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CONSULTATION PAPER

# Consultation on Gas Industry Co FY2021 Work Programme and Levy

SUBMISSIONS CLOSE: MONDAY 10 FEBRUARY 2020

# Executive Summary

In consultation with the industry, Gas Industry Co develops both an annual Work Programme and a cost estimate for that Work Programme. These costs are principally funded through a levy and market fees, the latter imposed under relevant governance rules and regulations.

The proposed FY2021 Work Programme includes meeting statutory requirements, such as the administration of existing gas governance regulations, and seeks to address Government and industry priorities through the completion of key project deliverables. It continues existing multi-year workstreams and reflects significant progress already made in addressing the objectives and outcomes set for Gas Industry Co and the industry in the Gas Act 1992 (Act) and the Government Policy Statement on Gas Governance 2008 (GPS).

This paper has been prepared after taking into consideration feedback received on the proposed Work Programme and costs at the Co-Regulatory Forum held at Gas Industry Co's offices on 29 November 2019. Forum feedback generally supported these proposals.

The proposed FY2021 levy funding requirement is \$3,450,182 (\$324,154 less than the corresponding budgeted costs for FY2020 of \$3,774,336). The corresponding proposed levy rates for FY2021 are: a retail levy of \$5.16 per ICP (based on 290,000 ICPs), and a wholesale levy of 1.1164 cents per GJ of gas (based on a volume of 175PJ).

## Submissions

Written submissions on this Consultation Paper should be provided to Gas Industry Co by **5 pm on Monday 10 February 2020**. Submissions can be made by logging in to Gas Industry Co's website and uploading your submission, preferably in the form of the submissions template attached to this consultation document (Appendix A). Submissions may be amended at any time prior to the closing date. All submissions will be published automatically on the website after the closing date.

Details of the submissions process are as follows:

1. No email confirmation will be sent out acknowledging receipt of submissions. To check your submission has been successfully uploaded, log in and check your account. If this is unsuccessful, contact Gas Industry Company (ph +64 4 472 1800) or email: [consultations@gasindustry.co.nz](mailto:consultations@gasindustry.co.nz) for assistance.
2. The closing time for submissions is **5 pm**. Please note that submissions received after that time may not be able to be fully considered.
3. All submissions will be published on Gas Industry Co's website. Submitters should discuss any intended provision of confidential information with Gas Industry Co prior to submitting the information.

Gas Industry Co is happy to meet with any stakeholder who wishes to discuss the proposals in more detail.

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# 1. Legislative and Strategic Context

## 1.1 The Role of Gas Industry Co

The overall purpose of Part 4A of the Act is to 'provide for the governance of the gas industry'. This is achieved principally through appointment of an 'industry body', Gas Industry Co, to develop gas governance arrangements that meet the objectives of the Act and the GPS.

## 1.2 Work Programme and Levy

Gas Industry Co's annual Work Programme is designed to assist in meeting the policy objectives and outcomes set by the Act and the GPS, address other matters identified by Gas Industry Co and stakeholders warranting priority attention, and respond to any work stream activity requested from time to time by the Minister.

The Work Programme is developed in a consultation process with industry participants and other stakeholders that commences with an annual Co-Regulatory Forum, followed by the publication of this Consultation Paper. Submissions on the Consultation Paper are considered in preparing:

1. The Statement of Intent (SOI) for the next financial year (with indicative activity for the subsequent two years in the three-year planning period covered by the SOI); and
2. A formal recommendation to the Minister for regulations authorising the levy on industry participants for the ensuing year.

Pursuant to section 43ZZD of the Act, the Minister may accept or reject Gas Industry Co's formal recommendation to make levy regulations. However, in circumstances where the Minister is satisfied that the levy is reasonable, Gas Industry Co has consulted on the levy, and the requirements of sections 43ZZB to 43ZZE of the Act have been met, the Minister must accept the recommendation. Following cabinet and vice-regal approvals, this process culminates in annual levy regulations being promulgated.

## 1.3 Gas Industry Co's Vision, Mission, and Values

The Gas Industry Co Board has approved Gas Industry Co's Vision, Mission, and Values, which assist in the delivery of its statutory role, including by framing the proposed FY2021 Work Programme.

## VISION, MISSION & VALUES

### OUR VALUES

- **Collaboration:** We work together with integrity, to achieve our goals.
- **Impartiality:** Our decisions are transparent, fair, and based on evidence.
- **Inclusiveness:** We treat others with respect, listening to all views, and engaging openly.
- **Excellence:** We strive for quality in everything we do.



### OUR VISION

- Provide leadership in co-regulating the New Zealand gas industry.

### OUR MISSION

- Promote safe, efficient, and reliable gas markets.
- Facilitate efficient use of, and investment in, gas infrastructure.
- Deliver effectively on our accountabilities as the industry body.
- Communicate the role of gas in meeting New Zealand's energy needs.

## 2. Developing the Proposed Work Programme

Development of a given financial year's Work Programme starts early in the preceding year to ensure appropriate consultation with stakeholders. Gas Industry Co forecasts the expected or planned endpoint of current year activity to determine what further work, if any, might be necessary for each workstream into the following year.

Consistent with Gas Industry Co's statutory role the FY2021 Work Programme, like that for FY2020, focusses on Gas Industry Co's core market governance role under existing rules/regulations and continuing key multi-year programmes.

### 2.1 Co-Regulatory Forum

This Consultation Paper takes into consideration feedback received on the draft Work Programme at the Co-regulatory Forum held at Gas Industry Co's offices on 29 November 2019. Co-Regulatory Forum presentation slides can be found [here](#).

### 2.2 Prioritisation

The following is the framework Gas Industry Co uses for assessing priorities and costs between, and within, project areas and between successive years' work programmes.

