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MINISTRY OF ECONOMIC DEVELOPMENT

GOVERNMENT POLICY STATEMENT ON GAS GOVERNANCE

PURSUANT TO SECTION 43ZO(3) OF THE GAS ACT 1992
AND SECTION 26 OF THE COMMERCE ACT 1986

Government Policy Statement on Gas Governance

To the Commerce Commission and Gas Industry Co.

This statement is given to:

1. Gas Industry Co. by the Minister of Energy, pursuant to section 43ZO(3) of the Gas Act 1992 as a statement of Government policy on the governance of the gas industry; and
2. the Commerce Commission by the Minister of Commerce, pursuant to section 26 of the Commerce Act 1986, as a statement of the economic policy of the Government on the gas industry.

April 2008

Government Policy Statement on Gas Governance

Introduction

The New Zealand Energy Strategy ("NZES") sets out the Government's vision of a sustainable, low emissions energy system. Within this Strategy, the gas sector has a critical role to play in achieving the Government's objective of maintaining security of energy supply at competitive prices as the country makes the transition to a sustainable energy future.

This statement sets out the objectives and outcomes the Government wants Gas Industry Co., as the approved industry body, to pursue. It is made pursuant to s43ZO of the Gas Act 1992 as amended by the Gas Amendment Act 2004. Gas Industry Co. is required to have regard to the objectives and outcomes in this statement when making recommendations for rules or regulations. Specific objectives and outcomes in this statement relate to consumer outcomes and retail arrangements, the wholesaling of gas, infrastructure access, contingency management and other gas governance matters.

The legislation and policy concerning the allocation of rights in respect of gas exploration and production are set out in the Crown Minerals Act 1991 and the Minerals Programme for Petroleum 2005 respectively. The legislation concerning gas safety is contained in the Health and Safety in Employment Act 1992, the Hazardous Substances and New Organisms Act 1996, the Gas Act 1992 and the Plumbers, Gasfitters, and Drainlayers Act 2006.

This statement replaces the "*Government Policy Statement on Gas Governance*" dated October 2004.

Background

- 1 In December 2004 a co-regulatory arrangement commenced with Government approval of Gas Industry Co. as the industry body under the Gas Act. Since then Gas Industry Co. has pursued the Government's objectives and outcomes set out in the October 2004 policy statement, plus work driven by Ministerial requests and Gas Industry Co.'s own engagement with the sector. In particular, Gas Industry Co. has focused on enhancing consumer outcomes, making improvements to the operation of the retail market, enhancing wholesale market trading arrangements and reviewing infrastructure access and contingency management arrangements.
- 2 In accordance with recommendations in the NZES, the Government is revising its policy statement for the gas sector to reflect policy directions set out in the NZES. The revised statement also reflects the establishment and progress made by Gas Industry Co. since October 2004.

Co-regulatory governance and Government oversight

- 3 Sub-part 2 of Part 4A of the Gas Act 1992 provides for co-regulation of the gas industry by the Government and Gas Industry Co. as the approved industry body. The Gas Act 1992 sets out a number of obligations with which the Minister of Energy and Gas Industry Co., as the approved industry body, are required to comply before making recommendations for rules or regulations. Gas Industry Co. is also required to have regard to the objectives and outcomes in this statement when making recommendations for rules or regulations and comply with the provisions of its constitution.
- 4 Gas Industry Co. may recommend non-regulatory arrangements (including voluntary codes or multilateral contracts) or that rules or regulations be made under the Gas Act 1992, for governance of the gas industry, whichever Gas Industry Co. considers most practicable to achieve the objectives and outcomes described in the Gas Act 1992 and this policy statement.
- 5 Gas Industry Co. should report to the Minister of Energy each quarter on progress made toward meeting the Government's objectives and outcomes for the gas industry and any Ministerial requests relating to the gas industry that may arise from time to time.
- 6 Gas Industry Co. should actively consult with the Ministry of Consumer Affairs when pursuing outcomes which directly impact on small consumers.

Government policy objectives for the gas industry

- 7 The Gas Act 1992 sets out the principal policy objective for Gas Industry Co., when recommending rules or regulations for wholesale market, processing facilities, transmission, and distribution of gas, as follows:

"To ensure that gas is delivered to existing and new customers in a safe, efficient, and reliable manner."
- 8 It is the Government's objective that when recommending rules, regulations or non-regulatory arrangements, Gas Industry Co. applies this policy objective to all its work.
- 9 It is also the Government's objective that Gas Industry Co. takes account of fairness and environmental sustainability in all its recommendations. To this end, the Government's objective for the entire gas industry is as follows:

To ensure that gas is delivered to existing and new customers in a safe, efficient, fair, reliable and environmentally sustainable manner.
- 10 It is against this objective that Gas Industry Co. must have regard when making recommendations for rules, regulations or non-regulatory arrangements for any part of the gas industry and against which it must report.
- 11 The Gas Act 1992 also sets out the following other objectives for Gas Industry Co. when recommending rules or regulations for wholesale market, processing facilities, transmission, and distribution of gas:

- a) The facilitation and promotion of the ongoing supply of gas meets New Zealand's energy needs, by providing access to essential infrastructure and competitive market arrangements;
 - b) Barriers to competition in the gas industry are minimised;
 - c) Incentives for investment in gas processing facilities, transmission and distribution, energy efficiency and demand-side management are maintained or enhanced;
 - d) Delivered gas costs and prices are subject to sustained downward pressure;
 - e) Risks relating to security of supply, including transport arrangements, are properly and efficiently managed by all parties; and
 - f) Consistency with the Government's gas safety regime is maintained.
- 12 It is the Government's intent that these other policy objectives should apply to all Gas Industry Co. recommendations for rules, regulations or non-regulatory arrangements for all parts of the gas industry. In addition, the Government adds the following objectives:
- a) Energy and other resources used to deliver gas to consumers are used efficiently;
 - b) Competition is facilitated in upstream and downstream gas markets by minimising barriers to access to essential infrastructure to the long-term benefit of end users;
 - c) The full costs of producing and transporting gas are signalled to consumers;
 - d) The quality of gas services where those services include a trade-off between quality and price, as far as possible, reflect customers' preferences; and
 - e) The gas sector contributes to achieving the Government's climate change objectives as set out in the New Zealand Energy Strategy, or any other document the Minister of Energy may specify from time to time, by minimising gas losses and promoting demand-side management and energy efficiency.

Outcomes for the gas industry against which Gas Industry Co. must report

- 13 The Government expects Gas Industry Co. to pursue the outcomes below and report against these outcomes to the Minister of Energy. The Minister of Energy invites Gas Industry Co. to submit proposals for rules, regulations or non-regulatory arrangements if it concludes that they are required to achieve any of the outcomes that are specified.

Consumer benefit

- All small gas consumers have effective access to a complaints resolution system:
 - o The Government prefers a least-cost arrangement for the proper handling of consumer complaints. Due to the small size of the retail gas market, the Government considers that consumers' best interests will be served by a joint gas and electricity consumer complaints resolution system. A single multi-fuel complaints system (which may include consumers of liquefied petroleum gas) would provide benefits

such as ease of access, consistency of outcomes and efficiencies of scale.

- o The Government expects any consumer complaints resolution system to be free to complainants and to meet the standards of accessibility, independence, fairness, accountability, efficiency and effectiveness contained in equivalent schemes of other comparable countries.
 - o The Government expects Gas Industry Co. to work closely with the Electricity Commission to coordinate the approval and governance process between the electricity and the gas sectors to ensure that the Government's expectations are met.
- Contractual arrangements between gas retailers and small consumers adequately protect the long-term interests of small consumers.

Efficient retail market

- Effective and efficient customer switching arrangements that minimise barriers to customer switching.
- Accurate, efficient and timely arrangements for the allocation and reconciliation of downstream gas quantities.
- An efficient market structure for the provision of gas metering, pipeline and energy services.
- The respective roles of gas metering, pipeline and gas retail participants are able to be clearly understood.

Efficient wholesale market

- Efficient arrangements for the short-term trading of gas.
- Accurate, efficient and timely arrangements for the allocation and reconciliation of upstream gas quantities.

Access to key infrastructure

- Gas industry participants and new entrants are able to access the following physical assets and related services:
 - o third party gas processing facilities;
 - o transmission pipelines; and
 - o distribution pipelines;on reasonable terms and conditions.
- Consistent standards and protocols apply to the operations relating to access to all distribution pipelines.

Critical contingency management

- Sound arrangements for the management of critical gas contingencies.

Other outcomes

- Gas governance arrangements are supported by appropriate compliance and dispute resolution processes.
- Gas governance arrangements approved by the Minister of Energy are monitored by Gas Industry Co. for ongoing relevance and effectiveness.
- Good information is publicly available on the performance and present state of the gas sector.

Advice

- 14 The Minister requests Gas Industry Co. to provide advice on the extent to which policies to enhance the direct use of gas in industrial, commercial and residential applications would mitigate greenhouse gas emissions and the likely costs of implementing those policies.

Hon David Parker
Minister of Energy

The Government Policy Statement on Gas Governance ends here.

Revocation

The statement of Government policy entitled "Government Policy Statement on Gas Governance" that was transmitted by the Minister of Commerce, Margaret Wilson, on 19 October 2004 and published as a Supplement to the *New Zealand Gazette*, 28 October 2004, No. 139, starting on page 3466, is withdrawn.

Hon David Parker
Minister of Energy

Hon Lianne Dalziel
Minister of Commerce