

Update

Dates and events

Annual Consumer Forum

16 October 2009

AGM

30 October 2009

Transmission Pipeline Balancing Statement of Proposal

Submissions close: 30 October 2009

Options for the Governance of Retail Contract Terms

Submissions close: 3 November 2009

Annual Report

Gas Industry Co published its fifth Annual Report on 30 September 2009. The reporting period saw five new gas governance arrangements being implemented. This represents the culmination of the market design work begun by industry working groups in 2005 and addressing a number of long-standing industry issues contained in successive Government Policy Statements on Gas Governance. The report can be viewed at:

http://www.gasindustry.co.nz/sites/default/files/publications/GIC_-_Annual_Report_FY2009.pdf

Transmission Access Balancing

Second Options Paper Analysis of Submissions

On 17 June 2009, Gas Industry Co issued the Transmission Pipeline Balancing Second Options Paper. This paper presents a further set of options aimed at resolving the issues industry has been experiencing with transmission pipeline balancing. Submissions on the paper were invited. After considering submissions, we prepared an analysis and response to the submissions received.

The Transmission Pipeline Balancing Second Options Paper Submission Analysis can be found at :

http://www.gasindustry.co.nz/sites/default/files/consultations/12/Transmission_Pipeline_Balancing_Second_Options_Paper_-_Analysis_of_Submissions_150960.5.pdf

Statement of Proposal

Gas Industry Co has concluded that a regulatory solution is the

preferred option for improving balancing arrangements and meeting the objectives of the Gas Act and GPS. Gas Industry Co has determined that the participative regulation option, first described in the Transmission Pipeline Second Options Paper, should be pursued. This is Gas Industry Co's statement of proposal to pursue this option.

The paper and more information on this work stream can be found at: <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-balancing?tab=1511>

ICD Process

In response to a strong lobby of opinion from submissions on the Second Options Paper, Gas Industry Co has also launched an industry code development (ICD) process. The process involves Gas Industry Co working intensively with industry participants to explore whether further improvements to balancing arrangements are possible through changes to existing industry contracts. As a result, the ICD process may have an impact on our balancing recommendation at the end of the year. The outcome of the process will be reported in November.

To access more information on this process: <http://www.gasindustry.co.nz/work-programme/transmission-pipeline-balancing?tab=1511>

Options Paper on Retail Contract Terms

A key objective for the Company under the Government Policy Statement on Gas Governance (GPS) is to provide the Minister with advice on governance arrangements which ensure contracts between gas retailers and domestic and small business consumers adequately protect the long term interests of that group of consumers. The Company has already developed and published a set of 'Consumer Expectations.' From these a proposed range of benchmark terms

for retail contracts has been developed for consultation. The Options Paper provides a detailed history of the development of these terms and suggests two possible implementation methods: voluntary benchmarks (with annual monitoring by Gas Industry Co), and regulated benchmarks (subject to the existing compliance regulations). The Options Paper is available on the Gas Industry Co website at:

<http://www.gasindustry.co.nz/work-programme/consumer-issues?tab=273> and submissions are due by 5pm on 3 November 2009.

FY2011 Levy

Following feedback received from both industry participants and officials during the FY2010 levy consultation, Gas Industry Co has implemented some changes to the levy consultation process that will be used for the FY2011 levy. Among the changes are the publication of a Statement of Levy Principles, which describes the legislative authority, levy principles, and levy structure Gas Industry Co uses when developing its levy recommendation for funding each year, under the provisions of the Gas Act 1992. We consider that consolidating these items into the Statement of Levy Principles will assist future levy consultations. This document is now available on our website at:

http://www.gasindustry.co.nz/sites/default/files/events/Levy_Principles_151077.10.pdf.

We have also prepared a draft outline of the FY2011 levy consultation process detailing the major steps involved in bringing the FY2011 levy to a successful conclusion. This outline is available on our website at:

http://www.gasindustry.co.nz/sites/default/files/u24/Levy_Setting_Process_for_FY2011_151246.2.pdf

Co-regulatory Forum

As an additional step to the levy consultation process for FY2011, a co-regulatory forum was held Gas Industry Co offices on Monday 5 October 2009. This new step is a response to requests from industry to engage with them at an earlier stage of the levy process on our strategic priorities for FY2011.

Consumer Forum

Gas Industry Co will hold its annual Consumer Forum on Friday 16 October from 10am until 1pm. The Forum is aimed at domestic consumers and will provide an update on areas of the Company's activities that are of interest to or affect these consumers. The 2009 Consumer Forum will include presentations from Gas Industry Co, the Electricity Commission, Consumer NZ and the Electricity and Gas Complaints Commission. At the Forum there will also be representatives from various government departments and other organizations concerned with consumer interests and energy policy. The agenda will be made available on the Gas Industry Co website: <http://www.gasindustry.co.nz/events>. Registration is free and may be made by contacting Kirsten West at 472 1800.