#### **Statutory roles**

Gas Industry Co has several statutory accountabilities that arise from:

1. Obligations under the various rules and regulations that Gas Industry Co has recommended; and
2. Specific outcomes defined by the Gas Act and GPS.

Given that these are, or stem from, statutory obligations, they must be given priority in the Work Programme. Funding for the first of these is from a combination of market fees and levy, and for the second, funding is from the levy. Examples of these accountabilities include:

1. Monitoring the performance of industry participants that are subject to the rules/regulations and encouraging, or enforcing, compliance as necessary;
2. Monitoring and reporting on metrics arising from these processes to increase transparency and foster a well-informed market. For example, automating analysis and monitoring of allocation results to catch and correct errors at an earlier stage; and
3. Maintaining rule-change registers where potential improvements are identified.

#### **Committed and/or ongoing projects**

There are several projects that Gas Industry Co has previously committed to and which are regarded as important by stakeholders or have been requested by the Minister of Energy and Resources.

Examples include:

1. The D+1 Pilot and whatever work flows from that;
2. Information disclosure; and
3. The biennial update of the *Long Term Gas Supply and Demand Scenarios*.

In order to ensure meaningful progress is made with such projects it is essential to programme them into the budget as a means of establishing or maintaining momentum.

### **Stakeholder-identified priority work**

This category includes work that commands a high priority for stakeholders from the gas industry, end users, and Government. Moreover, in many of these areas, a number of those stakeholders are supporting that programme of work by committing their own resources.

### **Flexibility and cost efficiencies**

It is always possible that unplanned, unbudgeted work might need to be undertaken in any one year. This is particularly a result of the changing nature of the industry and the period that elapses between development of each year's proposal and its implementation. Gas Industry Co prefers not to budget general contingency amounts in order to keep the levy at a reasonable level. If unplanned or unbudgeted work becomes a priority, Gas Industry Co will reassess its planned workstreams and/or milestones. Gas Industry Co has been successful over recent years using this approach in progressing key industry priorities while maintaining appropriate cost discipline.

As with all public and levy-raising entities, Gas Industry Co aims to deliver value in both its operational workstreams and in the provision of support services to Gas Industry Co as a whole. There is a specific focus on delivering efficiency and value for money.

As well, Gas Industry Co has considered carefully how each line item in the Work Programme should be budgeted. Some areas are demand-driven (e.g. code changes and reviews of new interconnections) and it does not make sense to make full provision for each of these individually. Instead, Gas Industry Co makes a modest provision for these items and backs itself to manage within the global amount<sup>1</sup>.

### **Work Programme and Levy Setting Process**

The diagram below outlines the process undertaken to develop the Work Programme and Levy:



**Q1:** *Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?*

<sup>1</sup> Of course, there is always a risk that each line item may be fully active in a given year, leading to a budget deficit, but Gas Industry Co expects to be able to manage this risk through re-prioritisation of other work.

## 3. Proposed FY2021 Work Programme

### 3.1 Objective 1: provide efficient, competitive and confident gas markets

#### Retail contracts oversight scheme (Retail Scheme)

In 2010, Gas Industry Co established a Retail Gas Contracts Oversight Scheme that assesses retailers' posted contracts for residential and small commercial/industrial consumers against a series of benchmarks consistent with satisfactory customer expectations and outcomes. Reviews are undertaken by an Independent Assessor with the last full review in 2018 having shown 'substantial' compliance.

#### Contingent Activities FY2021

1. Review new-entrant retail contracts and/or amended existing contracts as required.
2. Provide additional information to assist new entrant retailers to understand their obligations and governance processes.

#### Gas distribution contracts oversight scheme (Distribution Scheme)

In 2012, Gas Industry Co established the Distribution Scheme under which gas distributors' contracts with gas retailers are assessed against a common set of distribution principles. The second assessment by an Independent Assessor in FY2014 found that the contracts offered by distributors exhibited 'substantial' alignment with the distribution principles. Checks with distributors in FY2015 and FY2016 indicated that there had been no material changes to standard terms. Gas Industry Co will undertake a further check with retailers and distributors in FY2020.

#### Forecast Activities FY2021

1. Consider the findings of checks with retailers and distributors undertaken in FY2020.
2. If required, review the Distribution Scheme, consider any changes or other actions needed, and report.

#### Retailer insolvency

Following a request from the Minister in 2010, this workstream was formed to consider the market issues created when a gas retailer becomes insolvent. The Minister accepted Gas Industry Co's advice that the best solution is an agile approach that would see a recommendation for urgent regulations, as and when required, and tailored to the specific situation. Gas Industry Co consulted on drafting instructions in FY2015 and issued a Final Decision Paper - Framework for Gas Retailer Insolvency Arrangements in the same year.

As discussed later, Gas Industry Co anticipates that new transmission access arrangements will be implemented during FY2021 and expects that these changes will require minor amendments to the drafting instructions. Beyond this, Gas Industry Co expects no routine activity will be required in FY2021 other than what is already provided for within the audits under the Switching Rules (i.e. checking that registry participants are able to meet their obligations for reports under those rules).

### **Forecast activities FY2021**

1. Implement the retailer insolvency arrangements as necessary in the unlikely event of a retailer insolvency.
2. Make any necessary amendments to the drafting instructions in anticipation of the new transmission access arrangements.

### **Gas quality**

This workstream was originally developed in response to industry participant and large end-user concerns about the responsibility and liability for gas quality in New Zealand. Some participants believed that responsibilities were unclear or not well aligned with liabilities. In FY2015, Gas Industry Co published a *Gas Quality Requirements and Procedures* document aimed at clarifying the legal obligations and industry practices in relation to gas quality. An update of this document was published by Gas Industry Co in October 2019 to reflect the consolidated and improved arrangements the industry has forged into the new Gas Transmission Access Code (GTAC).

