

QUARTERLY REPORT

Quarter ended 31 December 2019

Kia ora koutou,

Welcome to Gas Industry Co's December 2019 Quarterly Report.

Gas Industry Co reports to the Minister of Energy and Resources quarterly on the progress made towards meeting objectives and outcomes set for the gas industry by the Government. Below we highlight some key developments in our work programme areas, as well as the gas sector for the three months ended 31 December 2019.

Information Disclosure

Our *Information Disclosure: Problem Assessment* consultation paper released in October last year identified several specific information areas or 'information elements' where we consider there could be information transparency or asymmetry issues.

The paper assesses these information elements against the Government's policy objectives for the sector as identified in the Gas Act (1992) and the Government Policy Statement on Gas Governance 2008 (GPS). At the close of the consultation period on 9 December 2019, we received nineteen submissions. Stakeholders' submissions were generally in agreement with our assessment of the discussed 'information elements'. The issues raised will help us further our understanding of information problems in the sector and determine the set of information issues which will eventually be the subject of a Statement of Proposal.

Concurrent with our workstream, upstream parties consisting of gas producers, gas storage owners and the Petroleum Exploration and Production Association produced a draft Upstream Gas Outage Information Disclosure Code. The Code, although voluntary is intended to operate broadly across the upstream industry as the applicable set of rules for timely, relevant and accurate information disclosure around upstream gas outages.

The Problem Assessment paper referred to above can be found here:

<https://www.gasindustry.co.nz/work-programmes/gas-sector-information-disclosure/problem-assessment-october-2019/>

Advanced gas metering

Genesis Energy in partnership with Vector announced in October 2019 that it will roll out advanced gas meters to its 110,000 natural gas customers. This welcome news makes Genesis the first energy retailer in the country to offer customers advanced gas meters. The new digital solution for gas provides customers with the benefit of full visibility across all their energy use at home. The roll-out is targeted to begin in mid-2020.

Gas Industry Co has commenced work to consider the changes that may be required to the industry systems and rules to support a roll-out of advanced gas meters following Genesis' announcement. Part of the work will also consider whether there is merit in producing an advanced gas metering standard.

FY2021 Work Programme and Levy

Our industry Co-regulatory Forum held in November marks the start of the process for preparing the next phase of our work programme. Our FY2021 Work Programme and Levy Consultation Paper was

released in December which will ultimately feed into our 2021-2023 Statement of Intent (SOI), and the levy regulations for the financial year commencing 1 July 2020. We received ten submissions and have recently published our Analysis of Submissions on our website. We are now preparing a levy recommendation to the Minister along with our draft SOI for comment in the upcoming quarter. Feedback from the consultation processes indicates a high level of stakeholder consensus around our proposed work programme for the sector, and a need to clarify the role of gas and how the industry moves forward with it.

Documents referred to above can be found here: <https://www.gasindustry.co.nz/work-programmes/levies/developing/>

Gas Measurement and Gas Quality

The Gas Transmission Access Code (GTAC) is targeted to come into effect on 1 October 2020 to replace the Maui Pipeline Operating Code (MPOC) and Vector Transmission Code (VTC). In anticipation of this, Gas Industry Co has proactively reviewed and updated both the [*Gas Measurement Requirements and Procedures*](#), and the [*Gas Quality Requirements and Procedures*](#) documents in October 2019.

Gas Industry Co maintains a number of 'Requirements and Procedures' documents that provide an overview of the legal requirements and technical standards that apply to particular areas of the industry and describe common industry practices. As these documents are a resource for interested parties, it is important that they are kept accurate and up to date. Maintaining gas quality is central to the safe operation and good reputation of the gas industry.

Annual Meeting

The Company's Annual Meeting of shareholders was held in November 2019. In accordance to the Company's Constitution, Independent Directors Keith Davis and Andrew Brown retired by rotation. Being eligible Mr Brown was re-elected as Independent Director. Mr Davis however did not offer himself for re-election and retired at the Annual Meeting. I would like to thank Keith for his many years of service as an Independent Director to the Company and the gas industry.