Critical Contingency Management

Gas Industry Co has recently approved MDL's critical contingency management plan (CCMP), which governs the transmission system owners' operations pre-, post, and during a contingency event. Vector is currently consulting on a revised contingency imbalance methodology before resubmitting its CCMP. The go-live date will be announced when CCMPs covering the complete transmission system have been approved, which is expected to be later this year.

The critical contingency operator (CCO) recently held a series of training workshops in Auckland, New Plymouth, and Wellington, to introduce the new contingency arrangements and ensure a smooth transition from the NGOCP that they replace. The workshops were well attended and the slides from the presentation will be posted on the CCO's website (available via OATIS).

Switching and Registry

Eight months have passed since registry go-live and switching volumes and registry activity are now levelling off to a consistent rate. After an initial burst of activity following the switching moratorium in February 2009, the number of switches initiated each month has settled to between 3,500 and 4,500 and the number of switches completed is sitting around 3,000 per month, with the difference accounted for by switch withdrawals of between 500 and 1,000 per month.

A switching and registry statistics report is published each month on Gas Industry Co's website, which contains in-depth figures for the previous month and time series data since go-live. The monthly reports are available to view or download from the following link:

<http://www.gasindustry.co.nz/work-programme/market-administration/monthly-statistics-reports>

Registry participant compliance has improved considerably since go-live with the number of alleged breaches reported in the last couple of months falling to 10% of initial levels.

Downstream Reconciliation

The Gas (Downstream Reconciliation) Rules 2008 have entered their second year of operation and are now half way through the two-year transitional period, which expires at the end of September 2010. The minor and technical amendments to the Rules, which were

recommended to the Associate Minister of Energy and Resources in July 2009 and subsequently gazetted in September 2009, are now in force. In accordance with requirements, Gas Industry Co has recently determined and published a percentage threshold for the accuracy of non-TOU consumption quantities provided for the initial allocation when compared against the quantities provided for the final allocation. The threshold for consumption months in the 2009/10 gas year is $\pm 12.5\%$ (which represents a tightening from the previous tolerance of $\pm 15\%$).

Gas Industry Co was also required to determine and publish the estimated ongoing reconciliation costs for the 2009/10 gas year. This determination has been carried out and a breakdown of the costs (which have reduced from the previous year) is available on our website at the following link:

<http://www.gasindustry.co.nz/work-programme/market-administration/rec-ongoing-fees>

The latest allocation results suggest that the high incidence of UFG that has occurred at a number of gas gates over the winter months is coming to an end. Analysis of the interim allocation for May 2009 indicates that a significant proportion of the unaccounted for gas in the initial allocation was the result of under-submissions for mass market consumption.

Compliance

September saw the first hearing by the Rulings Panel relating to breaches of the Gas (Switching Arrangements) Rules 2008 arising out of a switching dispute involving a restaurant consumer. The alleged breaches occurred in March 2009 and to some extent reflect the fact that the registry and rules had only recently gone live. The arguments made at the hearing raised some interesting rule interpretation issues, including in relation to the status of information on the registry. The Rulings Panel reserved its decision, which will be published on Gas Industry Co's website as soon as it is released.

There is currently one other matter (involving 4 separate breach notices) before the Panel and it is hoped this matter can be heard before the end of the year. This matter also raises a complex issue in respect of the confidentiality of loss of profit (and consequently internal cost) information that a participant who has suffered loss as a result of a breach wishes to recover from the party in breach. Participants naturally do not want to provide commercially sensitive loss of profit information to competing retailers and this issue is expected to arise again in relation to future alleged breaches. Accordingly, the Rulings Panel has indicated it intends to hold an interlocutory hearing on this issue in early November and all retailers will be given an opportunity to provide submissions. Further details will be notified to participants shortly.

The compliance regime remains in full swing, with various breaches of the Gas (Switching Arrangements) Rules 2008 and Gas (Downstream Reconciliation) Rules 2008 currently being considered by the Market Administrator (in terms of materiality) or being further investigated by the Investigator.

Industry Conference

Gas Industry Co held its fifth annual conference on Tuesday, 11 August 2009, at the Intercontinental Hotel in Wellington. The Conference was opened by the Chair of Gas Industry Co, the Rt. Hon. Jim Bolger, ONZ and included an address from the Associate Minister of Energy and Resources, the Hon. Pansy Wong. The conference programme included discussion of strategic issues in the sector, co-regulation in practice, the development of transmission access, balancing and wholesale market arrangements, together with retail issues. Speeches and presentations from the conference are available on our website at:

<http://www.gasindustry.co.nz/work-programme/compliance-determinations/publications/gas-industry-co-fifth-annual-industry-conferen>