For the future, Gas Industry Co understands that First Gas wishes to improve the arrangements in relation to managing gas quality excursions.

### **Contingent activities FY2021**

With a view to achieving better outcomes in relation to the Gas Act objectives, Gas Industry Co will:

1. Stand ready to review operation of the GTAC in relation to gas quality.
2. Continue to encourage further improvements in the notification and management of gas quality excursions.
3. Participate in 2020 review of the gas quality standard, NZS 5442.
4. Update the Gas Quality Requirements and Procedures document as required.

### **Regulation and rule changes**

The objective of this workstream is to ensure efficient, effective regulatory arrangements.

Details of all regulations and rules administered by Gas Industry Co can be found [here](#).

### **Forecast activities FY2021**

#### *Downstream Reconciliation*

1. Keep the D+1 Pilot Scheme running and continue to implement worthwhile refinements before the introduction of GTAC.
2. After GTAC is implemented continue to run the D+1 Pilot Scheme and work with industry to consider whether the scheme will continue to be required under the new arrangements. If D+1 is still considered to be required begin the process of amending the Downstream Reconciliation Rules (DRRs):
  - (a) develop any required changes to the DRRs and consult;
  - (b) after considering submissions and making any further amendments, make a recommendation to the Minister to amend the Downstream Reconciliation Rules; and
  - (c) subject to Ministerial approval, develop, test and implement the supporting systems.

### Critical Contingency Management (CCM)

1. It is expected that during FY2020 Gas Industry Co will make a recommendation to the Minister to amend the Critical Contingency Management Regulations as a result of the Critical Contingency Management Review being undertaken this financial year.
2. Subject to Ministerial approval, during FY2021 Gas industry Co will be working to implement the recommended changes.

### Switching and Registry (SW)

1. It is expected that during FY2020 Gas Industry Co will be working with industry to assess the effectiveness of the SW Rules to support an anticipated gas advanced meter roll-out (discussed further below under 'Advanced gas metering'). This assessment may resolve that changes to the SW Rules are required and the work for this would begin to take place during FY2021.

### **Electricity price review**

The Electricity Price Review (EPR) identified 32 recommendations for the electricity industry. The Government has accepted the majority of those recommendations. Some of the recommendations relate to electricity industry arrangements and practices that also exist in the gas industry. Therefore, Gas Industry Co considers that it is appropriate for it consider whether those recommendations should result in changes to existing gas governance arrangements, or the introduction of new arrangements.

This workstream will involve:

1. Reviewing the recommendations for the electricity sector in the Electricity Price Review to identify recommendations that are relevant for the gas industry.
2. Liaising with the Electricity Authority and other government agencies to understand their approach/response to the recommendations in the Electricity Price Review.
3. Considering whether any existing gas governance arrangements should be amended or whether new gas governance arrangements should be introduced, including an assessment of the extent to which changes can be made under the empowering provisions in the Gas Act.
4. Consulting on any proposed changes to gas governance arrangements and making recommendations to the Minister of Energy and Resources where appropriate.

### **Advanced gas metering**

A technical advisory group was established in FY2018 with the objective of developing a minimum voluntary standard for advanced gas metering. The group's work was paused as further information on the capabilities of devices likely to be deployed by meter owners was uncertain. However, recently it has been announced that there is going to be an advanced meter roll out to Genesis's gas customers, starting FY2021. Work is commencing now to consider what changes might be required to the industry systems and rules to support this roll-out. Gas Industry Co will also be assessing whether there is still merit in producing a standard. The work required for FY2021 will be to build on the work taking place during FY2020 and working closely with industry during the roll-out to ensure industry systems and rules are appropriate for advanced metering.

### **Forecast activities FY2021**

1. Produce an advanced metering standards document if required.
2. Work with industry to ensure industry systems and rules are appropriate for gas advanced metering.

### **Gas supply/demand**

Gas Industry Co first published a study on long-term gas supply and demand scenarios in 2012. It is clear that the contribution of the report is significant, and it has been updated biennially since then. Activities for FY2021 will include publishing the next update and working with industry to communicate its findings.

In addition to this long-term report, Gas Industry Co intends to begin developing reports that have a shorter-term focus to reflect the increased interest on the short-term supply of gas to meet energy needs. During FY2020 Gas Industry Co intends to begin producing a report that investigates the relationship between short-term gas supply and electricity security of supply. This work will continue into FY2021.

### **Forecast activities FY2021**

1. Review and update the long-term supply and demand study and communicate its findings.
2. Continue work on a short-term gas supply and electricity security of supply report.

### **Wholesale market**

The emsTradepoint Wholesale Market (eTp) has now been in operation for over four years and has increased in both membership and volume over that time. Gas Industry Co notes that the GPS seeks an outcome of "Efficient arrangements for the short-term trading of gas" and eTp makes a transparent contribution to that outcome.

As an industry initiative, Gas Industry Co is pleased with the progress to date.

Gas Industry Co intends to continue to monitor activity and developments in the Wholesale Market with a particular focus on the market's role as the source of volume and pricing for transmission balancing.

### **Forecast activities FY2021**

1. Monitor Wholesale Market activity and developments.
2. Ensure that market information is provided to Gas Industry Co in a timely fashion to support this monitoring.

### **Information disclosure**

Concerns have been expressed by some market participants regarding asymmetric access to information, particularly information regarding upstream outages (both planned and unplanned). This issue was given a great deal of consideration during the work on developing the GTAC, but no resolution was reached among stakeholders. In parallel, the Minister of Energy and Resources wrote to Gas Industry Co in 2018 expressing concern with the lack of transparency regarding upstream activities and asking whether the Gas Act provides the necessary tools to address this issue.