Following a rigorous recruitment process involving a very high calibre group of potential Directors, Parekawhia McLean was selected. We are very pleased to have Ms McLean join our Board of Directors.

Quarterly Industry Performance Measures

Gas Industry Co has published its December 2019 Quarterly Industry Performance Measures report, which provides an update on the performance measures that Gas Industry Co monitors regularly. Through those measures Gas Industry Co tracks 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, distribution and metering measures as a means of informing Gas Industry Co's work on these issues. The full Report is available here: <https://www.gasindustry.co.nz/work-programmes/performance-measures/overview/>

Here are the highlights from the Quarterly Industry Performance Report:

- Three new retailers joined the gas industry in 2019: Hanergy, energyclubnz, and MegaTEL. There are now 14 distinct retail brands.
- In the past 12 months, there have been about 3,600 not withdrawn switches completed per month, which translates to an annual churn rate of about 15.1 percent.
- Over 70 percent of consumer switches are completed within three business days; 97 percent are completed within seven business days.
- Over 99.8 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 0.7 percent (compared with about 2 percent in 2009).
- 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.
- Monthly traded volumes on emsTradepoint reached a peak of 1,335 TJ in November 2019.

Progress continues to be made in achieving the objectives and outcomes for Gas Industry Co and the industry as set out in Part 4A of the Gas Act, GPS and through the Work Programme included in the Statement of Intent. An updated summary of our work is found below.

Ngā 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 OCTOBER – 31 DECEMBER 2019

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 FY2020-2022 Statement of Intent.

Strategic Objective 1: Promote efficient, competitive and confident gas markets

Project	Rationale	Activity	Status
Retail Gas Contracts Oversight Scheme	<ul style="list-style-type: none"> Improve 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 entrant retailers and changed contracts). Provide additional information to assist new entrant retailers to understand their obligations and governance processes. 	<ul style="list-style-type: none"> Since the Retail Scheme's introduction in 2010, retailers' overall rating has increased from 'Moderate' to 'Substantial' alignment with the benchmarks. The full review conducted in November 2018 showed similar levels of alignment as in the 2015 review, with all the terms assessed having substantial overall alignment with the benchmarks.
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 as required 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"> The second assessment of distribution contracts issued in May 2014 showed that overall alignment improved from 'Moderate' to 'Substantial'. A survey of distributors and retailers will be undertaken in FY2020 and Gas Industry Co will consider the findings. If required, Gas Industry Co will review the Distribution Scheme, with a focus on its effectiveness in facilitating reasonable terms and conditions

			for access to and use of distribution pipelines and report our findings to stakeholders.
Information Disclosure	<ul style="list-style-type: none"> In July 2018 the Minister requested that Gas Industry Co consider whether the existing arrangements for industry participants to disclose information that could potentially have an impact on the downstream gas market were adequate. Gas Industry Co responded that a number of stakeholders shared the Minister's concern and that we would instigate a workstream to identify and address the issues. 	<ul style="list-style-type: none"> A workstream considering improvements to information disclosure in the gas sector was initiated in August 2018. In February 2019, Gas Industry Co released <i>Options Paper on Information Disclosure</i> (Options Paper) for consultation. The Options Paper set out a proposed problem statement and discussed the importance of information for the operation of a well-functioning market. The <i>Information Disclosure: Problem Assessment</i> paper (Problem Assessment Paper) was released for consultation in October. This paper assessed whether there are information problems in ten separate information elements. This paper represents the next step towards the development of a Statement of Proposal (SOP). Nineteen submissions were received on 9 December. In parallel with Gas Industry Co's work, gas producers and Flex Gas are currently developing industry-led arrangements for the disclosure of production and storage facility outages. 	<ul style="list-style-type: none"> Cross-submissions are invited on three information elements in the Problem Assessment Paper. Following this, we will commence development of a Statement of Proposal on prioritised information elements. John Bay, Contract Strategies Ltd, has developed a paper on the impact of Methanex outages on the gas wholesale market. The Electricity Authority has commenced its wholesale market information disclosure project, which is concerned principally with the disclosure of generators' thermal fuels positions. Gas Industry Co will work closely with the Authority on this project. Gas Industry Co will review gas producers' and Flex Gas's arrangements as part of the SOP process. Industry is continuing to post notifications on the Industry Notifications Page on Gas Industry Co's website.

