

Update

27 April 2010 —

Transmission Pipeline Balancing – Supplement to the October 2009 Statement of Proposal submissions close.

Levy

On Friday 26th March, Gas Industry Co made recommendations to the Associate Minister of Energy and Resources with respect to the FY2011 levy. The recommendations are as follows:

- the current annual retail levy of \$6.40 per ICP be retained
- the current wholesale levy of 1.67 cents per gigajoule (GJ) be increased to 1.84 cents per GJ, and
- these levies come into effect on 1 July 2010, replacing those levies established for FY2010.

Copies of Gas Industry Co's analysis of submissions made in response to the consultation paper, and its subsequent Recommendation to the Associate Minister are available from the following link:

<http://www.gasindustry.co.nz/work-programme/gas-industry-company-levy-2011?tab=1677>

Preparations underway for Wholesale Gas Market

The Market Operations Group is planning a series of drafting workshops in April to finalise the governance documents of the New Zealand Gas Exchange, the short-term wholesale gas market. Assuming sufficient industry interest in participating in such a market, Gas Industry Co intends for the market to go live in June of this year.

The wholesale market is intended to fulfil the Government's expectation of 'efficient arrangements for the short-term trading of gas,' as outlined in the Government Policy Statement on Gas Governance. The market will be conducted through an online trading platform operated by NZX, and the trading location will be a virtual trading hub located on the Maui pipeline. The market will be administered by Gas Industry Co

for an initial trial period of six months, after which time participation in the market will be assessed and future market options considered.

Potential market participants who would be interested in being involved in the drafting workshops or in providing comments on the draft governance documents and who have not already received an invitation to the workshops should contact Pamela Caird at pamela.caird@gasindustry.co.nz to be added to the consultation list.

Transmission pipeline capacity review

Gas Industry Co has met with pipeline companies, shippers, and end-users to discuss transmission pipeline capacity. We now have a very good understanding of the issues and have begun to formulate options for addressing them.

Gas Industry Co plans to release an issues/options paper for consultation in late May.

Maui Pipeline Operating Code (MPOC) Change Request

On 17 December 2009, Maui Development Limited (MDL) submitted a Change Request to Gas Industry Co. This December Change Request proposes extensive amendments to the MPOC that would significantly change current balancing arrangements.

Gas Industry Co published a timetable on its website for processing the December Change Request. Following initial submissions on the December Change Request, Gas Industry Co released the '17 December 2009 MPOC Change Request Status Update Paper' advising participants that it:

- requires more time to process the December Change Request than was estimated for in the indicative timetable it published in January 2010

- has requested further information from MDL to aid its analysis
- has asked MDL to hold workshops with the industry to allow for more interactive discussion of the change request, and
- will issue a revised timetable for processing the December Change Request after it has considered feedback from the industry and any further information that MDL provides.

Feedback was invited on the Status Update. Gas Industry Co will review the feedback and issue an updated timetable shortly.

More information on the December Change Request, including the Status Update and feedback received can be viewed at:

<http://www.gasindustry.co.nz/work-programme/mpoc-change-request-17-december-2009?tab=1574>

Transmission Pipeline Balancing

Supplement to the October 2009 Statement of Proposal

In December 2009, Gas Industry Co wrote to the Associate Minister of Energy and Resources indicating its intention to recommend that the 'participative regulation' option, first identified in the Transmission Pipeline Balancing Second Options Paper, be adopted. In that letter, Gas Industry Co requested more time to fully engage industry on the details of the Draft Gas Governance (Balancing) Rules and identify any possible implementation issues. In response, the Associate Minister acknowledged progress and requested that Gas Industry Co include a quantitative cost/benefit analysis with any recommendation.

Gas Industry Co hosted a series of workshops in February for industry participants on the Draft Rules and their implementation. We have made several changes to the Draft Rules in response to comments received.

Early in April we issued a supplement to the October 2009 Statement of Proposal. This supplement explores whether or not anything has occurred since the Statement of Proposal that would cause Gas Industry Co to reconsider its proposal. The supplement contains:

- an update on developments since the Statement of Proposal
- a description of key changes made to the Draft Rules (including a copy of the Draft Rules), and
- implementation plans for the Draft Rules determined with industry input.

The supplement also includes a quantitative cost/benefit analysis on the Draft Rules, as requested by the Associate Minister.

If you would like to make a submission on the supplement please do so by **5pm Tuesday 27 April 2010**.

After reviewing submissions, Gas Industry Co intends to make a formal recommendation to the Associate Minister in May.

The supplement can be viewed at: <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-balancing?tab=1576>

Consumer Complaints

The Electricity and Gas Complaints Commission (EGCC) became the approved complaints body on 1 April 2010. Gas Industry Co will continue to work with the EGCC to ensure that all industry participants join the scheme and comply with membership obligations.

Retail Contracts

Gas Industry Co has recommended that the Associate Minister endorse the proposed voluntary scheme for the oversight of retail gas contracts. If the Recommendation is accepted, Gas Industry Co will appoint an

independent Assessor to conduct a baseline review of retail contracts. Gas Industry Co will also work with the Electricity Commission to align timeframes and principles with the Commission's own work on retail electricity contracts.

Direct Use of Gas

Concept Report

The Concept Consulting Group Limited report, 'Cost: benefit analysis for increasing the direct use of gas in New Zealand' has been updated following feedback from industry participants at the 10 February 2010 workshop and information submitted following the workshop. The key amendments include:

- An adjustment to the efficiency assumptions for some gas space heating appliances
- An adjustment to the LPG price forecast
- An explanation of why gas-fired condensing hot water boilers were not included in the analysis
- A reduction in the estimated national benefit health costs associated with un-flued gas heaters from \$100 per annum to \$50 per annum, and
- Consequent corrections to the analysis of the economics of some gas appliances.

Concept has concluded that, collectively, the changes made do not have a material impact on the conclusions contained in the original report.

EECA Response

The Energy Efficiency Conservation Authority 'EECA' has responded to our recommendations on the Direct Use of Gas.

EECA agrees that improved information should be provided to consumers to enable them to make better informed decisions about their space heating and water heating requirements. EECA noted that it already provides information to consumers through the ENERGYWISE website and through other media, and proposes to adapt this to provide more comparative information covering affordability, carbon intensity, and health and safety. They will use material in the Concept report to help develop improved information.

EECA is less comfortable about Gas Industry Co's recommendation to extend the \$1,000 water heating incentive under the ENERGYWISE programme to include instant gas water heaters, for the following reasons:

- Funding for the water heating incentive is due to expire soon and it is uncertain about the extent of funding that will continue to be available for the existing programme, let alone an extension
- With limited funding, EECA prefers to focus resources on cylinder insulation wraps, pipe lagging and efficient shower heads, rather than instant gas water heating, and
- It has concerns that there is some evidence to suggest that consumers with instant gas water heaters tend to use more hot water, and this could undermine the energy efficiency benefits.

We will continue to work with EECA on these issues as it becomes apparent what funding is likely to be available, and the extent to which it may be appropriate to direct this towards instant gas water heating.

All material can be viewed at: <http://www.gasindustry.co.nz/work-programme/direct-use-gas?tab=1577>