In response to these concerns Gas Industry Co commenced a workstream to assess the level of information disclosure in the industry and consider options to address any issues found. By the end of FY2020 Gas Industry Co will have analysed submissions on its most recent problem assessment paper and will begin consultation on a statement of proposal. It is Gas Industry Co's intention that this statement of proposal will put forward options for dealing with any issues

highlighted during the problem assessment consultation. Work required during FY2021 will be to continue the statement of proposal process and on its completion begin the work required to deliver its proposed solutions. This work will likely require continuing to work with industry to deliver industry-led solutions or recommending regulation to the Minister (or a combination of both).

#### **Forecast activities FY2021**

1. Continue the statement of proposal process begun in FY2020.
2. If the statement of proposal work indicates a non-regulated solution is feasible, continue work to implement that solution.
3. Alternatively, or as well as, if the statement of proposal work indicates that a non-regulated solution is not feasible, make a recommendation to the Minister and subject to Ministerial approval implement a regulated solution.

### **Hydrogen**

In September 2019, the New Zealand Government published a green paper that lays out their vision for hydrogen in New Zealand. The paper discusses the potential for hydrogen to be blended with natural gas and distributed via the gas network. In addition to this paper, First Gas have received a grant to support a trial that will investigate how hydrogen could be distributed through their gas pipelines. Gas Industry Co intends to monitor the progress of any work undertaken by industry that investigates the potential use of hydrogen in both transmission and distribution pipelines. Gas Industry Co also intends to review arrangements in other international jurisdictions to ensure, if required, that the rules and regulations are able to support the inclusion of hydrogen.

#### **Forecast activities FY2021**

1. Monitor any work undertaken in relation to hydrogen being used in gas pipelines.
2. Review arrangements in other international jurisdictions in preparation for the updating of any rules and regulations, if required.
3. If required, update any rules and regulations needed to support hydrogen.

### **3.2 Objective 2: facilitate efficient use of, and investment in, gas infrastructure**

#### **Gas transmission access**

The objective of this workstream is to ensure that transmission pipeline access arrangements transparently provide for the efficient utilisation of physical capacity and effectively signal any need for efficient investment in additional capacity.

The past few years have seen intense activity from First Gas and industry stakeholders towards developing a single gas transmission access code, the GTAC. Gas Industry Co completed its assessment of the GTAC in February 2019 (assessing it as materially better than existing arrangements). Since then, Gas Industry Co's activity on this workstream has reduced considerably. However, once the code is implemented, work will be required to monitor these new arrangements to ensure they are performing as expected. It is expected that the new arrangements will be implemented during FY2021.

#### **Forecast Activities FY2021**

1. Provide support for the effective implementation of the GTAC.
2. Monitor transmission arrangements to ensure they are performing as expected.

## Transmission pipeline balancing

Gas Industry Co expected the new GTAC balancing arrangements to be in place in FY2021. Once there is sufficient experience of those GTAC balancing arrangements it may be necessary to re-assess the effectiveness of the balancing arrangements.

### Forecast activities FY2021

1. Monitor new balancing arrangements.
2. Work with stakeholders on balancing-related matters.

## Transmission code changes

Gas Industry Co has a role in approving GTAC change requests on an 'as required' basis. Gas Industry Co has published a document outlining how it would perform its GTAC change role. There has been early indication that Gas Industry Co should expect a code change request under GTAC soon after its implementation in FY2021 to address minor issues that have been discovered during the implementation phase.

### Forecast activities FY2021

1. Perform agreed role(s) in relation to proposed code changes.

## Transmission pipeline interconnection

First Gas has reviewed and unified and transmission pipeline interconnection arrangements as part of the GTAC development. This includes developing an Interconnection Policy explaining how First Gas will facilitate new interconnections and setting out key terms of interconnection.

Gas Industry Co is reviewing how these new arrangements compare to the Interconnection Guidelines that set out its view of good practice in relation to policies and procedures for connecting to transmission pipelines, and expects to complete this review by the end of FY2020. Subject to its conclusions, it should be sufficient for Gas Industry Co to monitor future interconnections at a high level and expect that any issues will be brought to its attention.

### Contingent activities FY2021

1. Review interconnections as required.
2. Address any concerns regarding reasonable access.
3. Amend the *Guidelines* as required.

## Gas transmission security and reliability

The introduction of information disclosure requirements in 2012, as an element of a price-quality regime administered by the Commerce Commission under the Commerce Act, greatly improved the transparency of pipeline security and reliability (S&R). In particular, the owners of open access transmission pipelines were required to publish their Asset Management Plans (AMPs). However, stakeholders found the disclosed information difficult to understand, and concerns about transmission pipeline S&R remained. This prompted Gas Industry Co to review the factors influencing S&R and assess their adequacy. Gas Industry Co's findings were published in the 2016 Security and Reliability Issues Paper and followed in 2017 by a Security and Reliability Update Paper.

First Gas has since worked with stakeholders to develop the GTAC and revitalise associated business practices, systems and documentation of the previous pipeline owners. This has included adopting many of the recommendations in Gas Industry Co's S&R reports. Two recent

reviews by AECOM<sup>2</sup>, commissioned by the Commerce Commission, give added confidence in the S&R improvements First Gas has introduced.

Nonetheless, given the safety, financial and reputational importance of S&R Gas Industry Co will maintain a watching brief on S&R matters.

### **Contingent activity FY2021**

1. Monitor asset management plans for gas transmission and report on any significant matters as required.

### **Gas supply efficiency review**

A question has been raised by industry as to whether there is a benefit in understanding if any efficiency gains could be made, in the end-to-end process of supplying gas, that would result in a reduction of emissions. Gas Industry Co intends to work with industry during FY2020 to gain an understanding as to whether this review would be beneficial. If it is found that it would be useful, then work will be undertaken in FY2021 to commission such a review.