<p>Wholesale Market Monitoring</p>	<ul style="list-style-type: none"> emsTradepoint wholesale gas market (eTp) makes a significant contribution to GPS 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. Gas Industry Co's workstream for information disclosure (see above) is to provide a comprehensive consideration of potential information disclosure issues in the wholesale markets. 	<ul style="list-style-type: none"> Gas Industry Co is continuing to support the Energy Trader Forum. Gas Industry Co produces a set of information graphs twice a week showing the last 12 months of major usage and supply by gate station. This information is available on our website.
<p>Gas Quality</p>	<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. Gas Quality: Requirements and Procedures Document was issued in 2015 and will be reviewed and updated by Gas Industry Co as arrangements change. 	<ul style="list-style-type: none"> In anticipation of the GTAC replacing the MPOC and VTC, we have updated the Gas Quality Requirements and Procedures document, including seeking and considering stakeholder comments on the updated document. The document provides an overview of the legal framework and technical standards that govern gas quality and describes how industry participants meet their obligations. Discussions with First Gas have confirmed that they are interested in developing arrangements for dealing with non-specification gas events similar to the Australian Energy Market Operator (AEMO) gas quality guidelines. First Gas hopes to discuss this with stakeholders during the last quarter of 2020. In line with the conclusions of our previous reviews, we encourage this development and will engage where appropriate.

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 daily allocation working group (DAWG) met in mid-2019 to discuss changes required for GTAC and next steps for the pilot post GTAC go-live. Changes will be consulted on in a paper targeted for release by the end of FY2020. Related to D+1 is the need to explore the viability of increasing the number of large customer sites that report consumption daily. This will also be explored in the D+1 consultation paper. Gas Industry Co will shortly release a Statement of Proposal on changes to the CCM Regulations. The proposals include changes to align with GTAC, revisiting the critical contingency price setting methodology, compliance and offence provisions, curtailment band definitions and several other changes.
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. In 2019, Genesis & Vector announced a smart meter rollout for Genesis customers due to begin mid-2020 	<ul style="list-style-type: none"> Develop a minimum voluntary standard for advanced metering. Investigate what changes are required to rules and systems to support the rollout of smart meters. Consider broader implications of smart metering (and data) to the retail market. 	<ul style="list-style-type: none"> Gas Industry Co has established a technical advisory group to develop a minimum voluntary standard for advanced metering. The working group met in December to hear details of the Genesis/Vector roll out and to share initial views of what regulatory and system changes might be required.

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

Project	Rationale	Activity	Status
Transmission Access	<p>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.</p>	<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. • Promote changes to transmission access arrangements. • First Gas submitted a revised GTAC to Gas Industry Co on 31 October 2018 for assessment. • Gas Industry Co's (FAP) of the 31 October 2018 GTAC concluded that the revised GTAC is materially better than the existing MPOC and VTC. 	<ul style="list-style-type: none"> • First Gas and the industry are working through implementation of the new arrangements and targeted to now go-live on 1 October 2020.
Gas Supply/Demand Study	<ul style="list-style-type: none"> • The Long-Term Gas Supply and Demand Scenarios report is commissioned by Gas Industry Co to provide industry stakeholders with information that may be useful for making business decisions. The supply/demand study is updated biennially. 	<ul style="list-style-type: none"> • Gas Industry Co has commissioned Concept Consulting to produce the 2019 edition of the report. This edition will include further work on understanding gas supply issues. 	<ul style="list-style-type: none"> • The final version of the <i>Long Term Gas Supply and Demand Scenarios – 2019 Update</i> was published in September 2019.

