ul style="list-style-type: none"> Enhanced consumer outcomes by providing clarity around the respective roles and obligations of consumers and industry participants involved in the supply of gas to small consumers. 	<ul style="list-style-type: none"> Administer the Retail Gas Contracts Oversight Scheme. Conduct a full review of retail contracts every 3 years. Review retailers' contracts otherwise on an exceptions basis (ie new entrants and changed contracts). Provide additional information to assist new entrant retailers to understand their obligations and governance processes. 	<ul style="list-style-type: none"> Fourth assessment of retailers' standard published contracts with small consumers published in October 2015; showed further improvements in alignment with the contract benchmarks. Since the Retail Scheme's introduction in 2010, retailers' overall rating has increased from 'Moderate' to 'Substantial' alignment with the benchmarks. The 2018 full review has commenced, with results expected in October.
Gas Distribution Contracts Oversight Scheme	<ul style="list-style-type: none"> Gas industry participants and new entrants are able to access distribution pipelines on reasonable terms and conditions. Ensure consistency in distribution services arrangements. 	<ul style="list-style-type: none"> Monitor and report to the Minister on the status of distribution arrangements. Develop and publish distribution contract principles. Encourage publication of network services agreements. 	<ul style="list-style-type: none"> Report on the second assessment of distribution contracts issued in May 2014 showed that overall alignment improved from 'Moderate' to 'Substantial'. Gas Industry Co plans to survey distributors in FY2019 to confirm progress with retailers moving to new contracts consistent with the Scheme principles.

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Gas Quality	<ul style="list-style-type: none"> Maintain an acceptable standard of gas quality. Ensure costs of gas quality incidents are met efficiently. Achieve improved transparency on gas quality incidents. 	<ul style="list-style-type: none"> Ongoing review of industry arrangements for managing gas quality. Consider options for improving gas quality arrangements. 	<ul style="list-style-type: none"> Gas Quality: Requirements and Procedures Document was first issued in 2015, and will be reviewed and updated by Gas Industry Co as required. The 2017 Gas Quality Update proposed that additional time be allowed for a new GTAC to take shape before reconsidering matters relating to gas quality. In the Final Assessment of the proposed GTAC released in May 2018, Gas Industry Co highlighted some concerns regarding First Gas's proposed arrangement for gas quality.
Rule Changes	<ul style="list-style-type: none"> Improved industry governance through regular review of existing arrangements and recommending changes where appropriate. 	<ul style="list-style-type: none"> Maintain rule change registers. Review Switching, Reconciliation, and CCM rules/regulations once the new GTAC design is sufficiently advanced. 	<ul style="list-style-type: none"> A pilot of day-after (D+1) gas allocation and daily balancing and peaking pool (BPP) information delivery is continuing successfully. The pilot will be reviewed in light of the development of the new GTAC, and changes to the Reconciliation Rules may be proposed when appropriate.
Gas Measurement	<ul style="list-style-type: none"> Workstream arose from industry stakeholder discussions at annual Co-Regulatory Forums undertaken in context of GPS outcome of providing efficient market for metering services. 	<ul style="list-style-type: none"> Develop a minimum voluntary standard for advanced metering. 	<ul style="list-style-type: none"> In September 2017, Gas Industry Co published an analysis of submissions on two gas metering review papers. As part of its next steps, Gas Industry Co established a technical advisory group to develop a minimum voluntary standard for advanced metering.

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Information Gathering	<ul style="list-style-type: none"> If required, due to non-compliance, Gas Industry Co can consult on regulations for mandatory supply of information by participants to inform relevant issues. 	<ul style="list-style-type: none"> Protocol established in 2012 as an industry arrangement rather than a formal regulated process. Subject to outcome of consultation, Gas Industry Co may make a recommendation to the Minister for regulations for the provision of information. 	<ul style="list-style-type: none"> Information was provided under the Protocol in relation to the review of market-based balancing and metering contracts review.

Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

Project	Rationale	Activity	Status
Transmission Access	<ul style="list-style-type: none"> Ensure transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity. 	<ul style="list-style-type: none"> Address, using regulatory and/or non-regulatory options, any lessening of competition due to transmission constraints. Improve the quality and availability of pipeline security and supply/demand information. Consider changes to transmission access arrangements. 	<ul style="list-style-type: none"> Former Vector and Maui transmission systems under the ownership of First Gas who wishes to implement a single gas transmission access code (GTAC). First Gas leading a process for developing a new GTAC to replace the VTC and MPOC. Gas Industry Co determined that First Gas's GTAC submitted on 8 December 2017 is not materially better than the current MPOC and VTC. First Gas is engaging with its stakeholders to develop a revised GTAC.