### **Forecast activity FY2021**

1. If work during FY2020 finds that a gas supply efficiency review would be useful then it is intended that Gas Industry Co would commission a report.

### **3.3 Objective 3: deliver effectively on Gas Industry Co's accountabilities as the gas industry body**

There are various functions that the industry body is required to perform either under the Gas Act or under gas governance rules or regulations. The activities associated with these are described in this section.

#### **Downstream reconciliation**

The purpose of the Gas (Downstream Reconciliation) Rules 2008 (Reconciliation Rules) is to 'establish a set of uniform processes that will enable the fair, efficient, and reliable downstream allocation and reconciliation of downstream gas quantities'. Gas Industry Co has an ongoing obligation to oversee the operation of the Allocation Agent and fulfil its duties under the Reconciliation Rules. Gas Industry Co monitors allocation results so as to identify, at an early stage, any issues and ensure these are addressed in an appropriate and timely fashion. This work complements that of a number of industry participants who also undertake monitoring and, from time to time, bring issues to the attention of Gas Industry Co and the Allocation Agent.

The Reconciliation Rules have been instrumental in reducing the level of unaccounted for gas (UFG) at the final allocation stage. This is largely due to the efforts of industry participants, the increased transparency of the processes for reconciliation, the application of the global allocation methodology, incentives provided by the compliance and enforcement activities, and issues identified and resolved through the performance and event audits undertaken to date.

Collectively, this reduction in UFG represents an ongoing stream of cost savings in excess of \$5 million per annum.

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<sup>2</sup> AECOM's 17 September 2019 report, *Geotechnical Risk Management Review – First Gas Transmission Pipelines*, concluded that First Gas has good, well documented processes in place to identify geohazards and evaluate/manage the risks associated with them. AECOM's 4 October 2019 report, *Risk Management Review of Gas Pipeline Businesses*, looked at the four distribution pipeline businesses as well as the gas transmission business. In relation to the transmission business the report suggests that First Gas is approaching the best level of risk management.

### **Forecast activities FY2021**

1. Monitor Allocation Agent.
2. Assess ongoing performance of the Rules.
3. Monitor allocation results.
4. Commission performance and event audits as required.
5. Make determinations under the Rules as required.

In addition to the tasks that are required under the Reconciliation Rules, Gas Industry Co expects to continue the pilot scheme for D+1 allocations throughout the duration of FY2021. The D+1 project is discussed above under the 'Regulation and rule changes' section.

### **Switching and registry**

The Gas (Switching Arrangements) Rules 2008 (Switching Rules) have the purpose of enabling 'consumers to choose, and alternate, efficiently and satisfactorily between competing retailers'. The Switching Rules provide for a centralised database, the gas registry, which stores key technical parameters about every customer installation and facilitates and monitors each customer switch from initiation through to completion.

The introduction of the Switching Rules tripled the rate of switching. In recent years, switching has stabilised to between 3,500 and 4,000 per month (in comparison to the 1,000 or so switches prior to the Switching Rules). Over the past few years Gas Industry Co, in conjunction with the Electricity Authority, has provided modest support to Powerswitch to ensure the continued existence of an independent, credible source of information for consumers.

Amendments made to the Switching Rules in September 2015 introduced the requirement for the industry body to arrange performance audits of registry participants. Baseline audits of retailers and distributors have now been completed.

### **Forecast activities FY2021**

1. Monitor Gas Registry Operator.
2. Assess the ongoing performance of the Switching Rules.
3. Monitor and report on switching statistics.
4. Make determinations under the Switching Rules as required.
5. Commission performance and event audits as required.
6. Continue to provide support to Powerswitch until new arrangements are created and/or the site becomes self-sustaining.
7. Follow up on any issues identified in the switching audits.

As discussed above under 'Regulation and rule changes' there is also a planned gas advanced meter roll-out for FY2021 that may trigger changes to the Switching Rules.

### **Critical contingency management**

The purpose of the Gas Governance (Critical Contingency Management) Regulations 2008 (CCM Regulations) is to 'achieve the effective management of critical gas outages and other security of supply contingencies without compromising long-term security of supply'. The nature of the gas system means that it is not possible to turn off customers remotely as is done in the electricity industry. Accordingly, to manage a reduction in gas supplies it is necessary to instruct consumers themselves to turn off their gas-using equipment and that, in turn, requires regulatory backing. These Regulations provide for the appointment of a Critical Contingency Operator (CCO) and

that role is responsible for determining, managing, and terminating critical contingencies, as well as associated activities such as stakeholder training and running exercises.

The CCM Regulations have been activated five times since they came into full effect in 2010: three have been caused by production station outages, one by a break in the Maui pipeline, and, in May 2017, a system imbalance event.

The CCM Regulations and further details about CCM can be found [here](#).

### **Forecast activities for FY2021**

1. Monitor CCO.
2. Assess ongoing performance of the CCM Regulations.
3. Appoint/monitor experts as required.
4. Monitor exercises and events as required.
5. Administer contingency pool as required.
6. Process applications and renewals for priority designations in the areas of critical care, essential services, critical processing and electricity supply as required.

As outlined above in the 'Regulation and rule changes' section, Gas Industry Co also intends to implement the outcomes of the FY2020 review of the CCM Regulations.

### **Compliance and enforcement**

The Gas Governance (Compliance) Regulations 2008 (Compliance Regulations) provide for monitoring and enforcement of the other gas governance rules and regulations. The compliance arrangements are designed as an efficient, low-cost means of determining or, where appropriate, settling rules/regulations breaches that raise material issues. Where parties are unable to settle breaches, the last resort is a hearing before a one-person Rulings Panel, a quasi-judicial body. The Rulings Panel can issue fines, make orders for compensation, and make orders directing compliance and/or suspending or terminating participants.