<p>Transmission Pipeline Balancing</p>	<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"> Balancing under the GTAC is expected to be more efficient than current arrangements. Mandatory daily cash-outs of Shipper imbalance positions will no longer occur. Instead, there are price incentives to encourage balancing, with cash-outs only occurring where the transmission owner takes a balancing action. GIC will conduct a post-implementation review in due course.
<p>Transmission Code Change Requests</p>	<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 or VTC are expected while the GTAC is being implemented. An omnibus GTAC change comprising a series of "tidy-ups" is likely once the GTAC goes live. In anticipation of the GTAC coming into effect, Gas Industry Co consulted on a paper entitled "Gas Industry Co role in GTAC code changes". The paper deals with how Gas Industry Co will perform its role in GTAC code changes and provides a useful description of how the overall code change process will work.

<p>Transmission Pipeline Interconnection</p>	<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 has modified its Interconnection arrangements to align with the GTAC. Gas Industry Co will review how well the revised arrangements agree with the Guidelines.
<p>Transmission Security and Reliability</p>	<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 combined First Gas Transmission Asset Management Plan) and several areas where arrangements were evolving (Commerce Commission price-quality regulations). Security of supply concerns arising from a tighter upstream supply position has raised awareness of the potential impact of upstream infrastructure. 	<ul style="list-style-type: none"> Gas Industry Co will continue to review developments and work with stakeholders on further improvements. The impact of changes in the upstream supply dynamic will be considered on an ongoing basis as part of the monitoring of wholesale market activity. Gas Industry Co published an assessment of security and reliability issues in March 2017. 	<ul style="list-style-type: none"> As the GTAC proceeds, Gas Industry Co will revisit our previous security and reliability reviews to determine if further work is necessary.

Strategic 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"> Gas reconciliation audits are performed regularly. An audit of the allocation agent was completed in late 2019. The draft report shows a high level of performance and compliance with regulatory and contractual requirements. The latest round of participant performance audits began at the end of 2019. The audit programme will cover all allocations participants over the next couple of years. Annual Unaccounted for Gas (UFG) factors and unusual metering arrangements are reviewed for any significant differences.
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 audits are performed regularly. Gas Industry Co's monthly switching statistics report show switching levels remain stable.
Critical Contingency Management	<ul style="list-style-type: none"> Oversight of the Gas Governance (Critical Contingency Management) Regulations 2008. 	<ul style="list-style-type: none"> Oversight of CCM Regulations including management of Critical Contingency Operator (CCO) Service Provider role. 	<ul style="list-style-type: none"> CCM Regulations operating well. CCO activities are reviewed each quarter.

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

Project	Rationale	Activity	Status
	<ul style="list-style-type: none"> Improved industry outcomes through increased market confidence in industry's ability to manage critical contingency events. 	<ul style="list-style-type: none"> Review effectiveness of the Regulations following events and the annual exercises. Operate critical contingency pool following an event. 	<ul style="list-style-type: none"> Industry training sessions will be held in April, and the annual exercise will take place in May. Upcoming activities: First Gas is expected to submit a revised Critical Contingency Management Plan (to accommodate GTAC) for review and approval; consultation on proposed amendments to CCM Regulations. An audit of the CCO is planned for 2020.
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. 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 'state and current performance of the industry'. 2020-2022 Statement of Intent and the 2019 Annual Report are both published on Gas Industry Co's website. 	<ul style="list-style-type: none"> Quarterly Reports and News Bulletins are published regularly. The 2020-2022 Statement of Intent and the 2019 Annual Report are available on our website.

Strategic 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. Liaising with Commerce Commission on gas transmission matters.
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"> The Quarterly Industry Performance Measures Reports are published on Gas Industry Co's website, with highlights included in the Quarterly Reports to the Minister.