Objective 2: Facilitate efficient use of, and investment in, gas infrastructure

Project	Rationale	Activity	Status
Gas Supply/Demand Study	<ul style="list-style-type: none"> • <i>Long-Term Gas Supply and Demand Scenarios</i> commissioned to provide industry stakeholders with information that may be useful for making business decisions. 	<ul style="list-style-type: none"> • Update the supply/demand study biannually. 	<ul style="list-style-type: none"> • Third edition of Report was released in October 2016 and presented to the industry. • Gas Industry Co has commissioned Concept Consulting to produce the next update due for release in September 2018.
Transmission Pipeline Balancing	<ul style="list-style-type: none"> • Improved industry arrangements. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. 	<ul style="list-style-type: none"> • Assess balancing market developments. 	<ul style="list-style-type: none"> • Market-Based Balancing (MBB) introduced on 1 October 2015 with trading of balancing gas on emsTradepoint wholesale market. • First Gas and stakeholders are considering balancing in context of the development of a new GTAC. • Our analysis of the balancing regime in the proposed GTAC can be found in our May 2018 document, Final Assessment of GTAC.
Transmission Code Change Requests	<ul style="list-style-type: none"> • Ensure ongoing relevance and efficiency of multilateral terms of access to transmission pipelines. 	<ul style="list-style-type: none"> • Transmission Code Change Requests processed as required. 	<ul style="list-style-type: none"> • No changes to the MPOC are expected while First Gas is developing the GTAC in consultation with its stakeholders.
Interconnection	<ul style="list-style-type: none"> • Improved industry outcomes. Gas industry participants and new entrants are able to access transmission pipelines under reasonable terms and conditions. 	<ul style="list-style-type: none"> • Review interconnections as required. • Address any concerns regarding reasonable access. • Amend Interconnection Guidelines if needed. 	<ul style="list-style-type: none"> • Interconnection Guidelines have been in place since 2009. Transmission System Owner policies are largely consistent with those guidelines. • First Gas and stakeholders are considering replacing interconnection arrangements in

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			<p>context of the development of a new GTAC.</p> <ul style="list-style-type: none"> In the Final Assessment of the proposed GTAC released in May 2018, Gas Industry Co highlighted some concerns with First Gas's proposed approach to Interconnection.
Security and Reliability	<ul style="list-style-type: none"> Gas Industry Co's 2015/16 review of transmission pipeline security and reliability found arrangements were generally appropriate but noted several opportunities for improvement under current arrangements (mainly development of First Gas Transmission Asset Management Plan) and several areas where arrangements were evolving (Commerce Commission price-quality regulations). 	<ul style="list-style-type: none"> Gas Industry Co will continue to review developments and work with stakeholders on further improvements. 	<ul style="list-style-type: none"> Gas Industry Co published an assessment of First Gas's Asset Management Plan and other security and reliability related documents in March 2017. First Gas's adoption of Gas Industry Co's suggestions will be assessed in the next Asset Management Plan.
Wholesale Market Monitoring	<ul style="list-style-type: none"> emsTradepoint wholesale gas market (eTp) makes a significant contribution to the Government Policy Statement outcome for 'efficient arrangements for the short-term trading of gas'. 	<ul style="list-style-type: none"> Gas Industry Co continues to monitor activity and developments in the wholesale spot market as well as having a role with the eTp's Operational Working Group Gas Industry Co monitors wholesale market activity and developments, particularly in relation to Market-Based Balancing. 	<ul style="list-style-type: none"> Gas Industry Co considers that no further analysis on the MBB data should be undertaken at this stage. Balancing is a matter that First Gas is considering as part of its development of the GTAC in consultation with its stakeholders. Continuing to support the Energy Trader Forum.

Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

Project	Rationale	Activity	Status
Downstream Reconciliation	<ul style="list-style-type: none"> Oversight of the Gas (Downstream Reconciliation) Rules 2008. Improved industry arrangements and consumer outcomes through the objective of fairly allocating, and reducing, unaccounted-for-gas (UFG) and its associated costs. 	<ul style="list-style-type: none"> Oversight of the Reconciliation Rules, including Allocation Agent Service Provider role. 	<ul style="list-style-type: none"> Reconciliation Rules operating well, with Energy Market Services (EMS) performing the Allocation Agent Service Provider role. Gas reconciliation audits performed regularly. Annual Unaccounted for Gas (UFG) factors and unusual metering arrangements reviewed for any significant differences. A pilot of day-after (D+1) gas allocation and daily balancing and peaking pool (BPP) information delivery is continuing successfully. The pilot will be reviewed following the completion of the GTAC development process, and changes to Reconciliation Rules proposed if appropriate.
Switching and Registry	<ul style="list-style-type: none"> Oversight of the Gas (Switching Arrangements) Rules 2008. Efficient retail market and improved consumer outcomes by facilitating market contestability through customer switching between retailers. 	<ul style="list-style-type: none"> Oversight of Switching Rules, including Registry Operator Service Provider role. 	<ul style="list-style-type: none"> Switching Rules operating well, with Jade performing the Registry Operator Service Provider role. Switching statistics report issued monthly, with switching levels remaining stable. Switching audits performed regularly.

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Critical Contingency Management	<ul style="list-style-type: none"> Oversight of the Gas Governance (Critical Contingency Management) Regulations 2008. Improved industry outcomes through increased market confidence in industry's ability to manage critical contingency events. 	<ul style="list-style-type: none"> Oversight of CCM Regulations including management of Critical Contingency Operator (CCO) Service Provider role. Review effectiveness of the Regulations following events and the annual exercises. Operate critical contingency pool following an event. 	<ul style="list-style-type: none"> CCM Regulations operating well, with Core Group performing the Critical Contingency Operator Service Provider role. CCO activities are reviewed each quarter. CCO training events and annual exercise held in May 2018.
Compliance	<ul style="list-style-type: none"> Oversight of the Gas Governance (Compliance) Regulations. Improved industry operations through provision of a compliance and dispute resolution process for industry participants. 	<ul style="list-style-type: none"> Oversight of Compliance Regulations. Appointment of Rulings Panel and Investigator, and management of associated processes. 	<ul style="list-style-type: none"> Gas Industry Co continues to fulfil its role as Market Administrator under the Compliance Regulations. Sir John Hansen appointed as Rulings Panel and Jason McHerron as Investigator. Breach activity remains generally low; a positive indicator of industry compliance.
Statutory Accountability	<ul style="list-style-type: none"> To ensure stakeholders understand the scope of the company's intended operations and its results to the cost thereof. 	<ul style="list-style-type: none"> Prepare/publish a Statement of Intent that meets statutory requirements Prepare/publish Annual Reports that meet statutory requirements Prepare/publish Quarterly Reports to the Minister on progress made toward meeting the Government's objectives and outcomes for the gas industry. 	<ul style="list-style-type: none"> Annual Report to be delivered to the Minister by 30 September 2018. Quarterly Reports and News Bulletins published regularly. Gas Industry Co's FY2019-21 Statement of Intent was sent to the Minister on 25 June 2018, and subsequently published on the Company's website.

Objective 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body

Project	Rationale	Activity	Status
Performance Measures	<ul style="list-style-type: none"> Improved industry and consumer outcomes through provision of public information on industry performance. Monitor the effectiveness of governance arrangements. 	<ul style="list-style-type: none"> Determine and publish information on each gas governance arrangement that has been implemented. 	<ul style="list-style-type: none"> Performance Measures Reports published quarterly on Gas Industry Co's website.

Objective 4: Build and communicate the New Zealand Gas Story

Project	Rationale	Activity	Status
NZ Gas Story/State and Performance of Industry	<ul style="list-style-type: none"> Facilitate nexus between industry and Government. Maintain informed industry participants and other stakeholders. 	<ul style="list-style-type: none"> Facilitate, influence and communicate with the industry and Government. Liaise with other regulatory bodies, agencies and associations with responsibilities and interests encompassing the gas industry. 	<ul style="list-style-type: none"> Regular liaison with MBIE, Electricity Authority, and other relevant regulators. In particular, liaising with Commerce Commission on gas transmission matters. 2018 update to NZ Gas Story currently being developed with its annual release planned for December 2018.