Introduction of gas governance rules and regulations has typically been associated with an increased level of compliance activity as participants adjust to the new arrangements. The breach statistics reported in Gas Industry Co's Quarterly Performance Reports demonstrate that 'teething troubles' with new rules and regulations have been short-lived and enforcement activity currently sits at a fairly low level. This reflects the facts that industry participants make great efforts to ensure their business processes are compliant and Gas Industry Co staff work hard with industry participants to ensure a good understanding of the various rules and regulations.

The Compliance Regulations and further details about compliance can be found [here](#).

### **Forecast activities FY2021**

1. Perform Market Administrator role.
2. Assess ongoing performance of the Compliance Regulations.
3. Assist Investigator and Rulings Panel as required.
4. Monitor compliance trends for indications of regulatory inefficiency.

### **Statement of intent and annual report**

The Gas Act requires that the industry body provide its Annual Report to the Minister of Energy within three months of the end of the financial year (the Minister then tables it in the House of Representatives). Similarly, annual Statements of Intent are required to be submitted to the Minister for comment prior to being finalised and published.

[Annual Reports](#) and [Statements of Intent](#) can be found on Gas Industry Co's website.

### **Forecast activities FY2021**

1. Prepare and publish the SOI to meet statutory timeframes. Provide the draft SOI to the Minister for comment prior to publication.
2. Prepare and publish the Annual Report and meet requirements for tabling in Parliament.

### **3.4 Objective 4: develop and communicate the role of gas in meeting NZ's energy needs**

#### **New Zealand gas story**

During FY2013, Gas Industry Co published the first *New Zealand Gas Story*. The most recent edition was published in December 2017. A new edition, with a refreshed format, is expected to be published in FY2021. Apart from fulfilling the statutory reporting requirement, this work is intended to help stakeholders to understand the industry and to assist industry participants to make informed investment and energy use decisions. In addition to the document itself, Gas Industry Co communicates the role of gas on its website, in its annual and quarterly reports, and presentations to various stakeholder groups.

The *New Zealand Gas Story* can be found [here](#).

#### **Other reporting**

Gas Industry Co is required by the Gas Act to report on the present state and performance of the gas industry. It does this through a number of publications, including Quarterly Reports, Switching Statistics and Industry Performance Measures.

Gas Industry Co has previously commissioned reports focussing on particular aspects of the industry, and further occasional reports will be published, and existing reports updated, where they can be of value to the industry.

### **Forecast activities FY2021**

1. Continue to prepare and publish Quarterly Reports, Switching Statistics and Industry Performance Measures.
2. Maintain the New Zealand Gas Story online as new information comes to hand.
3. Continue seminars and other communications for interested stakeholders.
4. Commission occasional reports and update existing reports as required.

*Q2: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2021? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.*

*Q3: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2021? Please provide reasons for your response.*

## 4. Funding of Operations

### 4.1 Sources of Funding

Gas Industry Co has two main sources of funding to meet the total costs of delivering on the Work Programme and other aspects of its role as the industry body – the Levy and market fees.

#### Levy

The levy funds the industry body's costs that are not covered by market fees, including the direct costs of workstreams and non-operational expenditure for the business.

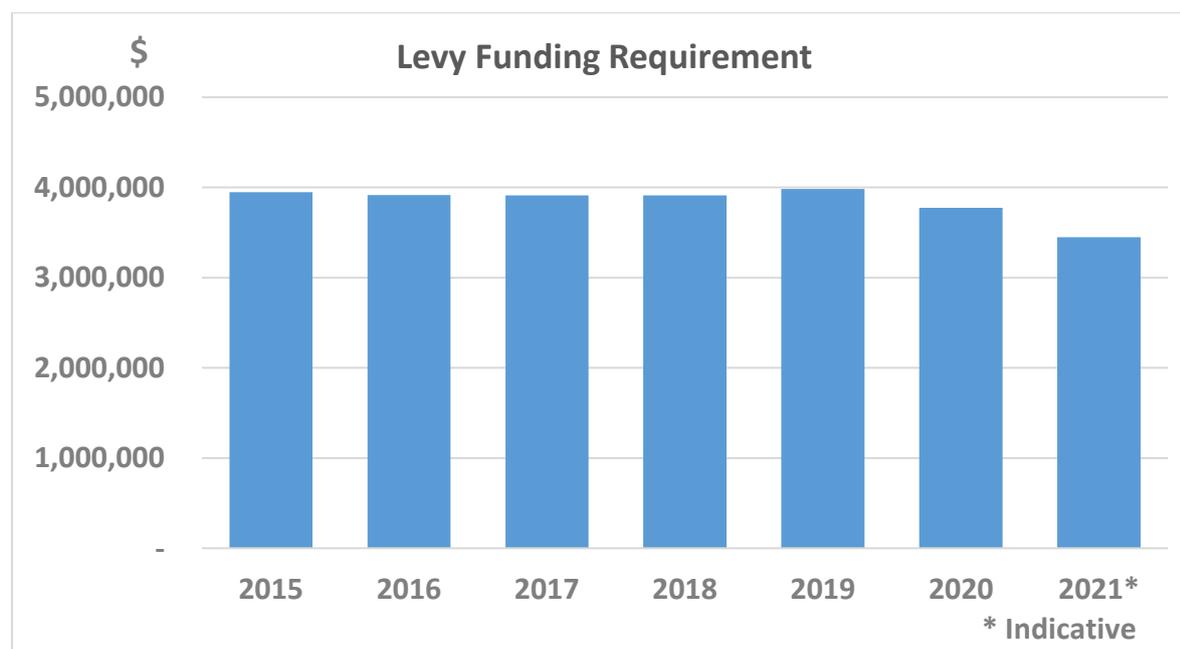
#### Market Fees

Established gas governance rules and regulations include provision to recover costs directly required to meet Gas Industry Co's obligations under those arrangements (referred to as 'market fees'). These cover the contractually agreed costs of any service providers (particularly the Allocation Agent, the Registry Operator and the Critical Contingency Operator) and any other expected direct costs related to the monitoring of those arrangements.

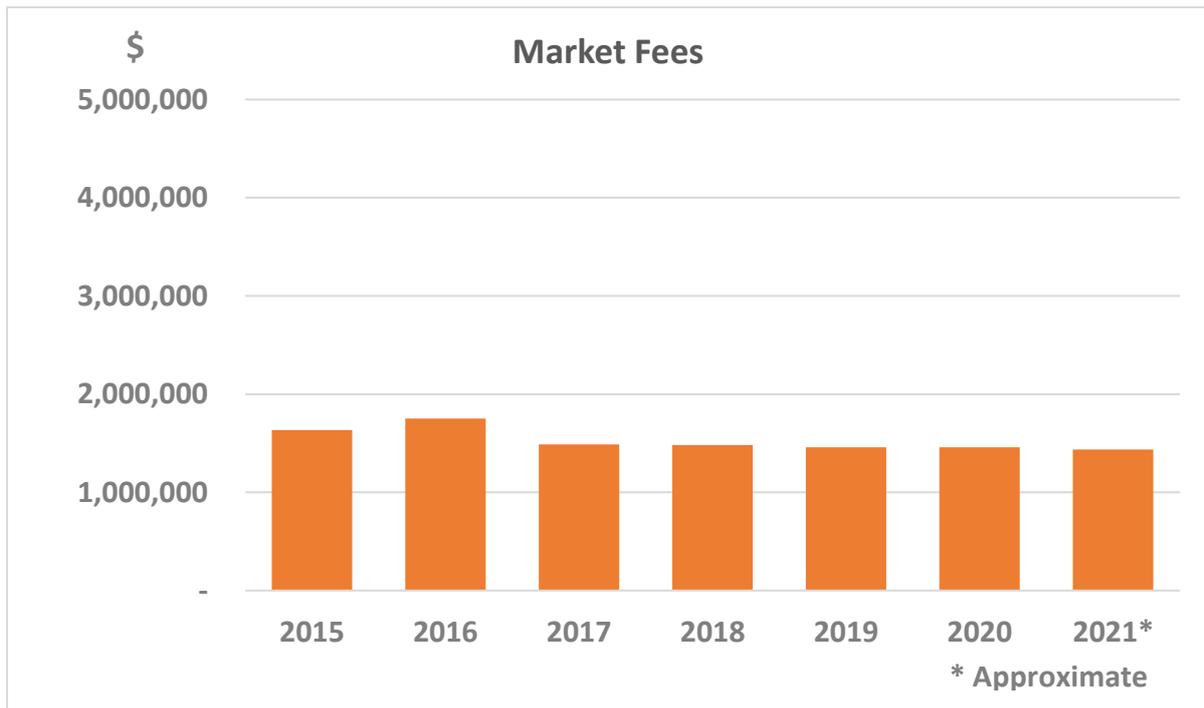
A formal estimate of market fees for each set of rules or regulations is published two months before they apply with each new financial year commencing on 1 July. Market fees collected are applied to actual expenses incurred for each set of rules or regulations. Any shortfall or excess fees are invoiced/credited to the market fee payers in a year-end 'wash-up'.

### 4.2 Levy Funding Requirement

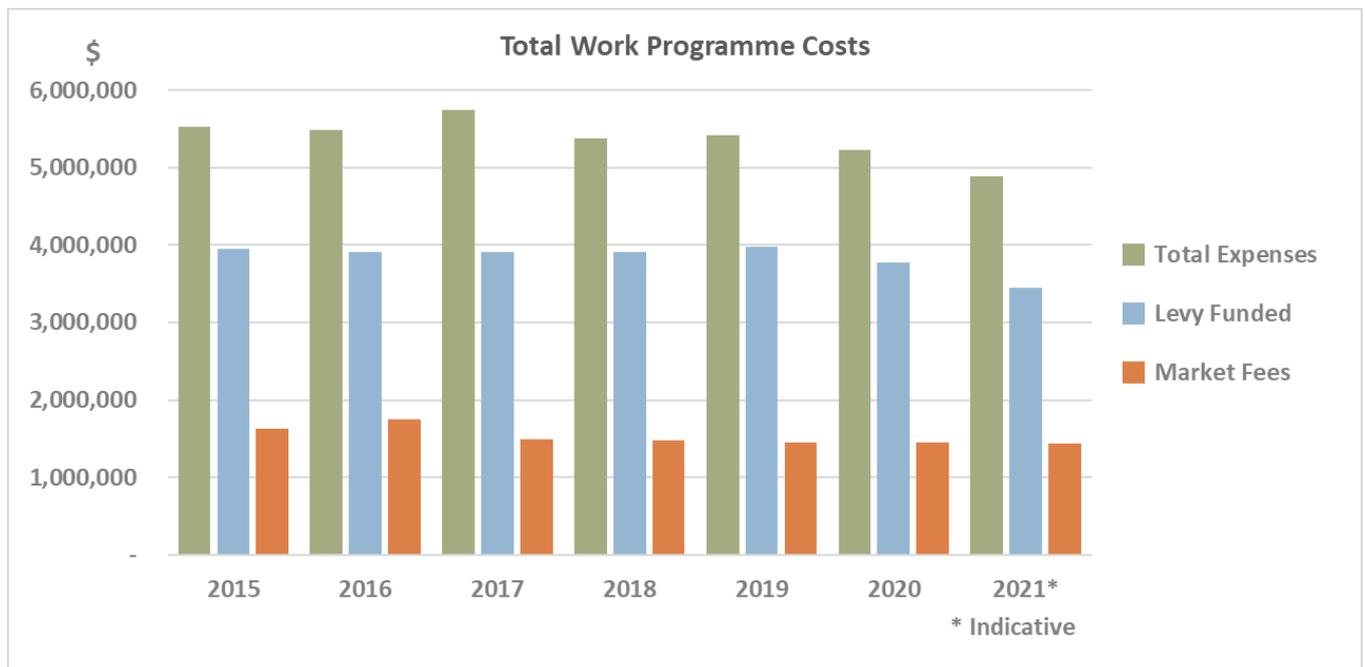
Gas Industry Co expects the FY2021 Levy Funding Requirement (LFR) to be \$3,450,182 (\$3,774,336 in FY2020). The following chart shows the LFR for FY2015 to FY2021:



Gas Industry Co's approximate market fees for FY2021 are \$1,436,000. The following chart shows published market fees from FY2015 to FY2020, and the approximation for FY2021:



Total Work Programme Costs (TWPC) for FY2021 are shown below. These are based on a combination of the proposed LFR and indicative market fees above. TWPC for FY2021 are \$4,886,182 (\$346,154, or 6.6%, lower than in FY2020).



Combining all of the above, the LFR for FY2021 can be calculated as follows:

Description	\$
<b>Strategic Goal 1: Provide efficient, competitive, and confident gas markets</b>	940,977
<i>Comprising: Retail Contracts Oversight Scheme, Gas Distribution Contracts Oversight Scheme; Regulation and Rule Changes; Retailer Insolvency: Gas Quality; Gas Measurement; Supply/Demand Model; Wholesale Market; Information disclosure.</i>	
<b>Strategic Goal 2: Facilitate efficient use of, and investment in, gas infrastructure</b>	501,173
<i>Comprising: Transmission Access and Pricing; Transmission Pipeline Balancing; Transmission Code Changes and Appeals; Transmission Pipeline Interconnection; Gas Transmission Security and Reliability.</i>	
<b>Strategic Goal 3: Deliver effectively on Gas Industry Co's accountabilities as the gas industry body</b>	2,937,485
<i>Comprising: Downstream Reconciliation; Switching and Registry; Critical Contingency Management; Compliance and Enforcement; Statement of Intent and Annual Report.</i>	
<b>Strategic Goal 4: Develop and communicate the role of gas in meeting New Zealand's energy needs</b>	506,547
<i>Comprising: New Zealand Gas Story; Other Reporting.</i>	
<b>Total Work Programme Costs</b>	<b>4,886,182</b>
<b>Less: Approximate Market Fees</b>	<b>1,436,000</b>
<b>Levy Funding Requirement</b>	<b>3,450,182</b>

### 4.3 Proposed Levy Method and Rates

Gas Industry Co's existing levy method:

1. Is based on a set of [Levy Principles](#). In summary, those Principles are economic efficiency, beneficiary pays, rationality, simplicity, equity, and revenue sufficiency; and
2. Has two components: a wholesale component and a retail component. These components are apportioned according to the cost allocated to each part of the annual Work Programme and apportioned among levy payers pro rata with either their wholesale levy volumes or ICP market shares. In years when the Work Programme focusses on retail issues, for instance, the retail levy rate will increase while the wholesale levy rate will decrease.

These arrangements have remained unchanged since 2007.

Based on the TWPC above, the levy rates for FY2021 would be:

1. Wholesale levy: 1.1164c/GJ (down from 1.1279c/GJ in FY2020, a 1.02% decrease); and
2. Retail levy: \$5.16/ICP<sup>3</sup> (down from \$6.12/ICP in FY2020, a 15.69% decrease).

<sup>3</sup> This figure equates to a sum of \$0.43 per month

**Assumptions:**

1. The draft gas volume assumption for FY2021 is 175PJ.
2. The ICP assumption of approximately 290,000 is based on the current number of ACTIVE-CONTRACTED entries in the gas registry.

*Q4: Gas Industry Co is 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?*

*Q5: Do you have any comment on the proposed levy rates for FY2021?*

## Appendix A: Recommended format for submissions

To assist Gas Industry Co in the orderly and efficient consideration of stakeholders' responses, a suggested format for submissions has been prepared. Respondents are also free to include other material in their responses.

Question	Comment
Q1: Do you have any comments on the process for developing Gas Industry Co's Work Programme and Levy?	
Q2: Do you consider there to be any other items that should be included in Gas Industry Co's intended Work Programme for FY2021? If so, please describe the work required and how that work achieves the outcomes sought under the Gas Act and GPS.	
Q3: Do you consider there to be any items that should be excluded from Gas Industry Co's intended Work Programme for FY2021? Please provide reasons for your response.	
Q4: Gas Industry Co is 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?	
Q5: Do you have any comment on the proposed levy rates for FY2021?	

# ABOUT GAS INDUSTRY CO

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Gas Industry Co is the gas industry body and co-regulator under the Gas Act. Its role is to:

- develop arrangements, including regulations where appropriate, which improve:
  - the operation of gas markets;
  - access to infrastructure; and
  - consumer outcomes;
- develop these arrangements with the principal objective to ensure that gas is delivered to existing and new customers in a safe, efficient, reliable, fair and environmentally sustainable manner; and
- oversee compliance with, and review such arrangements.

Gas Industry Co is required to have regard to the Government's policy objectives for the gas sector, and to report on the achievement of those objectives and on the state of the New Zealand gas industry.

**SUBMISSIONS CLOSE:**

5 pm on Monday, 10 February 2020

**SUBMIT TO:**

[www.gasindustry.co.nz](http://www.gasindustry.co.nz)

**ENQUIRIES:**

Susan Dunne